QARTLI WIND FARM LLC

Financial statements

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

QARTLI WIND FARM LLC

Financial statements

For the year ended 31 December 2019

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EY LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს იუაი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Independent auditor's report

To the Participants of Qartli Wind Farm LLC

Opinion

We have audited the financial statements of Qartli Wind Farm LLC (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Other matter

The financial statements for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 19 March 2019.

Alexey Loza
Partner
On behalf of EY LLC

Tbilisi, Georgia

30 April 2020

QARTLI WIND FARM LLC

Statement of financial position

As at 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	4	59,171	62,712
Total non-current assets		**59,171**	**62,712**
Current assets			
Trade and other receivables	5	1,578	1,703
Restricted cash	8	6,337	4,542
Cash and cash equivalents	6	9,772	14,071
Total current assets		**17,687**	**20,316**
Total assets		**76,858**	**83,028**
Equity and liabilities			
Owner's equity			
Charter capital	7	21,509	28,283
Retained earnings		4,410	2,328
Total owner's equity		**25,919**	**30,611**
Non-current liabilities			
Borrowings	8	44,960	45,411
Total non-current liabilities		**44,960**	**45,411**
Current liabilities			
Borrowings	8	5,349	6,441
Trade and other payables	9	630	565
Total current liabilities		**5,979**	**7,006**
Total liabilities		**50,939**	**52,417**
Total owner's equity and liabilities		**76,858**	**83,028**

The financial statements for the year ended 31 December 2019 were approved on behalf of the management on 30 April 2020 by:

Director ______________________ Z. Gordeziani

Financial Manager ______________________ N. Mshvidobadze

Notes on pages 5-22 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	2019	2018 (Restated)*
Revenue	10	16,545	14,744
Cost of sales	11	(6,609)	(6,397)
Gross profit		**9,936**	**8,347**
General and administrative expenses	12	(1,177)	(1,166)
Operating profit		**8,759**	**7,181**
Finance income	13	786	591
Finance costs	13	(4,205)	(3,721)
Foreign exchange loss, net	14	(3,258)	(1,381)
Profit before income tax		**2,082**	**2,670**
Income tax expense		–	–
Net profit		**2,082**	**2,670**
Other comprehensive income		–	–
Total comprehensive income for the period		**2,082**	**2,670**

* *Certain amounts do not correspond to the 2018 financial statements as they reflect adjustments made as described in Note 2.*

Notes on pages 5-22 are an integral part of these financial statements.

QARTLI WIND FARM LLC

Statement of changes in equity

For the year ended 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	Charter capital	Retained earnings / (accumulated loss)	Total
31 December 2017		**28,283**	**(342)**	**27,941**
Net profit and total comprehensive income for the period		–	2,670	**2,670**
31 December 2018		**28,283**	**2,328**	**30,611**
Net profit and total comprehensive income for the period		–	2,082	**2,082**
Decrease of charter capital	7	(6,774)	–	**(6,774)**
31 December 2019		**21,509**	**4,410**	**25,919**

Notes on pages 5-22 are an integral part of these financial statements.

QARTLI WIND FARM LLC

Statement of cash flows

For the year ended 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	2019	2018 (Restated)*
Cash flows from operating activities			
Profit before income tax		2,082	2,670
Adjustments for:			
Depreciation		3,492	3,502
Finance income	13	(786)	(591)
Finance costs	13	4,205	3,721
Foreign exchange loss, net	14	3,258	1,381
Operating cash inflows before working capital changes		**12,251**	**10,683**
Working capital changes			
(Increase)/decrease in trade and other receivables		(82)	2
Increase/(decrease) in trade and other payables		65	(914)
Operating cash flows after working capital changes		**12,234**	**9,771**
Interest received		682	515
Interest paid		(3,839)	(3,374)
Net cash from operating activities		**9,077**	**6,913**
Cash flows from investing activities			
Purchase of property, plant and equipment		–	(2)
Interest received on restricted cash		104	76
Net cash from investing activities		**104**	**74**
Cash flows from financial activities			
Repayment of borrowings	8	(5,150)	(4,449)
Change in restricted cash		(1,249)	216
Decrease of charter capital	7	(6,774)	–
Net cash used in financing activities		**(13,173)**	**(4,233)**
Net (decrease)/increase in cash and cash equivalents		**(3,992)**	**2,754**
Cash and cash equivalents at the beginning of the year	6	14,071	11,446
Effect of changes in foreign exchange rate on cash and cash equivalents	14	(307)	(129)
Cash and cash equivalents at the end of the year	6	**9,772**	**14,071**

* *Certain amounts do not correspond to the 2018 financial statements as they reflect the adjustments made as described in Note 2.*

Notes on pages 5-22 are an integral part of these financial statements.

1. General information

Qartli Wind Farm LLC (the “Company”) was founded in 2014 as a limited liability company in accordance with Georgian state-owned entities legislation. The Company’s main activity is the generation of electric power in Georgia.

As at 31 December 2019, 100% of the Company’s shares were owned by Georgian Wind Company LLC, the ultimate parent of which is Georgia Capital PLC (“GCAP”), a UK-based entity listed on the London Stock Exchange. Georgian Wind Company LLC acquired ownership in the Company on 30 December 2019.

As at 31 December 2018, participants of the Company were JSC Georgian Energy Development Fund (50.1%) and JSC Georgian Oil and Gas Corporation (49.9%).

The Company’s legal address is N 8a, Petre Melikishvili Ave/ N 1 Erekle Tatishvili str., Tbilisi, Georgia.

2. Summary of significant accounting policies

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Operating environment

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

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the developed countries, such as economic uncertainty caused by the global COVID-19 pandemic (Note 19).

2. Summary of significant accounting policies (continued)

Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively, IFRS) issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3.

(b) Basis of measurement

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

The reporting period for the Company is the calendar year from 1 January to 31 December.

(c) Going concern

These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to develop the business of the Company in Georgia. The management believes that the going concern assumption is appropriate for the Company.

Adoption of new or revised standards and interpretations

(a) New standards, interpretations and amendments not yet effective

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

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

New and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Company as they are either not relevant to the Company's activities or require accounting which is consistent with the Company's current accounting policies.

2. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

(b) New standards, interpretations and amendments effective from 1 January 2019

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

- IFRS 16 *Leases*. The Company applied IFRS 16 for the first time. The Company adopted IFRS 16 using the modified method of adoption with the date of initial application of 1 January 2019. The Company does not have any material lease agreements or arrangements, thus there is no effect of IFRS 16 adoption as of 1 January 2019.
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*.
- Annual improvements to IFRSs 2015-2017 cycle: IAS 23 *Borrowing Costs*.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Financial statements are presented in Georgian Lari (GEL).

Until 30 December 2019, the functional currency of the Company was Georgian Lari. At the date of the acquisition of the Company by Georgian Wind Company LLC, the functional currency of the Company was reassessed and determined to be US Dollar (USD). In making that assessment, the management considered existence of long-term USD-denominated sales arrangement, USD-denominated debt, as well as expectations of further increase in share of transactions denominated and settled in USD in the foreseeable future. Significant judgment was applied by the management in determination of appropriate functional currency and assessment of whether change in the underlying transactions, events and conditions warrant a change in the functional currency. The Company's presentation currency is different from its functional currency. The Company considers that Georgian Lari as presentation currency is common among Georgian reporters and thus it provides more relevant and appropriate information to the users of the financial statements.

Change in functional currency was applied prospectively starting from 30 December 2019. At the date of change, the Company translated all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

2. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

Foreign exchange gains and losses that relate to trade payables and cash and cash equivalents are presented in the statement of comprehensive income within ‘foreign exchange gain/loss’ with other foreign exchange gains and losses.

Official rate of the National Bank of Georgia of 1 GEL	USD	EUR
Exchange rate as at 31 December 2019	2.8677	3.2095
Exchange rate as at 31 December 2018	2.6766	3.0701

Revenue

The Company recognises revenue to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company use five-step model for all contracts with customers:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the company satisfies a performance obligation.

The Company recognises revenue when or as a performance obligation is satisfied, i.e. when ‘control’ of the goods underlying the particular performance obligation is transferred to the customer. Detail accounting policy for significant revenue generative activity is presented below.

Sale of electric power

The Company sells electric power which is generated by own wind power plant. Revenue is recognised when the electric power is transmitted to a customer. The settlements occur within 1 month from the billing date.

In the selling electric power, a customer simultaneously receives and consumes the benefits provided by the Company. Therefore, the Company satisfies its performance obligations and recognises revenue over time. The Company measures the progress toward complete satisfaction of its performance obligation to deliver electricity based on output method. The objective when measuring progress is to depict the Company’s performance in transferring control of the electricity to the customer. Output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods transferred to date relative to the remaining goods promised under the contract. The Company uses units of electric power delivered for measuring the progress toward complete satisfaction of its performance obligation. The revenue is measured at the transaction price agreed under a contract. The consideration is due after forming an act of acceptance following electric power transmission.

2. Summary of significant accounting policies (continued)

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions. After initial recognition, property, plant and equipment are recorded at historical cost less accumulated depreciation and recognized impairment loss, if any.

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

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Assets under constructions include the costs of construction of property, plant and equipment. Cost of the assets construction includes: any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation

Charging depreciation on the property, plant and equipment or particular items starts when such property is ready to use, i.e. brought to the place and conditions ready for use. Once the property is put into exploitation the respective depreciation is charged to the whole useful life of an item, if the item is not added to the category of items held for sale according to IFRS 5 *Non-current Asset Held for Sale and Discontinued Operations*, or upon termination of recognition of the property item.

Property, plant and equipment are charged depreciation under straight line method according to the useful life on an asset. Assets under construction and land are not depreciated. Assets under construction are put into exploitation and depreciation charges start once it is brought to the condition of target use.

See below the table of useful lives of property, plant and equipment per category:

	Useful lives
Wind power plant	20 year
Other	5-20 year

2. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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. An impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

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 been recognized for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash deposited in banks due on demand or with original maturities of less than three months.

Financial instruments

Financial assets

Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Company’s accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises in-the-money derivatives and out-of-money derivatives where the time value offsets the negative intrinsic value (see “Financial liabilities” section for out-of-money derivatives classified as liabilities). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the finance income or expense line. The Company does not have any financial assets as being at fair value through profit or loss.

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

Amortised cost

These assets arise principally from the provision of goods and services to customers (e.g. trade and other receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Expected credit losses for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated allowance.

From time to time, the Company elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the consolidated statement of comprehensive income (operating profit).

The Company’s financial assets measured at amortised cost comprise trade and other receivables, cash and cash equivalents and restricted cash in the statement of financial position.

Fair value through other comprehensive income

These types of financial assets include strategic investments in listed and unlisted entities which are not accounted for as subsidiaries, associates or jointly controlled entities. For those investments, the Company has made an irrevocable election to classify the investments at fair value through other comprehensive income rather than through profit or loss as the Company considers this measurement to be the most representative of the business model for these assets. They are carried at fair value with changes in fair value recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. Upon disposal any balance within fair value through other comprehensive income reserve is reclassified directly to retained earnings and is not reclassified to profit or loss.

As at 31 December 2019 and 2018, the Company does not have any financial assets at fair value through other comprehensive income.

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company’s accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises out-of-the-money derivatives where the time value does not offset the negative intrinsic value (see “Financial assets” for in-the-money derivatives and out-of-money derivatives where the time value offsets the negative intrinsic value). They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income. The Company does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

Other financial liabilities

Other financial liabilities include the following items: borrowings and trade payables.

Bank borrowings is initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derecognition of financial assets

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company 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. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

Offsetting

Financial assets and 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 either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Taxation

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

Recognition of expenses

Expenses are recognized in the income statement if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognized in the income statement immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the statement of financial position.

Charter capital

The amount of Company's authorised Charter capital is defined by the Company's Charter.
The changes in the Company's Charter (changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's shareholders. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the shareholders to the Company. Charter capital is recognized at the fair value of the contributions received by the Company.

Correction of errors

Certain balance in the statement of comprehensive income and the statement of cash flow for the year ended 31 December 2018 were reclassified to conform to the current year presentation. In the statement of comprehensive income and the statement of cash flow for the year ended 31 December 2018 the Company reclassified finance costs of GEL 3,721 and finance income of GEL 591 from interest (expenses)/income, net into two separate lines accordingly. The Company changed the presentation of its financial statements as new presentation provides information that is more relevant to users of the financial statements.

2. Summary of significant accounting policies (continued)

Change in presentation (continued)

Effect on the statement of comprehensive income for 2018 previously reported in the financial statements for the period ended 31 December 2018 is as follows:

Statement of comprehensive income for the year ended 31 December 2018	As previously reported	Adjustment	As adjusted
Interest (expenses)/income, net	(3,130)	3,130	–
Finance income	–	591	591
Finance costs	–	(3,721)	(3,721)
Profit before income tax	**2,670**	**–**	**2,670**
Net profit	**2,670**	**–**	**2,670**

Effect on the statement of cash flows for 2018 previously reported in the financial statements for the period ended 31 December 2018 is as follows:

Statement of cash flows for the year ended 31 December 2018	As previously reported	Adjustment	As adjusted
Interest (expenses)/income, net	(3,130)	3,130	–
Finance income	–	591	591
Finance costs	–	(3,721)	(3,721)
Operating cash inflows before working capital changes	**10,683**	**–**	**10,683**

3. Critical accounting estimates and judgments

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment

Property, plant and equipment are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

Functional currency

Significant judgment was applied by the management in determination of appropriate functional currency and assessment of whether change in the underlying transactions, events and conditions warrant a change in the functional currency (Note 2).

4. Property, plant and equipment

Property, plant and equipment as at 31 December 2019 and 2018 can be presented as follows:

	Land	Wind Power Plant	Others	Total
Historical cost				
Balance at 31 December 2017	**80**	**68,506**	**1,239**	**69,825**
Additions	–	2	–	**2**
Balance at 31 December 2018	**80**	**68,508**	**1,239**	**69,827**
Disposal	–	(127)	–	**(127)**
Balance at 31 December 2019	**80**	**68,381**	**1,239**	**69,700**
Accumulated depreciation				
Balance at 31 December 2017	**–**	**(3,541)**	**(72)**	**(3,613)**
Depreciation charge for the year	–	(3,469)	(33)	**(3,502)**
Balance at 31 December 2018	**–**	**(7,010)**	**(105)**	**(7,115)**
Depreciation charge for the year	–	(3,472)	(19)	**(3,491)**
Depreciation of disposal	–	77	–	**77**
Balance at 31 December 2019	**–**	**(10,405)**	**(124)**	**(10,529)**
Net book value				
Balance at 31 December 2017	**80**	**64,965**	**1,167**	**66,212**
Balance at 31 December 2018	**80**	**61,498**	**1,134**	**62,712**
Balance at 31 December 2019	**80**	**57,976**	**1,115**	**59,171**

As at 31 December 2019 and 2018, wind power plant with a carrying amount of GEL 57,976 and GEL 61,498, respectively, has been pledged to secure borrowings of the Company (Note 8).

5. Trade and other receivables

Trade and other receivables comprise:

	31 December 2019	31 December 2018
Financial assets		
Trade receivables	1,272	1,190
Total financial assets	**1,272**	**1,190**
Taxes receivables	306	513
Non-financial receivables	**306**	**513**
Total trade and other receivables	**1,578**	**1,703**

Carrying amount of trade receivables approximates fair values due to their short-term maturities. Trade receivables distribution by currency is disclosed in Note 15. All trade receivables are current. Expected credit losses are immaterial as at 31 December 2019 and 2018.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2019	31 December 2018
Cash at bank in GEL	9,772	10,578
Cash at bank in USD	–	3,493
Total	**9,772**	**14,071**

7. Charter capital

Charter capital comprises:

	31 December 2019	31 December 2018
In Issue at 1 January	**28,283**	**28,283**
Capital decrease, paid in cash:		
- JSC Georgian Energy Development Fund	(3,394)	–
- JSC Georgian Oil and Gas Corporation	(3,380)	–
In Issue at 31 December	**21,509**	**28,283**

Ownership in the Company comprises:

	31 December 2019	31 December 2018
Georgian Wind Company LLC	100.0%	00.0%
JSC Georgian Energy Development Fund	00.0%	50.1%
JSC Georgian Oil and Gas Corporation	00.0%	49.9%
Total	**100%**	**100%**

8. Borrowings

Borrowings comprise:

	Interest rate	Currency	Origination date	Maturity date	31 December 2019	31 December 2018
European Bank for Reconstruction and Development						
Non-current borrowings	Six month LIBOR + 4.5%	USD	6 October 2016	1 February 2030	44,960	45,411
Current borrowings	Six month LIBOR + 4.5%	USD	6 October 2016	1 February 2030	5,349	6,441
Total borrowings					**50,309**	**51,852**

European Bank for Reconstruction and Development ("EBRD") loan contains certain financial and non-financial covenants. The Company is in compliance with such covenants as at 31 December 2019.

8. Borrowings (continued)

As at 31 December 2019 and 2018, the Company has restricted minimal cash reserve balance related to the loan agreement in the amount of GEL 6,337 (USD 2,210) and GEL 4,542 (USD 1,697), respectively.

Reconciliation of liabilities from financing transactions:

As at 31 December 2017	**54,583**
Interest accrued	3,570
Amortization of prepaid fee for EBRD loan	151
Repayment of principal	(4,449)
Interest paid	(3,374)
Effect of exchange rate changes	1,371
As at 31 December 2018	**51,852**
Interest accrued	3,720
Amortization of prepaid fee for EBRD loan	150
Repayment of principal	(5,150)
Interest paid	(3,839)
Effect of exchange rate changes	3,576
As at 31 December 2019	**50,309**

9. Trade and other payables

Trade and other payables comprise:

	31 December 2019	31 December 2018
Financial liabilities		
Trade payables	552	521
Other payables	78	44
Total financial liabilities	**630**	**565**

Carrying amount of trade payable approximates fair values due to their short-term maturity.

10. Revenue

The Company's main activity is the generation of electric power in Georgia. The Company has one main contract on the sale of electric power to JSC Electricity System Commercial Operator ("ESCO").

On 10 May 2016, the Company entered into an agreement with ESCO on the guaranteed purchase of electric power for the period of thirteen years. In accordance with this agreement, the Company is obliged to provide electric power to ESCO during winter months – from September to April - for a guaranteed price of 6.5 US Dollar cent per 1kWh. In the remaining months, the Company has a right to sell, and ECSO has an obligation to purchase electric power from the Company for a guaranteed price of 6.5 US Dollar cent per 1kWh.

Revenue from the main activity totaled GEL 16,545 and GEL 14,744 in 2019 and 2018, respectively.

11. Cost of sale

Cost of sale comprises:

	2019	2018
Depreciation	(3,469)	(3,469)
Maintenance cost	(2,809)	(2,590)
Insurance	(99)	(113)
Salary	(80)	(101)
Security	(70)	(45)
Other	(82)	(79)
Total	**(6,609)**	**(6,397)**

12. General and administrative expenses

General and administrative expenses comprise:

	2019	2018
Taxes other than income tax	(630)	(666)
Staff costs	(292)	(224)
Professional services	(58)	(82)
Site calibration cost	–	(57)
Rent expense	(30)	(35)
Depreciation and amortization	(22)	(33)
Representative expense	(9)	(3)
Business trips	(10)	(3)
Other expense	(126)	(64)
Total	**(1,177)**	**(1,167)**

Site calibration represents verification and approval of the power curve suggested by the turbine manufacturer. The process of calibration takes a one-time research.

13. Finance income and finance costs

Finance income and finance costs comprise:

	2019	2018
Finance costs		
The European Bank for Reconstruction and Development	(4,205)	(3,721)
Total finance costs	**(4,205)**	**(3,721)**
Finance income		
Cash at bank and restricted cash	786	591
Total finance income	**786**	**591**

14. Foreign exchange gain/(loss), net

Foreign exchange gain/(loss), net comprise:

	2019	2018
Effect on cash and cash equivalents	(307)	(129)
Effect on other financial instruments	(2,951)	(1,253)
Total	**(3,258)**	**(1,382)**

15. Financial instruments − risk management

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

Credit risk

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations. The Company is mainly exposed to credit risk from cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2019	31 December 2018
Trade and other receivables	1,271	1,190
Restricted cash	6,337	4,542
Cash and cash equivalents	9,772	14,071
Total financial assets	**17,380**	**19,803**

Bank	Cash and cash equivalents	Amounts due from credit institutions	Total	Rating
JSC TBC Bank	10,489	682	**11,171**	BB-
Citi Bank	5,620	104	**5,724**	AA
Total	**16,109**	**786**	**16,895**	

No significant increase of credit risk occurred since initial recognition in respect of cash and cash equivalent and restricted cash. Expected credit losses are immaterial as at 31 December 2019 and 2018.

Liquidity risk

Liquidity risk arises from the Company's management of its working capital. It is the risk that the Company will encounter difficulties in meeting its current financial obligations as they fall due that may affect adversely the Company's on-going operations and performance. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Liquidity of financial assets and liabilities as at 31 December 2019 and 2018 is as follows:

	Less than 1 year	1-3 years	3-5 years	Over 5 years	Total
As at 31 December 2019					
Long-term and short-term borrowings	5,350	22,784	13,908	25,425	**67,467**
Trade and other payables	630	−	−	−	**630**
Total future payments	**5,980**	**22,784**	**13,908**	**25,425**	**68,097**
As at 31 December 2018					
Long-term and short-term borrowings	6,442	24,587	15,825	42,339	**89,193**
Trade and other payables	565	−	−	−	**565**
Total future payments	**7,007**	**24,587**	**15,825**	**42,339**	**89,758**

15. Financial instruments – risk management (continued)

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Company. The Company does not use any derivatives to manage interest rate risk exposure. The Company is exposed to cash flow interest rate risk as entities in the Company borrow funds at floating interest rates. As at 31 December 2019 and 2018 the Company's borrowings at variable interest rate were denominated in USD.

A sensitivity analysis is performed by applying a simulation technique to the liabilities that represent major interest-bearing positions. For variable interest rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. Based on the simulations performed, the impact on profit or loss and equity of a 100 basis-point shift (being the maximum reasonable expectation of changes in interest rates (basis point: 1/100th of a percentage point)) is presented in the table below:

For the year ended 31 December 2019:

Borrowings denominated in USD	**Interest rate increase 100 base point**	**Interest rate decrease 100 base point**
Profit/(loss) before tax	(514)	514
Impact on equity	(514)	514

For the year ended 31 December 2018:

Borrowings denominated in USD	**Interest rate increase 100 base point**	**Interest rate decrease 100 base point**
Profit/(loss) before tax	(531)	531
Impact on equity	(451)	451

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

15. Financial instruments – risk management (continued)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Company's exposure to currency risk as at 31 December 2019 might not be fully representative of its exposure throughout the year then ended due to change in the Company's functional currency from GEL to USD that occurred on 30 December 2019 (Note 2). Prior to that change, currency risk exposure throughout the year ended 31 December 2019 was similar to that existing as at 31 December 2018.

The Company's exposure to foreign currency exchange rate risk comprise:

	2019	2018
	GEL	GEL
	USD 1 = 2.8677 GEL	USD 1 = 2.6766 GEL
Financial assets		
Cash and cash equivalents	9,722	10,578
Trade and other receivables	1,578	1,703
Total financial assets	**11,350**	**12,281**

Currency risk sensitivity

The following table details the Company's sensitivity to a 20% increase and decrease in USD exchange rate against GEL. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 20% change in foreign currency rates.

Impact on profit before tax and equity based on asset values as at 31 December 2019 and 2018 comprise:

	GEL impact	
2019	**GEL/USD +20%**	**GEL/USD -20%**
Profit/(loss)	2,270	(2,270)

	GEL impact	
2018	**GEL/USD +20%**	**GEL/USD -20%**
Profit/(loss)	2,456	(2,456)

Capital disclosures

The Company's objectives when maintaining capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of return capital to shareholders or sell assets to reduce debt.

16. Commitments and contingencies

Commitment under agreement between the Company and JSC Electricity System Commercial Operator

On 10 May 2016, the Company entered into an agreement with ESCO on the guaranteed purchase of electric power for the period of thirteen years. In accordance with this agreement, the Company is obliged to provide electricity to ESCO during winter months – from September to April - for a guaranteed price of 6.5 USD cents per 1kWh.

17. Related parties

Related parties or transactions with related parties, as defined by IAS 24 *Related Party Disclosures*, represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives then significant influence over the Company; and that have joint control over the Company;

(b) Members of key management personnel of the Company or its parent;

(c) Close members of the family of any individuals referred to in (a) or (b);

(d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b).

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The remuneration of directors and other members of key management were as follows:

	2019	2018
Key management personnel compensation	**(92)**	**(63)**
Short-term employee benefits	(92)	(63)

18. Events after the reporting date

On 31 March 2020, the Company decreased its charter capital by USD 1,500 (GEL 4,927) in exchange for cash consideration payable to the parent.

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