Vardnili HPP Cascade LLC

Financial Statements and Independent Auditor's Report

31 December 2021

Content

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INDEPENDENT AUDITOR'S REPORT

TO THE OWNER AND MANAGEMENT OF Vardnili HPP Cascade LLC

Disclaimer of opinion

We have audited the accompanying financial statements of Vardnili HPP Cascade LLC (the Company), which comprise the statement of financial position as of 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for disclaimer of opinion

As we were appointed as auditors of the Company subsequent to 31 December 2021 therefore we could not observe year end physical count of quantities pertaining to property plant and equipment. We were unable to satisfy ourselves by alternative means concerning the quantities held as of 31 December 2021 having net carrying amount of GEL 112,104 thousands. Further we also remained unable to determine any adjustments in these amounts that were necessary in the Company's financial statements.

The Company has prepared its financial statements in accordance with International Financial Reporting Standards (IFRSs) for the first time for the financial year 2008. The Company determined the fair value of property, plant and equipment and cost of investment in subsidiary in accordance with the Order No. 295 of the President of Georgia dated 09/07/1997 on "Indices of the National Economy and Capital Funds of the Republic of Georgia" and used the determined value as a deemed cost and as a cost respectively. This approach related to determination of fair value of long-term assets does comply with the requirements of IFRSs. The net book value stated in note 4 includes above-mentioned long-term assets. Currently it is not possible to determine the net book value of these property, plant and equipment as the Group have to capitalizes assets' related expenditures of rehabilitation works on these long-term assets, expenditures were incurred in 2008-2019 years. During the audit of 2021 year, we were unable to obtain sufficient & appropriate audit evidence for amounting to GEL 111,394 thousands on account of property plant & equipment which also includes contributions in equity before January 1, 2020. The said figure also includes the balances of construction work in progress GEL 1,430 thousands that is coming from the year 2018, the Company does not anticipate these workings to be completed in upcoming years. Hence the Company should have performed impairment test on disclosed balances of CWIP as no economic benefit is expected in future years. We remained unable to obtain sufficient appropriate audit evidence by conducting the alternative procedures, therefore we could not determine that whether any adjustment to the current year operations, statement of financial position, statements of changes in equity or to opening retained earnings is necessary.

Emphasis of matter

We draw your attention to note 1 and note 11, where are described electricity distribution issues in Abkhazia region. Our opinion is not modified in respect of this matter

Other matter

Other information, included in the Company's management report

The Company's Management is responsible for the other information. The other information comprises the information included in the management report for the year ended 31 December 2021, but does not include the financial statements and our auditor's report thereon.

Our opinion on financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have performed certain procedures needed to form a conclusion on the compliance of the Company management report with article 7 paragraph 6 of law of Georgia on Accounting, Reporting and Auditing and report in this regard is issued through a separate letter dated 19 October 2022.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements.

Engagement Partner – Paata Chubinidze
Tbilisi, Georgia
19 October 2022

RSM Georgia

(In thousands of GEL)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	31 December 2021	31 December 2020
Assets			
Non-current assets			
Property, plant and equipment	4	112,104	111,747
Other assets		7	171
Total non-current assets		**112,111**	**111,918**
Current assets			
Inventories		18	753
Trade and other receivables	5	552	5,704
Cash and bank balances	6	2,894	317
Total current assets		**3,464**	**6,774**
Total assets		**115,575**	**118,692**
Equity and liabilities			
Capital and reserves			
Charter capital	7	116,335	116,335
Accumulated losses		(11,585)	(7,418)
Total equity		**104,750**	**108,917**
Non-current liabilities			
Restructured liabilities	8	603	1,222
Loans and borrowings	9	1,500	6,026
Total non-current liabilities		**2,103**	**7,248**
Current liabilities			
Restructured liabilities	8	619	653
Loans and borrowings	9	7,626	1,500
Trade and other payables	10	477	374
Total current liabilities		**8,722**	**2,527**
Total equity and liabilities		**115,575**	**118,692**

Approved and signed on behalf of the management on 19 October 2022 by:

Director
Shota Sanadze

Chief accountant
Kakha Mzarelua

Tbilisi, Georgia

19 October 2022

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 22.

(In thousands of GEL)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENIVE INCOME FOR THE YEAR ENDED 31 DECEMEBER 2021

	Note	2021	2020
Revenue	11	9,893	3,690
Cost of sales	12	(7,790)	(7,484)
Gross profit/(loss)		**2,103**	**(3,794)**
General and administrative expenses	13	(5,056)	(3,275)
Other expenses		(32)	(609)
Results from operating activities		**2,985**	**(7,678)**
Finance income		62	-
Finance costs		(1,212)	(204)
(Loss)/gain from exchange rate differences		(32)	18
Profit/(loss) before income tax		**(4,167)**	**(7,864)**
Income tax expense	14	-	-
Profit/(loss) for the year		**(4,167)**	**(7,864)**
Other Comprehensive year			
Other comprehensive income		-	-
Total comprehensive income for the year		**(4,167)**	**(7,864)**
Total gross income		**(4,167)**	**(7,864)**

Approved and signed on behalf of the management on 19 October 2022 by:

Director
Shota Sanadze

Chief accountant
Kakha Mzarelua

Tbilisi, Georgia

19 October 2022

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 22.

(In thousands of GEL)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMEBER 2021

	Charter capital	Accumulated loss	Total
Balance at 1 January 2020	**116,335**	**446**	**116,781**
Total comprehensive income	-	(7,864)	(7,864)
Capital contribution	-	-	-
Balance at 31 December 2020	**116,335**	**(7,418)**	**108,917**
Total comprehensive income	-	(4,167)	(4,167)
Capital contribution	-	-	-
Balance at 31 December 2021	**116,335**	**(11,585)**	**104,750**

Approved and signed on behalf of the management on 19 October 2022 by:

Director
Shota Sanadze

Chief accountant
Kakha Mzarelua

Tbilisi, Georgia

19 October 2022

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 22

(In thousands of GEL)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMEBER 2021

	Note	2021	2021
Profit/(Loss) for the year		(4,167)	(7,864)
Adjustments for:			
Depreciation and amortization	4	4,565	4,383
Foreign exchange (gain)/loss		32	(18)
Finance income		(62)	-
Finance costs		1,212	-
Operating profit before working capital changes		**1,580**	**(3,499)**
Change in trade and other receivables		5,316	(827)
Change in inventories		735	(574)
Change in trade and other payables		103	(1,260)
		7,734	**(6,160)**
Interest paid		(1,212)	-
Net cash from (used in) operating activities		**6,522**	**(6,160)**
Acquisition of property and equipment	4	(4,922)	(4,736)
Interest received		62	-
Net cash (used in) investing activities		**(4,860)**	**(4,736)**
Cash flows from financing activities			
Proceeds from loans and borrowings	9	1,600	7,526
Repayment of loans and borrowings		(653)	(378)
Net cash from financing activities		**947**	**7,148**
Net increase/(decrease) in cash and bank balances		2,609	(3,748)
Foreign exchange effect on cash		(32)	18
Bank balances at the beginning of the year	6	**317**	**4,047**
Bank balances at the end of the year	6	**2,894**	**317**

Approved and signed on behalf of the management on 19 October 2022 by:

Director
Shota Sanadze

Chief accountant
Kakha Mzarelua

Tbilisi, Georgia

19 October 2022

The statement of cash flow is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 22.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES

"Vardnili HPP Cascade" LLC (the Company) was established and registered on 2 October 1999 as a Limited Liability Company under laws of Georgia. The Company is a legal entity operating on the territory of Georgia.

As at 31 December 2021 and 31 December 20 the founder and 100% owner of the Company is "Engurhesi" LLC, the owner of which is Govenrment of Georgia.

The Company's main activity is the production and sale of electricity throughout Georgia and abroad. The Company's registered address is: 8 Politkovskaia Street, Tbilisi, Georgia

The head office of the Company is located in Rechkhi, Gali region,.

The whole assets of the Company are located in Abkhazia territory, that is not controlled currently by Georgian government and is a conflict region since 1992. That's why the significant part of generated electricity is used to supply to the territory of Abkhazia without fee.

In accordance with the Decree No.77 of the Energy Commission of Georgia on "Electricity Market Rules", the Group decreases its annual generated electricity to provide Abkhazia region with electricity, thus revenue and corresponding receivables from supply of electricity to Abkhazia are not recognized (for the additional information refer to note 12).

2. BASIS OF PREPARATION

Accounting principles

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRSs"), being standards and interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2021.

The financial statements have been prepared under the historical cost convention.

The financial statements comprise a statement of profit or loss and other comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows, and notes to the financial statements. Income and expenses excluding the components of other comprehensive income, are recognized in the statement of profit or loss. Transactions with the owners of the Company in their capacity as owners are recognized in the statement of changes in equity.

The Company's statement of profit or loss and other comprehensive income using the classification by Function of expenses. The Company believes this method provides more useful information to the readers of the financial statements as it better reflects the way operations are run from a business point of view.

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

These financial statements are presented in Georgian Lari (GEL) rounded to the nearest thousand ifotherwise stated.

3. SIGNIFICANT ACCOUNTING POLICIES

Application of New or Revised Standards and Pronouncements

New or amended Accounting Standards and Interpretations adopted.

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period.
Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

IBOR Reform phase-2:
Changes were made to requirements in IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments: Disclosures, IFRS 4, Insurance Contracts and IFRS 16, Leases relating to: changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease

(In thousands of GEL)

liabilities; hedge accounting; and disclosures.
The Phase 2 amendments apply only to changes required by the interest rate benchmark reform to financial instruments and hedging relationships.
COVID related rent concessions to IFRS-16:
As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.
All mentioned above amendments didn't have impact on financial statement

New Accounting Standards and Interpretations not yet mandatory or early adopted

Accounting Standards that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 31 December 2021. The company has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Property, plant and equipment

At initial recognition property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss. Depreciation on other items of property, plant and equipment is calculated to allocate their cost to their residual values over their estimated useful lives:

Group of PPE	Useful life
Buildings	40 -80 years
Machinery and equipment	10– 40 years
Vehicles, computers, furniture and other	5 – 10 years
Land and construction in progress	Not depreciated

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment or its unit is derecognized when it is disposed, or when future economic benefits are not expected to receive by using the asset. Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss.

Construction in progress

Construction in progress is stated at cost. The Company periodically carries out rehabilitation works on its property and plant that needs certain time these long-term assets to bring to the location and condition necessary for it to be capable of operating in the manner intended by management. Until the construction progress is not bringing in a such condition, the Company accounts it on this group of property, plant and equipment and after completion of construction workings the Company transfer it to the appropriate group of property, plant and equipment.

Financial Assets

Classification and subsequent measurement

Company classifies its financial assets in the following measurement categories:

Fair value through profit or loss (FVPL);

Fair value through other comprehensive income (FVOCI), or;

Amortized cost.

In the periods presented the Company does not have any financial assets categorized as FVOCI or FVTPL.

The classification requirements for debt and equity instruments are described below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the Company 's business model for managing the asset, and
- the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL. are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 3.1.2 Interest income from these financial assets is included in ''Interest and similar income'' using the effective interest rate method.

Fair value through other comprehensive income (FVOCl): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI), Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income using the effective interest rate method.

Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss.

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e g. financial assets are held for trading purposes), then the financial assets are classified as part of other business model and measured at FVPL Factors considered by the Company in determining the business model for a Company of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company reclassifies debt investments when and only when its business model for assets changes the reclassification takes place from the start of the first reporting period following the change Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Company 's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Impairment of trade and other receivables

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Company assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

Derecognition of financial assets. The Company derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired, or (b) the entity has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Financial liabilities

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

a) Financial liabilities that are carried at fair value through profit or loss. Such liabilities, including derivative financial instruments that are liabilities, should be subsequently measured at fair value by the entity;

b) Financial liabilities that arise when the transfer of a financial asset does not meet the criteria for derecognition, or when the asset retention approach is used;

c) Financial guarantee agreement.

In the periods presented the Company does not have any financial liabilities categorized as FVOCI or FVTPL.

Borrowings

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

All other borrowing costs are expensed in the period when they are incurred. Borrowing costs consist of interest and other costs that are incurred from borrowed funds. The Company has borrowings from its owner to finance its principal activities.

Derecognition

Financial liability is derecognised (or part of a financial liability) from its statement of financial position only when they are extinguished – i.e. When the contractual obligation is repaid, cancelled or expired. The exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 % different from the discounted present value of the remaining cash flows of the original financial lability. In addition, other qualitative factors, such as the currency that the instrument is denominated in changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and cash at banks that have minimal risk of changes in value. The Company also has short-term deposits placed in bank.

Revenue recognition

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations;
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers. An asset is transferred when (or as) the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

Revenue from sale of electricity

The Company derives revenue from production and sale of electricity over the entire territory of Georgia.
Revenue is recognized on a monthly basis based on the amount of electricity delivered, which is approved and accepted by customers, as evidence by the invoices and power receipt-delivery acts signed by the Company and the customers, and approved by JSC Electricity System CommercialOperator (ESCO). The Company is forced to provide Abkhazia region with electricity without charges. This part of electricity is not recognized as a revenue.

Taxation

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted.The amendments become effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization. Under the new regulation, corporate income tax will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on adividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax. There have been no dividend distribution for the year ended 31 December 2021.

The amendments to the Georgian tax law described above also provide for charging corporate incometax on certain transactions that are considered deemed profit distributions, e.g. some transactions at non-market prices, non-business-related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 Income Taxes and will be accounted similar tooperating taxes starting from 1 January 2017.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

(In thousands of GEL)

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Inventory

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Inventory is recorded using weighted average method and includes costs related to purchase and placement in working condition of the asset.

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 Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company.
Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not bereceived, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss for the year.

Equity

Charter capital classified as equity. Incremental costs directly attributable to the issue of new shares (or options) are shown in equity as a deduction, net of tax, from the proceeds. Dividends are recognized as liability immediately when they are declared.

Foreign currency transaction

The financial statements are presented in Georgian Lari, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functionalcurrency, converted at the rate of exchange ruling at the date of transaction. Monetary assets andliabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactionsare recognized in the statement of profit or loss as gains and losses from foreign currencies – translation differences.
The Natioanl Bank of Georgia official exchange rate use by the Company in the preparation of the financial statements is following:

	31 December 2021	**31 December 2020**
1 USD/GEL	3.0976	3.2766
1 EUR/GEL	3.5040	4.0233
Average exchange rate for the year		
1 USD/GEL	3.2209	3.1097
1 EUR/GEL	3.8140	3.5519

(In thousands of GEL)

4. PROPERTY, PLANT AND EQUIPMENT

	Land Buildings	Machinery and Equipment	Vehicles, computers, furniture and others	Construction in progress	Total
Cost					
1 January 2020	**82,932**	**22,157**	**37,367**	**1,429**	**143,885**
Additions	**412**	**4,311**	**12**	**-**	**4,735**
Disposal	**-**	**-**	**-**	**-**	**-**
31 December 2020	**83,344**	**26,468**	**37,379**	**1,429**	**148,620**
Additions	**960**	**3,939**	**23**	**-**	**4,922**
Disposal	-	-	-	-	**-**
31 December 2021	**84,304**	**30,407**	**37,402**	**1,429**	**153,542**
Accumulated Depreciation and impairment					
1 January 2020	**13,029**	**8,041**	**11,421**	**-**	**32,491**
Depreciation charge	3,111	1,228	43	-	**4,382**
Depreciation elimination	-	-	-	-	**-**
31 December 2020	**16,140**	**9,269**	**11,464**	**-**	**36,873**
Depreciation charge	3,048	1,473	44	-	**4,565**
Depreciation elimination	-	-	-	-	**-**
31 December 2021	**19,188**	**10,742**	**11,508**	**-**	**41,438**
Net book value					
1 January 2020	**69,903**	**14,116**	**25,946**	**1,429**	**111,394**
31 December 2020	**67,204**	**17,199**	**25,915**	**1,429**	**111,747**
31 December 2021	**65,116**	**19,665**	**25,894**	**1,429**	**112,104**

The Company commenced the construction works amounted to GEL 1,429 thousands of its assets until 2018 year. This working progress was not concluded and the Company does not anticipate future economic benefit from it.

Depreciation expense has been charged in cost of sale amounted to GEL 4,538 thousands (2020: GEL 4,367 thousands) and in general and administrative expenses GEL 27 thousands (2020: GEL 16 thousands).

(In thousands of GEL)

The Group holds property, plant and equipment that are fully depreciated, the historical cost of them approximates to GEL 3,183 thousands (2020: GEL 3,183 thousands).

Property, plant and equipment was not pledged as security under liabilities.

5. Trade and other receivables

The Company has following trade and other receivables as at 31 December 2021 and 31 December 2020:

	31 December 2021	**31 December 2020**
Trade receivables	1,134	5,399
Provision for doubtful debts	(700)	(668)
Net trade receivables	**434**	**4,731**
Tax assets	118	972
	552	**5,703**

The provision for impairment of trade receivables is as follows:

	31 December 2021	**31 December 2020**
Balance at the beginning of the year	668	187
Provision growth during the year	32	481
Provision decrease during the year	-	-
	700	**668**

All trade receivables are short-term and do not accrue interest. There is no material difference between the carrying amount of trade receivables and its fair value.

Management believes that all tax assets are recoverable and therefore no impairment provision should be made.

According to the Resolution No. 77 of the Energy Commission of Georgia "On the rules of the electricity market", the company reduces the annual generated electricity in order to provide the Abkhazia region with electricity, which is why the income received from the electricity supply in Abkhazia and the corresponding requirements are not recognized in the financial statements.

Note 15 presents trade and other requirements in foreign currency.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company as at 31 December 2021 and 31 December 2020 consist of following:

	31 December 2021	**31 December 2020**
Cash at bank in national currency	2,347	272
Cash at bank in foreign currency	547	45
	2,894	**317**

Cash and cash equivalents are placed in current accounts of reputable commercial banks. Management believes that these financial assets are not impaired.

There is no material difference between the carrying amount of cash and cash equivalents and its fair value.

See Note 15 for cash and cash equivalents by currency.

(In thousands of GEL)

7. EQUITY

The authorized charter capital of the company is represented by its 100% owner "Engurhesi" Ltd.'s Contributions to the company's capital were carried out in the form of transfer of fixed assets.

8. RESTRUCTURED LIABILITIES

Commission for Restructuring of Overdue Tax and Debt Obligations created by the Ministry of Finance made a decision on the restructuring of the subsidiary company's tax. An agreement was signed with the Ministry of Finance of Georgia on February 18, 2009, according to which the total liability of the company was determined at GEL 3,673 thousands. Obligations (principal and interest) are fully repayable by 2023. The real value of the restructured liabilities approximates their book value. Fair value is based on a cash flow discount rate of 6%. Restructured liabilities are presented in GEL. According to the agreement, the company pays principal and interest twice a year.

For the reporting period, the current and long-term part amounts to 619 thousands (2020: GEL 653 thousands) and GEL 603 thousands GEL (2020: GEL 1,222 thousands), respectively.

9. BORROWINGS

	Short-Term Borrowings		**Long-Term Borrowings**	
	31 December 2021	**31 December 2020**	**31 December 2021**	**31 December 2020**
JSC "Bank of Georgia"	6,126	-	-	1,526
JSC "TBC Bank"	1,500	1,500	1,500	4,500
	7,626	**1,500**	**1,500**	**6,026**

The repayment terms of bank loans are 2022 and 2023. The weighted average annual interest rate of the mentioned loans is 12.8% (2020: 12.8% per annum). The interest rate of all loans is fixed.

Loans are used to finance working capital.

There is no significant difference between the carrying amount of the borrowings and their fair value.

Loans received from banks are not accompanied by significant conditions.

Received loans are denominated in GEL.

10. TRADE AND OTHER PAYABLES

Trade and other payables of the Company as at 31 December 2020 and 31 December 2021 consist offollowing:

	31 December 2021	**31 December 2020**
Trade payables	326	23
Obligations to personnel	124	271
Other payables	27	80
	477	**374**

There is no material difference between the carrying amount of trade and other liabilities and its fair value.

Trade and other liabilities by currency See note 15.

(In thousands of GEL)

11. REVENUE

The company's income in 2021 amounted to GEL 9,893 thousands (2020: GEL 3,690 thousands), the said amount was sold in the local market. The total assets of the company are located in the region of Abkhazia, which the Georgian government cannot control at the moment. That is why a significant part of generated electricity is delivered to Abkhazia without compensation. The mentioned realizations are not recorded in the income of the company according to IFRS.

The market price of electricity supplied to Abkhazia for 2021 amounted to GEL 10,673 thousands (2020: GEL 8,682 thousands).

12. COST OF ELECTRICITY SOLD

	2021	**2020**
Depreciation	4,538	4,367
Salaries	2,780	2,087
Repair costs	400	1,028
Other direct costs	72	2
	7,790	**7,484**

13. GENERAL AND ADMINISTRATIVE EXPENSES

	2021	**2020**
Salaries	1,985	1,816
Security expenses	982	955
Tax expense, other than income tax	580	-
Fuel cots	51	48
Membership fees	40	26
Transportation costs	2	111
Consulting costs	11	109
Office expenses	2	59
Depreciation of fixed assets	27	16
Communication costs	13	12
Other	1,363	123
	5,056	**3,275**

Consulting costs include the audit fee, which in 2021 amounts to GEL 10.5 thousands (2020: GEL 10 thousands).

14. INCOME TAX EXPENSE

On May 13, 2016, the Parliament of Georgia approved significant changes to the Tax Code of Georgia in connection with the draft law on income tax reform (also known as the Estonian model of taxation), which mainly changes the moment of taxation from the moment of receipt of taxable profit to the moment when it is distributed. The law is effective for tax periods beginning on January 1, 2017. Given that the amendment to the Tax Code of Georgia was introduced before the reporting date, deferred tax assets and liabilities will not be recognized after the effective date of the law.

(In thousands of GEL)

15. FINANCIAL RISK MANAGEMENT

The Company is exposed to various risks in relation to financial instruments, such as:

- Credit risk: the possibility that a debtor will not repay all or a portion of a loan or will not repay in a timely manner and therefore will cause a loss to the Company;
- Liquidity risk: the risk that the Company may not have, or may not be able to raise, cash funds when needed and therefore encounter difficulty in meeting obligations associated with financial liabilities;
- Market risk: the risk that the value of a financial instrument will fluctuate in terms of fair value or future cash flows as a result of a fluctuation in market prices. Basically, the Company is exposed to three market risk components:
  - Interest rate risk;
  - Currency risk.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Credit risk

Credit Risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to the risk from its operating activities (accounts receivable) and its financing activities (bank balances). The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

	31 December 31 2021	**31 December 2020**
Trade receivables	1,134	5,399
Cash and cash equivalents	2,894	317
Total credit risk	**4,028**	**5,716**

At the moment of issuance of financial statements there was no significant risk in relation to trade receivables. Credit risk in relation to cash and cash equivalents and deposits is minimal, as fundsare placed in reputable banks.

Foreign currency risk

Several transactions of the Company are in foreign currency, therefore FX gain and losses are created. The significant part of operations of the Company are in GEL. The difficulty is when the transactions of theCompany (purchases) are in foreign currency mainly in EURO. The Company also has significant amountof borrowings in USD and EURO.

31 December 2021	**GEL**	**USD**	**EUR**	**RUB**	**TOTAL**
Financial assets					
Trade receivables	434	-	-	-	434
Cash and cash equivalents	2,347	21	70	456	2,894
	2,781	**21**	**70**	**456**	**3,328**
Financial liabilities					
Borrowings	9,126	-	-	-	9,126
Restructured liabilities	1,222	-	-	-	1,222
Trade payables	477	-	-	-	477
	10,825	**-**	**-**	**-**	10,825
Open currency position	**(8,044)**	**21**	**70**	**456**	**(7,497)**

(In thousands of GEL)

31 December 2020	**GEL**	**EUR**	**TOTAL**
Financial assets			
Trade receivables	4,731	-	4,731
Cash and cash equivalents	270	47	317
	5,001	**47**	**5,048**
Financial liabilities			
Borrowings	9,126	-	9,126
Restructured liabilities	1,875	-	1,875
Trade payables	374	-	374
	11,375	**-**	11,375
Open currency position	**(6,374)**	**47**	**(6,327)**

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations.

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related to payments when those become due.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

31 December 2021	**Less than 1 year**	**1 - 5 years**	**Total**
Financial assets			
Trade receivables	2,894	-	**2,894**
Cash and cash equivalents	434	-	**434**
	3,328	**-**	**3,328**
Financial liabilities			
Trade payables	477	-	477
Borrowings	7,626	1,500	9,126
Restructured liabilities	619	603	1,222
	8,722	**2,103**	**10,825**
Liquidity position	**(5,394)**	**(2,103)**	**(7,497)**

31 December 2020	**Less than 1 year**	**1 - 5 years**	**Total**
Financial assets			
Trade receivables	317	-	**317**
Cash and cash equivalents	4,731	-	**4,731**
	5,048	**-**	**5,048**
Financial liabilities			
Trade payables	374	-	374
Borrowings	1,500	6,026	7,526
Restructured liabilities	653	1,222	1,875
	2,527	**7,248**	**9,775**
Liquidity position	**2,521**	**(7,248)**	**(4,727)**

(In thousands of GEL)

For managing liquidity risk the Company uses its own financial assets, such as cash and cash equivalents and accounts receivable. Cash and cash equivalents of the Company are less than the need of cash outflows. The Company's material negative gap is caused by long-term loan. Hence, next year, management believes that the Company shall be able to cover its liabilities in due time.

16. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheetdate and the reported amount of income and expenses during the year ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the Company's financial condition.

Useful lives of property, plant and equipment - the Company makes assessment of useful lives of items of property, plant and equipment, for the purpose if which different factors are considered, like technical features, commercial purposes, period of use, capacity and physical condition of an item. Despite the fact that management tries to assess useful lives of items of property, plant and equipment ina most efficient way they still can vary from actual results, that can affect the financial statements.

17. COMMITMENTS AND CONTINGENCIES

Taxes

The taxation system in Georgia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties. These facts may create tax risks in Georgia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

18. CAPITAL RISK MANAGEMENT

The company does not have a formal capital management policy, but management seeks to maintain sufficient capital to accomplish the company's operational and strategic goals. This is mainly achieved through effective cash management and long-term investment plans, which are mainly financed by long- term loans and implemented with the support of the ultimate controlling party of the company. The company has not made any changes to its capital management method during the year. The Company is not subject to external capital requirements.

	31 December 2021	**31 December 2020**
Total equity	104,750	108,917
Less: Cash and cash equivalents	(2,894)	(317)
Equity	**101,856**	**108,600**
Total equity	104,750	108,917
Borrowings	9,126	7,526
Overall financing	113,876	116,443
Capital to overall financing ratio	**89%**	**93%**

19. FAIR VALUE MEASUREMENT

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

(In thousands of GEL)

- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Management believes that fair values of financial assets and financial liabilities measured at amortized cost approximate their carrying amounts.
Fair value has been determined by discounting the relevant cash flows using market interest rates for similar instruments.
As a result of this exercise, most significant input is the discount rate. Estimated fair values of the above financial assets and financial liabilities are classified within Level 3 of the fair value hierarchy.

20. RELATED PARTY

Related partied of the Company are its owners, key management, and other government owned companies.

During the reporting year the Company had the following transactions with related parties:

	2021	**2020**
Management salaries and benefits	110	114
	110	114

21. EVENTS AFTER THE REPORTING PERIOD

After the reporting period, the Company received an additional loan in the amount of GEL 1,674 thousands. The Company also acquired property, plant and equipment amounted to GEL 1,469 thousands.