JSC SVANETI HYDRO

Financial statements

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

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Independent auditor's report

To the Management and Shareholder of
Svaneti Hydro JSC

Opinion

We have audited the financial statements of Svaneti Hydro JSC (hereinafter, the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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' (IESBA) International 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 and Shareholder 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.

The Shareholder is responsible for overseeing the Company's financial reporting process.

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

Alexey Loza
On behalf of EY LLC

Tbilisi, Georgia

11 November 2020

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(Amounts expressed in thousands of US Dollars)

	Note	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	6	48,463	40,632
Right-of-use assets	4	244	–
Other non-current assets	7	171	14,406
Total non-current assets		**48,878**	**55,038**
Current assets			
Reimbursement assets	6	16,117	–
Prepaid VAT		18	428
Other current assets		68	257
Cash and cash equivalents		185	221
Total current assets		**16,388**	**906**
Total assets		**65,266**	**55,944**
Equity			
Share capital	8	24,842	28,642
Retained earnings / (accumulated deficit)		386	(462)
Total equity		**25,228**	**28,180**
Liabilities			
Non-current liabilities			
Borrowings	9	35,749	24,829
Lease liabilities		247	–
Deferred income	10	512	490
Total non-current liabilities		**36,508**	**25,319**
Current liabilities			
Borrowings	9	3,308	1,590
Derivative financial liabilities	16	–	269
Payables for non-current assets	16	219	583
Provisions for liabilities and charges		3	3
Total current liabilities		**3,530**	**2,445**
Total liabilities		**40,038**	**27,764**
Total liabilities and equity		**65,266**	**55,944**

Approved for issue and signed on behalf of Management on 11 November 2020:

Zurab Gordeziani
Director

Nana Mshvidobadze
Financial Manager

The accompanying notes on pages 5 to 22 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

(Amounts expressed in thousands of US Dollars)

	Note	*2019*	*2018*
Revenue from electric power sales	11	1,634	–
Business interruption reimbursement gain	6	3,317	–
Total revenue and gains		**4,951**	**–**
Electricity and transmission costs		(26)	–
Other general and administrative expenses	12	(633)	(196)
Other operating expenses	13	(106)	(47)
Total operating expenses		**(765)**	**(243)**
EBITDA		**4,186**	**(243)**
Depreciation and amortization	4, 6, 7	(1,082)	(28)
Finance income		5	9
Finance costs	9	(2,053)	(5)
Net foreign exchange losses		(8)	(114)
Non-recurring items, net	14	(200)	521
Profit before income tax		**848**	**140**
Income tax expense		–	–
Profit for the year		**848**	**140**
Total comprehensive income for the year		**848**	**140**

The accompanying notes on pages 5 to 22 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(Amounts expressed in thousands of US Dollars)

	Share capital	*Retained earnings / (Accumulated deficit)*	*Total equity*
Balance as at 31 December 2017	**6,443**	**(602)**	**5,841**
Profit for the year	–	140	**140**
Total comprehensive income for the year	**–**	**140**	**140**
Conversion of loan to equity (Note 8)	22,199	–	**22,199**
Balance as at 31 December 2018	**28,642**	**(462)**	**28,180**
Profit for the year	–	848	**848**
Total comprehensive income for the year	**–**	**848**	**848**
Distribution of share capital (Note 8)	(4,300)	–	**(4,300)**
Issue of share capital (Note 8)	500	–	**500**
Balance as at 31 December 2019	**24,842**	**386**	**25,228**

The accompanying notes on pages 5 to 22 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(Amounts expressed in thousands of US Dollars)

	Note	*2019*	*2018 Restated (Note 4)*
Statement of cash flows			
Cash flow from operating activities			
Cash receipt from electric power sales		1,626	–
Cash paid to suppliers		(459)	(103)
Cash paid to employees		(61)	–
Interest received		5	8
VAT reimbursed		54	–
Net cash from/(used) in operating activities		**1,165**	**(95)**
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets	6	(8,604)	(23,887)
VAT reimbursed related to capital expenditures		911	2,279
Loans issued		(26)	–
Net cash used in investing activities		**(7,719)**	**(21,608)**
Cash flow from financing activities			
Proceeds from borrowings	9	10,206	22,608
Repayment of borrowings	9	–	(1,878)
Lease payments		(212)	–
Interest paid		(42)	–
Distribution to the parent		(4,300)	–
Proceeds from increase in share capital	8	500	–
Net cash from financing activities		**6,152**	**20,730**
Exchange gains/(losses) on cash and cash equivalents		366	(174)
Net decrease in cash and cash equivalents		**(36)**	**(1,147)**
Cash and cash equivalents at the beginning of year	16	221	1,368
Cash and cash equivalents at the end of year	**16**	**185**	**221**

The accompanying notes on pages 5 to 22 are an integral part of these financial statements.

1. CORPORATE INFORMATION

JSC Svaneti Hydro (the "Company") was founded in 2013 as a joint stock company in accordance with Georgian regulations.

The Company's main activities present development of renewable energy projects in Georgia. In 2017, Company started construction of 50MW Mestiachala hydro power plants (the "HPPs") in the north-western part of Georgia.

As at 31 December 2019 and 2018, 100% of the Company's shares are owned by JSC Georgian Renewable Power Company ("GRPC" or the "Parent"). As at 31 December 2019 and 2018, 65% of the GRPC's shares were owned by JSC Georgia Capital, the ultimate parent of which is Georgia Capital PLC ("GCAP"). As at 31 December 2019 and 2018, 35% of the Company's shares were owned by RP Global Investments GmbH ("RP Global"), which is ultimately controlled by Dr. Gerhard Matzinger and the family.

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

2. 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 few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create 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 mitigate 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.

3. BASIS OF PREPARATION

These financial statements of the Company for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2019 reporting.

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

The principal accounting policies applied in the preparation of the financial statements are set out below.

The financial statements are presented in US Dollars (the "USD") and all values are rounded to the nearest thousands, except when otherwise indicated.

The financial statements are prepared on the basis that the Company will continue to be a going concern. This basis of preparation takes into consideration refinancing of the existing borrowings with a long-term borrowing from the Parent subsequent to the reporting date (Note 18).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government grants

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

(Amounts expressed in thousands of US Dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

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

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

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

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

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

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

Derivative financial instruments

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

Derecognition of assets

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

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

Derivative financial instruments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

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

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

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

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

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

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

Financial liabilities

All of the Company's financial liabilities, including borrowings and payables for non-current assets, are carried at amortised cost, except for derivative financial liabilities held at fair value.

Borrowings

Initial recognition

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

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

Derecognition

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings (continued)

Modification

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

The Company also performs qualitative test, which includes the analysis of whether the change in terms and conditions are so fundamental, that immediate de-recognition is required. Fundamental changes include change in the currency of the borrowing, change of borrowing's interest rate from fixed to floating or visa verse, or introduction of an equity conversion feature.

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

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

Property, plant and equipment

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

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

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

Depreciation

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

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

	Useful lives in years
Infrastructure assets	10 to 60
Pipes and wells	45
Fixtures and fittings	3 to 10
Vehicles	10

Contingencies

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the assets' recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU's") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Operating leases

Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. The policy was applicable until 1 January 2019.

Intangible assets

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

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

Taxation

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

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

Value added tax

Value added tax ("VAT") related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is recognised upon the receipt of a tax invoice from a supplier but is reclaimable against sales VAT only upon a payment of such invoice. VAT related to capital expenditures is reflected in cash flows from investing activities, while VAT related to operating activities is reflected in cash flow from operating activities.

Prepayments

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Share capital

The amount of Company's authorised share capital is defined by the Company's Charter.

Borrowing costs

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

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

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

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

Provisions for liabilities and charges

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

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

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

Revenue

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

EBITDA

The Company separately presents EBITDA on the face of statement of profit or loss and other comprehensive income. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation, net foreign exchange losses or gains and net non-recurring items.

Non-recurring items

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Functional currencies and foreign currency translation

The functional currency of the Company is US Dollars ("USD") considering following circumstances:

- The electricity tariff is set in USD in Georgia, hence the Company's revenue is denominated in USD;
- Currently the Company is on rehabiliation stage and major construction contracts of the Company are denominated in USD;
- Capital contributions from as well as distributions to the shareholders were in USD;
- The Company's financing structure is USD denominated.

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

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

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2019 and 2018 were GEL 2.8677 and 2.6766 to 1 USD, respectively.

The Company's presentation currency is USD.

Employee benefits

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

Standards issued but not yet effective

The following standards/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*.

Adoption of new or revised standards and interpretations

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new or revised standards and interpretations (continued)

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

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

Transition to IFRS 16

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

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

The effect of adoption of IFRS 16 is as follows:

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

	1 January 2019
Right-of-use assets	136
Total assets	**136**
Lease liabilities	136
Total liabilities	**136**

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

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

Balance as at 31 December 2018	**–**
The effect of adoption of IFRS 16	136
Balance as at 1 January 2019	**136**
Additions	124
Balance as at 31 December 2019	**260**
Accumulated depreciation	(16)
Right-of-use assets as at 31 December 2019	**244**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new or revised standards and interpretations (continued)

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

Rent expense (included in Other operating expenses)	(63)
Net effect on EBITDA in 2019	**(63)**
Depreciation charge	16
Finance costs	21
Net impact on the statement of profit or loss	**(26)**

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

Right-of-use assets

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

Lease liabilities

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

Short-term leases and leases of low-value assets

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

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

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

Changes in accounting policies

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Measurement of infrastructure assets and assets under construction

Infrastructure assets and assets under construction are stated at cost, net of accumulated impairment losses, if any. The Company capitalises construction related costs directly attributable to the construction process. Initial capitalisation of costs is based on management's judgement during the construction process. Operating leases, construction related taxes, borrowing costs and other costs directly attributable to the construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset. In case of any impairment as a result of physical damage or destruction of assets, the Company assesses the extent of such damage for each individual item and writes off respective portion of the property, plant and equipment, which involves, for partially damaged items, exercise of judgment in determination of the impairment charge. In addition, significant judgment is required to assess whether an insurance reimbursement for respective loss events virtually certain and whether recognition of respective reimbursement asset is appropriate, as well as in the measurement of the reimbursement asset at the reporting date. Information about impairment losses and the respective insurance reimbursement recognised in 2019 is disclosed in Note 6.

6. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the year ended 31 December 2019 were as follows:

	Land	*Infrastructure assets*	*Pipes and wells*	*Fixtures and fittings*	*Vehicles*	*Assets under construction*	*Total*
Historical cost							
31 December 2018	**30**	**106**	**–**	**4**	**30**	**40,760**	**40,930**
Additions	90	628	399	11	–	19,982	**21,110**
Transfers	–	38,223	22,519	–	–	(60,742)	**–**
Impairment (Note 14)	–	(11,467)	(1,316)	–	–	–	**(12,783)**
Disposals	–	–	–	–	–	–	**–**
Historical cost 31 December 2019	**120**	**27,490**	**21,602**	**15**	**30**	**–**	**49,257**
Accumulated depreciation and impairment							
31 December 2018	**–**	**(68)**	**–**	**(2)**	**(8)**	**(220)**	**(298)**
Depreciation charge	–	(677)	(367)	(3)	(4)	–	**(1,051)**
Transfers	–	(220)	–	–	–	220	**–**
Impairment (Note 14)	–	442	113	–	–	–	**555**
Accumulated depreciation and impairment 31 December 2019	**–**	**(523)**	**(254)**	**(5)**	**(12)**	**–**	**(794)**
Net book value							
31 December 2018	**30**	**38**	**–**	**2**	**22**	**40,540**	**40,632**
31 December 2019	**120**	**26,967**	**21,348**	**10**	**18**	**–**	**48,463**

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Land	*Infrastructure assets*	*Fixtures and fittings*	*Vehicles*	*Assets under construction*	*Total*
Historical cost 31 December 2017	**30**	**106**	**1**	**11**	**16,475**	**16,623**
Additions	–	–	3	26	24,285	**24,314**
Disposals	–	–	–	(7)	–	**(7)**
Historical cost 31 December 2018	**30**	**106**	**4**	**30**	**40,760**	**40,930**
Accumulated depreciation and impairment						
31 December 2017	**–**	**(55)**	**(1)**	**(4)**	**(220)**	**(280)**
Depreciation charge	–	(13)	(1)	(4)	–	**(18)**
Accumulated depreciation and impairment 31 December 2018	**–**	**(68)**	**(2)**	**(8)**	**(220)**	**(298)**
Net book value						
31 December 2017	**30**	**51**	**–**	**7**	**16,255**	**16,343**
31 December 2018	**30**	**38**	**2**	**22**	**40,540**	**40,632**

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

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

The Company pledged its property, plant and equipment as collateral for its borrowings with carrying amount of USD 48,463 as at 31 December 2019 (2018: USD 40,632).

During 2019, the Company completed the construction of 50MW Mestiachala Hydro Power Plant in the north-western part of Georgia and started generating revenue.

In July 2019, a mudflow in Mestia, Svaneti, Georgia in the valley of the Mestiachala river caused damage to the 30MW Mestiachala 1 and 20MW Mestiachala 2 HPPs and the surrounding infrastructure. Mestiachala received the first major hit of the wave and served as a deterrent of the mudflow stream. As a result of this mudflow, Mestiachala HPPs were damaged and ceased generating revenue. Mestiachala 1 HPP returned on-line in December 2019. Mestiachala 2 HPP is expected to resume generation by the end of 2021.

As a result of this natural disaster, the Company wrote off damaged items of property, plant and equipment of USD 12,783 in 2019. The loss was included in Non-recurring items in the statement of profit or loss and other comprehensive income for 2019.

In relation to the loss event, the Company recognized an insurance claim receivable from JSC Insurance Company Aldagi ("Aldagi"), a related party, of USD 16,117 in the statement of financial position as at 31 December 2019 – the related Business interruption reimbursement income of USD 3,317 and reimbursement of incurred damages of USD 12,800, included in the Non-recurring items, in the statement of profit or loss and comprehensive income for 2019. The Company considers insurance reimbursement to be virtually certain.

7. OTHER NON-CURRENT ASSETS

	31 December 2019	*31 December 2018*
Prepayments for non-current assets	138	14,358
Intangible assets	33	48
Total other non-current assets	**171**	**14,406**

As at 31 December 2019 and 2018 prepayments for non-current assets mainly comprise of payments to civil works contractor and suppliers of hydro-mechanical equipment and generators in relation to construction of Mestiachala HPPs, commissioned in the first half of 2019.

Gross carrying amount of intangible assets and accumulated amortisation as at 31 December 2019 amounted to USD 87 and USD 54, respectively (2018: USD 87 and USD 39).

Amortisation charge on intangible assets was USD 15 in 2019 (2018: USD 20).

The Company pledged the intangible assets as collateral for its borrowings with carrying amount of USD 33 as at 31 December 2019 (2018: USD 48).

8. EQUITY

Share capital

Authorized share capital of the Company comprised of 30,000 thousand ordinary shares as of 31 December 2019 and 2018. Each share has a nominal value of 1 (one) USD. 24,842 and 28,642 thousand shares were issued and fully paid as of 31 December 2019 and 2018, respectively.

As at 31 December 2019 and 2018 the Company had fully contributed share capital of USD 24,842 and 28,642, respectively.

During 2019, the Company issued 500 thousand shares with the nominal amount of USD 500 for cash consideration of USD 500.

During 2019, the Company decreased its share capital by USD 4,300 in exchange of cash consideration payable to the parent.

Management of capital

The Company's objectives when managing capital are:

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

There are no externally imposed capital requirements to which the Company is subject to.

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

9. BORROWINGS

	31 December 2019		*31 December 2018*	
	Current liabilities	*Non-current liabilities*	*Current liabilities*	*Non-current liabilities*
Loans from Georgian financial institutions	3,308	35,749	1,590	24,829
Total borrowings	**3,308**	**35,749**	**1,590**	**24,829**

9. BORROWINGS (continued)

As at 31 December 2019 borrowings include:

- USD denominated loan from Georgian financial institution with a floating interest rate of 5.3% plus 6m LIBOR. The loan matures on 25 January 2034. As at 31 December 2019, the Company has available USD 2,962 undrawn facility.
- GEL denominated loan from Georgian financial institution with a floating interest rate of NBG refinancing rate plus 4.5%. The loan matures on 1 November 2020. As at 31 December 2019, the Company has available USD 1,790 undrawn facility.

As at 31 December 2018 borrowings include:

- USD denominated loan from Georgian financial institution with a floating interest rate of 5.3% plus 6m LIBOR. The loan matures on 1 November 2029. As at 31 December 2018, the Company has available USD 6,885 undrawn facility.
- GEL denominated loan from Georgian financial institution with a floating interest rate of NBG refinancing rate plus 4.5%. The loan matures on 1 November 2019. As at 31 December 2018, the Company has available USD 2,328 undrawn facility.

As at 31 December 2018 the Company has converted the loans from related parties into share capital in amount of USD 22,192 (Note 8).

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

Material non-cash transactions

Changes in liabilities arising from financial activities:

	Borrowings
Carrying amount at 31 December 2017	**25,017**
Foreign currency translation	(82)
Cash proceeds	24,891
Cash repayments	(3,227)
Interest accrued	3,302
Interest paid	(507)
Conversion of loan into share capital	(22,192)
Other non-cash changes in carrying value	(783)
Carrying amount at 31 December 2018	**26,419**
Foreign currency translation	756
Cash proceeds	10,206
Interest accrued	2,809
Interest paid	(1,133)
Carrying amount at 31 December 2019	**39,057**

In 2019, interest accrued on borrowings in amount of USD 756 was capitalized (2018: USD 3,302). Interest paid in 2019 in amount of USD 1,089 (2018: USD 507) was presented as purchase of property, plant and equipment and intangible assets in the statement of cash flow.

10. DEFERRED INCOME

On 27 of December 2017, the Company received a grant from Oesterreichische Entwicklungsbank AG ("OEEB"), an Austrian government agency. The grant amounted to EUR 416 (equivalent of USD 512 as of 31 December 2019, USD 490 as at 31 December 2018) and after meeting certain contractual conditions, reimbursed for amounts paid in relation to technical design of Mestiachala HPPs. Amount was recorded as deferred income and will be recognised as income in equal amounts over the expected useful life of the related asset.

11. REVENUE FROM ELECTRIC POWER SALES

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

	2019	*2018*
Open market sales	1,549	–
PPA sales	85	–
Total other operating expenses	**1,634**	**–**

12. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2019	*2018*
Taxes other than income tax	369	157
Insurance expense	91	–
Salaries	63	–
Professional fees	30	12
Business trip expenses	7	3
Representation expenses	5	6
Other	68	18
Total general and administrative expenses	**633**	**196**

13. OTHER OPERATING EXPENSES

	2019	*2018*
Rent expenses	47	24
Charity expenses	22	13
Other expenses	37	10
Total other operating expenses	**106**	**47**

14. NON-RECURRING ITEMS

	2019	*2018*
Gain on insurance reimbursement (Note 6)	12,800	583
Loss of property, plant and equipment to natural disaster event (Note 6)	(13,020)	–
Other non-recurring expenses	20	(62)
Total non-recurring items	**(200)**	**521**

15. COMMITMENTS AND CONTINGENCIES

Commitments

In 2014, the Company signed the Memorandum of Understanding with the Government of Georgia, JSC Georgian State Electrosystem, JSC United Energy System Sakrusenergo, JSC Electricity System Commercial Operator and LLC Energotrans in regards to construction of Mestiachala HPPs, with a total installed capacity of 50MW. Commitments were met since construction of Svaneti Hydro HPPs was completed in the first half of 2019.

As at 31 December 2019, since the HPP construction was completed, the Company does not have any capital expenditure commitment for purchase of property, plant and equipment.

15. COMMITMENTS AND CONTINGENCIES (continued)

Environmental matters

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

16. FINANCIAL INSTRUMENTS

Fair value measurement

Fair value measurement of all financial instruments held by the Company as at 31 December 2019 and 2018, are performed using a valuation technique with quoted prices in active markets and market observable inputs.

The management assessed that the fair values of cash and cash equivalents, receivables on insurance contracts and payables for non-current assets approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

Risk arising from financial instruments

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

Currency risk

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

As at 31 December 2019 and 2018 currency risk arises from the EUR and GEL denominated cash and cash equivalents, payables for non-current assets and borrowings. The effect of reasonably possible change is disclosed in below table:

Currency	***Increase/ decrease in % 2019***	***Effect on profit 2019***
EUR	11.00%	(50)
EUR	-6.00%	27
GEL	10.00%	(89)
GEL	-5.00%	44

Currency	***Increase/ decrease in % 2018***	***Effect on profit 2018***
EUR	+11.00%	(53)
EUR	-7.00%	34
GEL	+11.00%	(59)
GEL	-11.00%	59

16. FINANCIAL INSTRUMENTS (continued)

Risk arising from financial instruments (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on the financial instruments. As at 31 December 2019 and 2018 the Company has floating interest rate borrowings linked to LIBOR and NBG refinancing rates and is therefore exposed to interest rate risk. The following table demonstrates sensitivity to a reasonable possible change:

LIBOR	***Increase/ decrease in % 2019***	***Effect on profit 2019***
USD	0.35%	134
USD	-0.35%	(134)

LIBOR	***Increase/ decrease in % 2018***	***Effect on profit 2018***
USD	0.50%	(129)
USD	-0.15%	39

NBG	***Increase/ decrease in % 2019***	***Effect on profit 2019***
GEL	-2.00%	13
GEL	-2.00%	(13)

NBG	***Increase/ decrease in % 2018***	***Effect on profit 2018***
GEL	0.75%	(5)
GEL	-0.75%	5

As at 31 December 2019 80% of the Company's outstanding borrowings were at a floating rate.

Credit risk

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

As at 31 December 2019 and 2018, the Company has no other significant financial assets subject to credit risk except for:

- Cash and cash equivalents: as at 31 December 2019 total cash and cash equivalents of USD 337 (2018: USD 221) was kept with Georgian banks having rating of "BB-/bb-" from Fitch Ratings;
- Receivables on insurance contracts with the estimated recoverable amount of USD 16,117 being virtually certain as at 31 December 2019 (Note 6).

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

16. FINANCIAL INSTRUMENTS (continued)

Risk arising from financial instruments (continued)

As at 31 December 2019 and 2018, carrying values of financial instruments best represent their maximum exposure to the credit risk.

Liquidity risk

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

The table below shows financial liabilities as at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations.

	Less than 1 year	*Over 1 year*	*Total*
As at 31 December 2019			
Long-term and short-term borrowings	6,269	57,838	**64,107**
Payables for non-current assets	219	–	**219**
Lease liabilities	18	756	**774**
Total future payments	**6,506**	**58,594**	**65,100**
As at 31 December 2018			
Long-term and short-term borrowings	4,466	37,064	**41,530**
Derivative financial liabilities	269	–	**269**
Payables for non-current assets	583	–	**583**
Total future payments	**5,318**	**37,064**	**42,382**

17. RELATED PARTIES DISCLOSURE

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

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

GCAP Group entities as at 31 December 2019 are represented by members of GCAP. RP Global entities are represented by RP Global Holding and RP GLOBAL Investments GmbH.

17. RELATED PARTIES DISCLOSURE (continued)

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

	GCAP Group		*GCAP Group*		*RP Global*	*RP Global*
	Parent Company	*Entities under common control*	*Parent Company*	*Entities under common control*	*Entity with significant influence over the Company*	*Entity with significant influence over the Company*
	31 December 2019	*31 December 2019*	*31 December 2018*	*31 December 2018*	*31 December 2019*	*31 December 2018*
Reimbursement assets (Note 6)	–	16,117	–	–	–	–
Property, plant and equipment	–	–	2,068	–	–	1,081
Total assets	**–**	**16,117**	**2,068**	**–**	**–**	**1,081**
Borrowings as at 1 January	**–**	**–**	**13,202**	**–**	**–**	**7,075**
Interest accrued and translation during the year	–	–	**1,223**	–	–	692
Conversion of loan into share capital	–	–	**(14,425)**	–	–	(7,767)
Borrowings as at 31 December	**–**	**–**	**–**	**–**	**–**	**–**
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**

Property, plant and equipment balance addition from related parties is in regards to capitalized interest expense incurred during 2018 in amount of USD 3,149

As at 31 December 2019, the reimbursement assets of USD 16,117 are related to the GCAP Group entities under common control, out of which USD 12,800 is reflected on non-recurring items, and USD 3,317 Business interruption reimbursement income (Note 6).

18. EVENTS AFTER THE END OF REPORTING PERIOD

In February 2020, the Company has submitted the insurance claim for the business interruption reimbursement of USD 3,300 for August-December 2019 business interruptions, which was fully reimbursed by 30 June 2020.

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. 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 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.

On 2 July 2020, the restructuring process was launched and resulted in the transfer of ownership of 100% shareholding stake of JSC Svaneti Hydro from GRPC to JSC Georgia Global Utilities.

In August 2020, the Company has refinanced its borrowings from Georgian financial institution through a long-term USD-denominated borrowing from JSC Georgia Global Utilities.

During the three months ended 31 March 2020, the Company increased share capital in exchange for cash consideration from the shareholders of USD 1,000.