Engurhesi Group LLC

Consolidated Financial Statements and Independent Auditor’s Report

31 December 2021

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INDEPENDENT AUDITOR'S REPORT

TO THE OWNER AND MANAGEMENT OF ENGURHESI LLC

Disclaimer of opinion

We have audited the accompanying consolidated financial statements of Engurhesi LLC and its subsidiary (the Group), which comprise the consolidated statement of financial position as of 31 December 2021, 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.

We do not express an opinion on the accompanying consolidated financial statements of the Group. 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 Group subsequent to 31 December 2021 therefore, we could not observe year end physical count of quantities pertaining to inventories & property plant and equipment. We were unable to satisfy ourselves concerning the quantities held as of 31 December 2021 having net carrying amount of GEL 468,833 thousands and 1,857 thousands respectively. Further we also remained unable to determine any adjustments in these amounts that were necessary in the Group's consolidated financial statements.

The Group has prepared its financial statements in accordance with International Financial Reporting Standards (IFRSs) for the first time for the financial year 2000. The Group determined the fair value of property, plant and equipment 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. 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 2000-2019 years. During the audit of 2021 year, we were unable to obtain sufficient & appropriate audit evidence for amounting to GEL 345,782 thousands on account of property plant & equipment which also includes contributions in equity before January 1, 2020. The said figure also includes GEL 3,868 thousands that was received by merger with Codorhesi in 2010 year, the Group did not test these assets for impairment due to the fact that the Group does not anticipates future economic benefit from them, also these assets are located in conflicted region of Abkhazia not under control of Government of Georgia. Moreover, the balances of construction work in progress includes GEL 1,430 thousands that is coming from the year 2018, the Group does not anticipate these workings to be completed in upcoming years. Hence the Group 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.

The Group derecognized asset-related grants amounting to GEL 11,845 thousands in year 2020 and reflected it as income in other operating income. The management could not provide us sufficient and appropriate audit evidence to ensure our selves that the whole income pertain to year end 31 December 2020 or not. Accordingly, we have not been able to determine whether any adjustments were necessary to the consolidated Financial Statements of the Group.

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.

RSM

Other matter

The consolidated financial statements of Engurhesi LLC for the year ended 31 December 2020 were audited by LLC "Nexia TA" who expressed a qualified opinion on those statements on 15 June 2021.

Other information, included in the Group's management report

The Group'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 consolidated 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 consolidated 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 Group 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 consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to conduct an audit of the Group's consolidated 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 consolidated financial statements. We are independent of the Group 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 consolidated 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)

CONSOLIDATED 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	468,833	378,281
Investment in associate	1	817	824
Prepayments for long-term assets		7	28,964
Total non-current assets		**469,657**	**408,069**
Current assets			
Inventories		1,857	2,452
Trade and other receivables	5	1,474	5,343
Cash and bank balances	6	3,386	600
Total current assets		**6,717**	**8,395**
Total assets		**476,374**	**416,464**
Equity and liabilities			
Capital and reserves			
Charter capital	7	208,344	208,312
Accumulated losses		(54,126)	(92,805)
Total equity		**154,218**	**115,507**
Non-current liabilities			
Restructured liabilities	17	603	1,222
Loans and borrowings	8	281,975	271,200
Grants related to assets	9	5,830	6,038
Total non-current liabilities		**288,408**	**278,460**
Current liabilities			
Restructured liabilities	17	619	653
Loans and borrowings	8	17,162	9,521
Trade and other payables	10	15,967	12,323
Total current liabilities		**33,748**	**22,497**
Total equity and liabilities		**476,374**	**416,464**

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

Head of bord of directors
Levan Mebonia

Financial director
Zviad Kilasonia

Tbilisi, Georgia

19 October 2022

(In thousands of GEL)

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

	Note	2021	2020
Revenue	11	58,805	14,822
Cost of sales	12	(33,175)	(29,722)
Gross profit/(loss)		**25,630**	**(14,900)**
Other income	13	390	12,094
General and administrative expenses	14	(16,351)	(11,707)
Selling expenses		(4,194)	(543)
Other expenses		(252)	(1,578)
Results from operating activities		**5,223**	**(16,634)**
Finance income	15	228	228
Finance costs	15	(4,976)	(3,386)
Gain/(loss) from exchange rate differences	16	38,204	(42,031)
Profit/(loss) before income tax		**38,679**	**(61,823)**
Income tax expense	17	-	-
Profit/(loss) for the year		**38,679**	**(61,823)**
Other Comprehensive year			
Other Comprehensive year		-	-
Total comprehensive income for the year		**38,679**	**(61,823)**

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

Head of bord of directors

Levan Mebonia

Financial director

Zviad Kilasonia

Tbilisi, Georgia

19 October 2022

(In thousands of GEL)

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

	Charter capital	Accumulated loss	Total
Balance at 1 January 2020	**208,287**	**(30,982)**	**177,305**
Total comprehensive income	-	(61,823)	(61,823)
Capital contribution	25	-	25
Balance at 31 December 2020	**208,312**	**(92,805)**	**115,507**
Total comprehensive income	-	38,679	38,679
Capital contribution	32	-	32
Balance at 31 December 2021	**208,344**	**(54,126)**	**154,218**

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

Head of bord of directors
Levan Mebonia

Financial director
Zviad Kilasonia

Tbilisi, Georgia

19 October 2022

Note on pages 9-27 from an integral part of these consolidated financial statements

(In thousands of GEL)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMEBER 2021

	Note	2021	2020
Profit/(Loss) for the year		38,679	(61,823)
Adjustments for:			
Depreciation and amortization	4	13,022	11,264
Loss on disposal of property and equipment		-	66
Foreign exchange (gain)/loss	16	(38,204)	42,031
Finance income	15	(228)	(228)
Finance costs	15	4,976	3,386
Grant amortization	9	(208)	(11,845)
Operating profit/(loss) before working capital changes		**18,037**	**(17,149)**
Change in trade and other receivables and prepayments		33,222	(700)
Change in inventories		594	(488)
Change in trade and other payables		1,226	(1,987)
		53,079	**(20,324)**
Interest paid		(6,106)	(3,159)
Net cash from (used in) operating activities		**46,973**	**(23,483)**
Acquisition of property and equipment	4	(104,691)	(43,806)
Placement of deposits		-	6,600
Interest received		166	226
Net cash (used in) investing activities		**(104,525)**	**(36,980)**
Cash flows from financing activities			
Proceeds from loans and borrowings	8	85,565	55,210
Repayment of loans and borrowings	8	(25,169)	(1,953)
Net cash from financing activities		**60,396**	**53,257**
Net increase/(decrease) in cash and bank balances		2,844	(7,408)
Foreign exchange effect on cash		(58)	12
Bank balances at the beginning of the year	6	**600**	**7,996**
Bank balances at the end of the year	6	**3,386**	**600**

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

Head of bord of directors
Levan Mebonia

Financial director
Zviad Kilasonia

Tbilisi, Georgia

19 October 2022

Note on pages 9-27 from an integral part of these consolidated financial statements

(In thousands of GEL)

NOTES

1. PRINCIPAL ACTIVITIES

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

The Group consists of Engurhesi LLC (parent company) and its subsidiary (100% of shares owned by parent) - “Vardnilhesebis Kaskadi” LLC (subsidiary company).

As at 31 December 2021 and 31 December 2020 the founder and 100% owner of the Group is the Government of Georgia. The Ministry of Finance of Georgia (MoF) has ownership over the Group, while privatization rights of the Group are delegated to the Ministry of Economy and Sustainable Developmentof Georgia.

The Group’s principal activity is the production and sale of electricity throughout Georgia and abroad.The parent and the subsidiary Company’s activities are similar. The whole assets of subsidiary are in Abkhazia region.

Group’s registered address is: 8 Politkovskaia Street, Tbilisi, Georgia.

The head office of the Group is located in Saberio, Gali region.

The Group has following investment in affiliate Company as at 31 December 2021 and 31 December 2020:

Company	Ownership %	Country	Date of incorporation	Operation segment	Purchase date
“Enguri Hydroaccumulat ivePower Plant” LLC	40%	Georgia	13 June, 2018	Energy	13 June 2018

The Group’s assets with net book value amounted to GEL 252,085 thousands (2020: GEL243,127 thousands) are located in Abkhazia territory, which is conflict region since 1992. Only Hydro power station ENGURHESI dam of parent Company is located in Georgia, other main assets which generated electricity of the Group are located in Abkhazia region that is not controlled currently by Georgian government. 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 11).

2. BASIS OF PREPARATION

Accounting principles and basis of preparation

These consolidated 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 consolidated financial statements have been prepared under the historical cost convention.

The consolidated financial statements comprise a Consolidated statement of profit or loss and other comprehensive income, a consolidated statement of financial position, a consolidated statement of changes in equity, a consolidated statement of cash flows, and notes to the consolidated 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 Group in their capacity as owners are recognized in the consolidated statement of changes in equity.

The Group presents consolidated statement of profit or loss and other comprehensive income using the classification by Function of expenses. The Group believes this method provides more useful information to the readers of the consolidated 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 consolidated 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 consolidated financial statements are presented in Georgian Lari(GEL) rounded to the nearest thousands if otherwise stated.

Basis of consolidation

Subsidiaries are those enterprises, which are controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise, so asto obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date when control effectively commences until the date that control effectively ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non- controlling interest.

Intra-group balances and transactions, and any unrealized gains arising from intra group transactions, are eliminated in presenting the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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 Group 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 Group accounts it on this group of property, plant and equipment and after completion of construction workings the Group transfer it to the appropriate group of property, plant and equipment.

Financial Assets

Classification and subsequent measurement

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

Based on these factors, the Group 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. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within Net trading income in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented ly in 'Net investment income. Interest income from these financial assets is included in "Interest income using the effective interest rate method.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group'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 Group in determining the business model for a group 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 Group assesses whether the financial instruments cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the Group 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 Group 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 group 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 group'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 Group 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 Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Group 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 Group 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 Group 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 Group 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 Group 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 Group also has short-term deposits placed in bank.

Investment in associate

In consolidated financial statements the Group accounts investments in affiliates at a cost that represents equity of affiliate company.

Revenue recognition

To determine whether to recognize revenue, the Group 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 Group 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 Group 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 Group and the customers, and approved by JSC Electricity System CommercialOperator (ESCO). The Group 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.

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 recognized at cost less a provision for impairment. 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 prepayments 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 recognized in profit or loss for the year.

Equity

Charter capital is recognized in the statement of changes in equity and is defined by the owner. In case, when the contribution to the Group's charter capital includes non-cash assets, the difference between the amount defined by the owner and the net fair value of contributed assets is recognized as Additional Paid in Capital.

Dividends are recognized as liability immediately when they are declared.

(In thousands of GEL)

Grants

Grants are recognized where there is reasonable assurance that they will be received and all attached conditions will be complied with. Where the grant relates to an asset, it is recognized as deferred income in the statement of financial position, and is transferred to statement of profit or loss in equal amounts over the expected useful life of the related asset.

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari (GEL), which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities 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 currencytransactions are recognized in the consolidated statement of profit or loss as gains and losses from foreign currencies – translation differences.

The National Bank of Georgia official exchange rate use by the Group in the preparation of the consolidated 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 theyear	**2021**	**2020**
1 USD/GEL	3.2209	3.1097
1 EUR/GEL	3.8140	3.5519

Application of New or Revised Standards and Pronouncements

New or amended Accounting Standards and Interpretations adopted.

The Group 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 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 Group for the annual reporting period ended 31 December 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date 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 Group's financial condition.

Useful lives of property, plant and equipment. the Group 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 in a most efficient way they still can vary from actual results, that can affect the financial statements.

(In thousands of GEL)

4. PROPERTY, PLANT AND EQUIPMENT

Cost	**Buildings**	**Machinery and Equipment**	**Vehicles, computers, furniture and others**	**Construction in progress**	**Total**
1 January 2020	**263,881**	**194,857**	**40,585**	**2,486**	**501,809**
Additions	416	4,603	99	38,685	43,803
Transfers	20,409	16,668	-	(37,077)	-
Capital contribution	-	-	25	-	25
Write-off	(3)	(35)	(32)	(54)	(124)
31 December 2020	**284,703**	**216,093**	**40,677**	**4,040**	**545,513**
Additions	**1,056**	**20,695**	**399**	**83,961**	106,111
Transfers from construction in progress	**69,269**	**13,681**	**-**	**(82,950)**	-
Capital contribution	**-**	**-**	**32**	**-**	32
Disposals	**-**	**(90)**	**(140)**	**(2,569)**	(2,799)
31 December 2021	**355,028**	**250,379**	**40,968**	**2,482**	**648,857**
Accumulated *Depreciation and impairment*					
1 January 2020	**(78,668)**	**(63,960)**	**(13,399)**	**-**	**(156,027)**
Depreciation charge	(5,123)	(5,826)	(314)	-	(11,263)
Depreciation elimination	2	25	31	-	58
31 December 2020	**(83,789)**	**(69,761)**	**(13,682)**	**-**	**(167,232)**
Depreciation charge	(5,901)	(6,806)	(315)	-	(13,022)
Depreciation elimination	-	90	140	-	230
31 December 2021	**(89,690)**	**(76,477)**	**(13,857)**	**-**	**(180,024)**
Net* book *value					
1 January 2020	**185,213**	**130,897**	**27,186**	**2,486**	**345,782**
31 December 2020	**200,914**	**146,332**	**26,995**	**4,040**	**378,281**
31 December 2021	**265,338**	**173,902**	**27,111**	**2,482**	**468,833**

The Group's property and equipment include items that were added as a result of the merger with Kodori HPP LLC on April 4, 2010. The Group is unable to gain economic benefit tfrom these assets at carrying amounts of GEL 3,868 thousands as of 31 December 2021 (31 December 2020: GEL 3,951 thousands).

(In thousands of GEL)

The subsidiary Company commenced the construction works amounted to GEL 1,430 thousands of its assets until 2018 year. This working progress was not concluded and the Group does not anticipate future economic benefit from it.

Depreciation expense has been charged in cost of sale amounted to GEL 12,785 thousands (2020: GEL 11,027 thousands), in general and administrative expenses GEL 89 thousands (2020: GEL 101 thousands) and in other expenses GEL 148 thousands (2020: GEL 135 thousands).

The additions of 2021 include PPE of GEL 1,134 thousands (2020: GEL 558 thousands) that capitalized as borrowing costs to the qualified assets.

The Group holds property, plant and equipment that are fully depreciated, the historical cost of them approximates to GEL 9,358 thousands (2020: GEL9,358 thousands).

Contractual commitments to carry out rehabilitation workings approximates GEL 489 thousands (2020: GEL 2,226 thousands).

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

Construction in progress can be detailed as follows:

Construction in progress

	Buildings	Machinery and Equipment	Construction in progress
1 January 2020	-	-	**4,040**
Addition:	**69,341**	**14,620**	**83,961**
Road rehabilitation	7,428	-	7,428
Consulting services	3,916	-	3,916
Construction and tunnel works	54,281	-	54,281
Dredging works	2,412	-	2,412
Hydro/electric mechanical works	-	11,570	11,570
Borrowing Costs	1,131	-	1,131
Dam	173	-	173
Other	-	3,050	3,050
Transfer to assets:	**-**	**-**	**(82,950)**
Road rehabilitation	20,254	-	(20,254)
Consulting services	674	-	(674)
Construction and tunnel works	24,352	-	(24,352)
Dredging works	2,828	-	(2,828)
Hydro/electric mechanical works	-	4,779	(4,779)
Borrowing Costs	1,131	-	(1,131)
Dam	27,654	-	(27,654)
Other	-	1,278	(1,278)
Disposal	**-**	**-**	(2,569)
31 December 2021	**-**	**-**	**2,482**

5. TRADE AND OTHER RECEIVABLES

Trade and other receivables of the group as at 31 December 2021 and 31 December 2020 consists of following:

	31 December 2021	31 December 2020
Trade receivables	1,287	5,399
Allowances for doubtful trade receivables	(700)	(668)
	587	**4,731**
Tax assets, other than income tax	858	567
Prepayments	-	12
Other	29	33
	1,474	**5,343**

(In thousands of GEL)

During the financial year the movement in allowance for doubtful receivables was following:

	31 December 2021	**31 December 2020**
Balance as at 1 January	668	197
Expected credit loss for the year	32	481
Charge during the year	-	(10)
	700	**668**

All trade receivables are short term and non-interest bearing. The net carrying value of trade receivablesis reasonable approximation of fair value.

Management believes, that all receivables from Tax assets, other than income tax are recoverable and therefore no reserve for impairment should be made. This amount consists of property tax, PIT, land tax and other.

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.

Refer to note 18 for the currencies in which the trade receivables are denominated.

6. CASH AND CASH EQUIVALENTS; DEPOSITS

Cash and cash equivalents of the Group as at 31 December 2021 and 31 December 2020 consists of following:

	31 December 2021	**31 December 2020**
Cash at bank in national currency	2,617	543
Cash at bank in foreign currency	769	57
	3,386	**600**

Cash and cash equivalents are placed on current accounts in reputable commercial banks. The group does not anticipate that these balances can be impaired.

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

Refer to note 16 for the currencies in which the cash and cash equivalents are denominated.

7. EQUITY

The Group’s charter amounted to GEL 208,344 thousands as at 2021(2020: GEL 208,312 thousands). Mainly the Group’s charter was injected in previous years, the Group's charter capital was injected with cash amounted to GEL34,627 thousands and with property, plant and equipment amounted to GEL 173,717 thousands.

(In thousands of GEL)

8. LOANS AND BORROWINGS

	Short-Term Borrowings		Lon-Term Borrowings	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Ministry of Finance #1	4,770	-	26,408	35,075
Ministry of Finance (EBRD) #4	546	-	60,804	70,443
Ministry of Finance (EIB)#1	397	-	65,630	75,349
Ministry of Finance (EIB)#2	7	-	12,257	14,082
Ministry of Finance (EIB)#3	3,435	521	109,250	68,725
JSC "Bank of Georgia"	8,007	9,000	4,626	3,026
JSC "TBC Bank"	-	-	3,000	4,500
	17,162	**9,521**	**281,975**	**271,200**

Ministry of finance #1

The agreement was signed on August 17, 2009 with the Ministry of Finance of Georgia . The mature date is October, 25 2026. The interest rate equals to 3.5% per annum. The purpose of the loan is rehabilitation of hydro power station of Engurhesi. The Group pays principal and interest two times in a year.

Ministry of finance (through EBRD) #3

On August 27, 2010, a sub-loan agreement was signed between the Group and the Ministry of Finance of Georgia for the amount of Euro 20,000 Thousands. The initial lender of loan is European Bank for Reconstruction and Development by an agreement with the Ministry of Finance of Georgia. The purpose of the loan is to finance rehabilitation works of first and fifth Enguri hydro power plants. The Group shall pay its duties to Ministry of Finance of Georgia, principal and interest shall be paid two times in a year. The maturity date of the loan is November, 25 2033. Interest rate of the loan is 6-month Euribor +1% . The purpose of loan is rehabilitation of hydro power station of Engurhesi.

Ministry of finance (through EIB) #1

On July 10, 2011 a sub-loan agreement was signed between the Group, the Ministry of Energy and Natural Recourses and the Ministry of Finance of Georgia for the amount of Euro 20,000 thousands. The initial lender of loan is European Industrial Bank-under by an agreement with the Ministry of Finance of Georgia. The Group shall pay its duties to Ministry of Finance of Georgia, principal and interest shall be paid two times in a year. The maturity date of the loan is November, 25 2033. Interest rate of the loan is 6-month Euribor +0.81%. The purpose of loan is rehabilitation of hydro power station.

Ministry of finance (through EIB) #2

In July 2017, the agreement was made among parent company, Ministry of Economics and Ministry of Finance on 3,500 Euro. The initial lender of loans is European Industrial Bank. The Group shall pay its duties to Ministry of Finance of Georgia, principal and interest shall be paid two times in a year. The maturity date of the loan is October, 20 2034. Interest rate of the loan is 6-month Euribor +0.81%. The purpose of loan is rehabilitation of hydro power station.

Ministry of finance (through EBRD) #4

In January 2018 agreement was made between Ministry of Economic and Sustainable Development of Georgia and Ministry of Finance of Georgia on EUR 28,000 thousands. In July 2020 the parties concluded the amendment of the main contract and the loan amount was increased by EUR 10,000 thousands. The amount from amended of 2018 year's contracts were received in 2021. The first source of issuance of loan is European Bank for Reconstruction and Development. The Group shall pay its duties to Ministry of Finance of Georgia, principal and interest shall be paid two times in a year. The maturity date of the loan is November, 27 2034. Interest rate of the loan is 6-month Euribor +1%. The purpose of the loan is rehabilitation of Enguri hydropower station - Improving resilience to climate conditions.

Fair value of loans and borrowings approximates their carrying amounts.

Refer to note 16 for the currencies in which the loans and borrowings are denominated.

(In thousands of GEL)

9. GRANTS RELATED TO ASSET

Changes of Grants Related to assets	31 December 2021	31 December 2020
Principal	6,038	17,883
Amortization (Note 13)	(208)	(11,845)
	5,830	**6,038**

Balances include grant received from the Ministry of Finance for rehabilitation of the Group's number 4 aggregate. The useful life of the asset financed by the grant is 40 years. There were not any significant commitments in relation to this grant.

10. TRADE AND OTHER PAYABLES

Trade and other payables of the Group as at 31 December 2021 and 31 December 2020 consists of following:

	31 December 2021	31 December 2020
Trade payables	15,570	11,703
Payable to employees	124	273
Other payables	273	347
	15,967	**12,323**

The majority part of trade payables represents the liabilities for the rehabilitation works on the Group's hydro power station. The contractors are JSC Enregoni and DCN DIVING B.V. The payments shall be made during 2022 year.

Trade and other payables are non-interest bearing.

Refer to note 16 for the currencies in which the trade payables are denominated.

11. REVENUE

	2021	2020
Revenue from sale of electricity on local market	48,478	14,822
Revenue from sale of electricity on export	10,327	-
	58,805	**14,822**

Hydro power station dam of parent Company is located in Samgerolo, other main assets of the Group are located in Abkhazia region that is not controlled currently by Georgian government. That's why the significant part of generated electricity is used to supply to the territory of Abkhazia without fee. This supply is not recorded as revenue of the Group according to IFRS.

The market price of provided electricity to Abkhazia amounted to GEL 57,840 for the year ended 2021 (2020: GEL 36,717).

12. COST OF ELECTRICITY SOLD

	2021	2020
Salaries	15,303	13,831
Depreciation	12,785	11,027
Professional service expense	2,079	1,777
Materials	1,016	916
Repair and maintenance	1,602	2,011
Other	390	160
	33,175	**29,722**

13. OTHER OPERATING INCOME

	2021	2020
Amortization of grant (refer to note 9)	208	12,080
Other	182	14
	390	**12,094**

(In thousands of GEL)

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Salaries	5,818	5,330
Expenses for supplying electricity to Abkhazia (electricity purchase expenses)	3,356	2,316
Taxes	2,414	1,275
Security expenses	1,747	1,698
Utilities	690	-
Membership fees	190	100
Bank fee	172	88
Othe service and consultation	150	78
Depreciation and amortization	89	101
Communication	59	58
Fuel	56	52
Office supplies	44	96
Representative expenses	38	4
Other	1,528	511
	16,351	**11,707**

Service and other consulting expenses consist audit fees that is GEL 35.5 thousands in 2021 (2020: GEL 23 thousands).

15. FINANCE INCOME, FINANCE COSTS

	2021	2020
Interest expenses on loans	4,976	2,984
Commission expenses	-	402
Total interest expenses	**4,976**	**3,386**
Interest income of bank deposits	228	228
Total interest income	**228**	**228**

16. GAIN/(LOSS) FROM EXCHANGE RATE DIFFERENCES

	2021	2020
Financial assets at amortized cost		
Including:	**(422)**	**45**
Cash and cash equivalents	58	(12)
Other financial receivables at amortized cost	(480)	57
Financial liabilities at amortized cost		
Including:	**38,626**	**(42,076)**
Loans and borrowings	38,626	(42,076)
	38,204	**(42,031)**

17. INCOME TAX EXPENSE

On 13 May 2016 the Parliament of Georgia approved significant changes in Georgian Tax code related to the bill on corporate income tax reform (also known as the Estonian Model of Corporate Taxation) which mainly moves the moment of taxation from the moment when taxable profit are earned to the moment when they are distributed. The law is effective from tax periods starting after 1 January 2017. Considering that the change in the Georgian Tax Code was enacted before the reporting date, deferred tax assets and liabilities will not be recognized after the law is valid.

(In thousands of GEL)

Commission on restructuring of overdue tax and loan liabilities, formed by the Ministry of Finance, made decision about restructuring tax payables of the subsidiary Company. An agreement was signed with the Ministry of Finance of Georgia on February 18, 2009, according to which the total liability of the Group at that date was determined at GEL 3,673 thousands. The liabilities (principal and interest) are fully repayable by 2023. The fair value of restructured liabilities approximates their carrying amount. The fair values are based on cash flows discounted at 6%. Restructured liabilities are denominated in GEL. According to the agreement, the Group pays principal and interest two times in a year.

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

18. FINANCIAL RISK MANAGEMENT

The Group 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 Group;
- Liquidity risk: the risk that the Group 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 Group is exposed to three market risk components:
  - Interest rate risk;
  - Currency risk.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does itwrite options. The most significant financial risks to which the Group 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 Group 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 2021	**31 December 2020**
Trade receivables before impairment	1,287	5,441
Cash at bank	3,386	600
	4,673	**6,041**

The credit risk in respect of cash balances held with banks are managed via diversification of bank balances, and are only with major reputable financial institutions.

Foreign currency risk

Several transactions of the Group are in foreign currency, therefore the Group is exposed to the Foreign Currency risk. The significant part of operations of the Group are in GEL. The difficulty is when the transactions of the Group (purchases) are in foreign currency mainly in EUR and sometimes in USD as well.

31 December 2021	**GEL**	**USD**	**EUR**	**Rubles**
Financial assets				
Trade receivables	587	-	-	-
Cash and cash equivalents	2,617	107	206	456
	3,204	**107**	**206**	**456**
Financial liabilities				
Borrowings	46,803	-	252,334	-
Restructured liabilities	1,222	-	-	-
	48,025	**-**	**252,334**	**-**
Open currency position	**(44,821)**	**107**	**(252,128)**	**456**

(In thousands of GEL)

31 December 2020	**GEL**	**USD**	**EUR**	**Rubles**
Financial assets				
Trade receivables	1,329	-	3,447	-
Cash and cash equivalents	543	-	56	-
	1,872	-	3,503	-
Financial liabilities				
Borrowings	1,875	-	-	-
Restructured liabilities	44,449	229,120	-	-
	46,324	**229,120**	**-**	**-**
Open currency position	**(44,452)**	**(229,120)**	**3,503**	**-**

Interest rate risks

The Group has borrowings in foreign currency both in fixed and floating rates, therefore in addition to the above described Foreign Currency Risk, the Group is also exposed to Interest Rate risk. The interest rate risk of the Group is mitigated by balancing between fixed rate and floating rate borrowings. Exposure is shown below:

Variable interest rate 2021	**Balance**	**Interest rate**	**Currency**
Ministry of finance (EBRD) #3	61,350	Euribor +1%.	EUR
Ministry of finance (EIB) #1	65,623	Euribor+0.81%	EUR
Ministry of finance (EIB) #2	12,264	Euribor+0.81%.	EUR
Ministry of finance (EBRD) #4	112,686	Euribor+0.81%.	EUR
	251,923	**-**	**-**

Variable interest rate 2020	**Balance**	**Interest rate**	**Currency**
Ministry of finance (EBRD) #3	70,443	Euribor +1%	EUR
Ministry of finance (EIB) #1	75,349	Euribor+0.81%	EUR
Ministry of finance (EIB) #2	14,082	Euribor+0.81%	EUR
Ministry of finance (EBRD) #4	67,920	Euribor+0.81%	EUR
	227,794	**1.52%**	**-**

Sensitivity analyses of change of interest rate with 1% was performed. The management believes that 1% is maximum possible change of interest rate.

If interest rate will increase or decrease with 1% and all other variables will be unchanged, the finance results of the Group will increase or decrease by GEL 337 thousands in 2021 (2020: GEL 1,376 thousands).

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations. The Group'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 Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has drawn up based on the undiscounted cash flowsof financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

(In thousands of GEL)

31 December 2021	Less than 1 year	1 - 5 years	More than 5 years	TOTAL
Financial Assets				
Cash and cash equivalents	3,386	-	-	**3,386**
Trade receivables	587	-	-	**587**
Total financial assets	**3,973**	**-**	**-**	**3,973**
Financial liabilities				
Trade payables	15,967	-	-	15,967
Restructured liabilities	619	603	-	1,222
Loans and borrowings	17,162	122,644	159,331	299,137
Total financial liabilities	**33,748**	**123,247**	**159,331**	**316,326**
Liquidity position	**(29,775)**	**(123,247)**	**(159,331)**	**(312,353)**

31 December 2020	Less than 1 year	1 - 5 years	More than 5 years	TOTAL
Financial Assets				
Cash and cash equivalents	600	-	-	**600**
Trade receivables	5,736	-	-	**5,736**
Total financial assets	**6,336**	**-**	**-**	**6,336**
Financial liabilities				
Trade payables	12,324	-	-	12,324
Loans and borrowings	23,997	37,979	232,943	294,919
Total financial liabilities	**36,321**	**37,979**	**232,943**	**307,243**
Liquidity position	**(29,985)**	**(37,979)**	**(232,943)**	**(300,907)**

For managing liquidity risk the Group uses its own financial assets, such as cash and cash equivalents and accounts receivable. Cash and cash equivalents of the Group are less than the need of cash outflows. The Group's material negative gap is caused by long-term loan. As mentioned in note 2, since 2021 the Group is profitable and the management believes that upcoming years shall be profitable as well. Hence, the Group shall be able to cover its liabilities in due time.

Capital risk management

The Group does not have formal policy to manage its capital. However, the management tries to maintain enough capital to realize the Group's operational and strategic goals. It is mainly achieved by the effective management of financial resources and long-term investment plans which are financed with the long-term loans and are carried out with the support of the final controlling body of the Group. During the year the Group has not made any changes in the management method of the capital. Capital related requirements established outside of the Group do not apply to the Group.

	31 December 2021	31 December 2020
Total equity	165,803	122,924
less: cash and cash equivalents	(492)	(283)
Equity	**165,311**	**122,641**
Total equity	165,803	273,194
Borrowings	290,011	263,674
Total funds	**455,814**	**536,868**
Equity / funds ratio coefficient	**36%**	**23%**

(In thousands of GEL)

19. 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.

Bank guarantees

The group periodically imports fixed assets from foreign suppliers, suppliers demand the Group to issue bank guarantees. For the reporting period, the Group has been issued a bank guarantee for suppliers in the amount of GEL 2,472 thousands.

Rehabilitation works on PPE

Contractual commitments to carry out rehabilitation workings approximates GEL 489 thousands (2020: GEL 2,226 thousands).

20. FAIR VALUE MEASURMENT

The Group 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;
- 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.

21. Related party disclosures

Related partied of the Group are its owners, key management, and other government owned companies. During the reporting year the Group had the following transactions with related parties:

	2021	**2020**
Interest expense on loans	(4,748)	(3,182)
	(4,748)	**(3,182)**

	2021	**2020**
Management salaries and bonuses	(495)	(413)
	(495)	**(413)**

Balances with related parties:

	31 December 2021	**31 December 2020**
Loans and borrowings	290,727	273,195
	290,727	**273,195**

22. EVENTS AFTER THE REPORTING PERIOD

After the reporting period, the Group received an additional loan in the amount of GEL 11,500 thousands. The Group also acquired property, plant and equipment amounted to GEL 12,951 thousands.