Georgian Renewable Power Operations JSC

Consolidated financial statements

for the year ended 31 December 2022
with independent auditor's report

(Amounts expressed in thousands of Georgian Lari)

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Independent auditor's report

To the Shareholder and Supervisory Board of Georgian Renewable Power Operations JSC

Opinion

We have audited the consolidated financial statements of Georgian Renewable Power Operations JSC (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board of 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Basis of preparation and group formation accounting	
The Company was established in June 2022 with a view to carve-out the energy business of Georgia Global Utilities JSC, its former parent company, which transferred its energy business subsidiaries to the Company in October 2022 ("the group formation"). The Company's consolidated financial statements for the year ended 31 December 2022 are deemed to be a continuation of the previously existing energy business of Georgia Global Utilities JSC. Significant judgment was involved in the determination of an appropriate basis of preparation of these consolidated financial statements and accounting and presentation of the group formation described above, which makes it one of the matters of most significance in our audit. Information on the group formation and basis of preparation is disclosed in notes 1 and 2 to the consolidated financial statements.	We read and considered the terms of the underlying legal documents entered into by the Group in relation to the group formation. We evaluated the basis of preparation for the consolidated financial statements for the year ended 31 December 2022 and accounting policies applied by the Group, including those related to the presentation of comparative information, considering the facts and circumstances of the group formation. We recalculated journal entries posted to account for the group formation and contribution of energy business subsidiaries to the Company. We assessed the disclosures included within the consolidated financial statements related to the group formation.
Accounting for transactions with borrowings and bonds issued	
Borrowings and bonds issued represent the substantial portion of the Group's liabilities recognized in the consolidated statement of financial position as at 31 December 2022. In 2022, the Group entered into several material transactions with borrowings and bonds issued, including repayments, issuance of new bonds, and debt to equity swap.	We analysed the terms of the borrowings and bonds issued, including amounts, interest rates, payment schedules, and financial and non-financial covenants. We assessed the transaction costs included to the effective interest rate calculation for the borrowings and bonds issued. We recalculated amortized cost of the borrowings and bonds issued as at 31 December 2022. We inspected the terms of the debt to equity swap transaction.

Key audit matter	How our audit addressed the key audit matter
The significance of the balances of the borrowings and bonds issued, volumes of respective transactions, and judgements involved in the determination of the effective interest rate for the outstanding borrowings and bonds issued, as well as in the accounting for the debt to equity swap make accounting for transactions with borrowings and bonds one of the matters of most significance in our audit. Information on the borrowings and bonds issued is included to note 10 to the consolidated financial statements.	For borrowings and bonds newly originated or repaid during 2022, we traced respective cash movements to the supporting documentation. We analysed the disclosures in the consolidated financial statements related to borrowings and bonds issued and related transactions.

Other information included in the Group's 2022 Management Report

Other information consists of the information included in the Group's 2022 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Management Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon in our report on the audit of the consolidated financial statements.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

We communicate with the Audit Committee 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats of safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Ruslan Khoroshvili.

Ruslan Khoroshvili

On behalf of EY LLC

29 March 2023

Tbilisi, Georgia

Consolidated statement of financial position

As at 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2022	31 December 2021
Assets			
Non-current assets			
Property, plant and equipment	6	252,011	300,597
Right-of-use assets	21	1,120	1,254
Other non-current assets	7	1,079	1,143
Total non-current assets		**254,210**	**302,994**
Current assets			
Inventories		335	406
Trade and other receivables	8	1,678	2,366
Loans issued		8	14
Prepaid taxes other than income tax		908	1,262
Reimbursement assets	6	2,022	2,318
Financial assets held for trading	20	–	8,122
Prepayments		131	369
Cash at bank	19	12,370	36,948
Total current assets		**17,452**	**51,805**
Total assets		**271,662**	**354,799**
Equity			
Share capital	9	232	–
Merger reserve	9	–	84,664
Additional paid-in capital	9	148,513	–
Accumulated losses		(58,995)	(60,135)
Other reserves		(41,641)	18,305
Total equity		**48,109**	**42,834**
Liabilities			
Non-current liabilities			
Borrowings and bonds issued	10	213,201	297,648
Lease liabilities	21	990	1,191
Other non-current liabilities	17	480	550
Total non-current liabilities		**214,671**	**299,389**
Current liabilities			
Borrowings and bonds issued	10	7,512	9,680
Trade and other payables	11	1,173	972
Lease liabilities	21	112	118
Other current liabilities	17	85	1,185
Taxes payable other than income tax		–	621
Total current liabilities		**8,882**	**12,576**
Total liabilities		**223,553**	**311,965**
Total liabilities and equity		**271,662**	**354,799**

Approved for issue and signed on behalf of Georgian Renewable Power Operations JSC on 29 March 2023:

Zurab Gordeziani
General Director

Nana Mshvidobadze
Chief Financial Officer

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements

Consolidated statement of financial position

As at 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

	Note	*31 December 2022*	*31 December 2021*
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Zurab Gordeziani	Nana Mshvidobadze
General Director	Chief Financial Officer

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

	Note	2022	2021
Revenue from electric power sales	12	42,221	43,309
Business interruption reimbursement gain	6	–	587
Other revenue		–	55
Total revenue and gains		**42,221**	**43,951**
Electricity and transmission costs		(548)	(524)
Salaries and other employee benefits	13	(1,334)	(929)
Taxes other than income tax		(2,197)	(2,480)
Other general and administrative expenses		(353)	(329)
Professional fees	14	(621)	(732)
Raw materials, fuel and other consumables		(371)	(285)
Maintenance expenditure		(2,237)	(2,631)
Other operating expenses	15	(1,701)	(1,963)
		(9,362)	**(9,873)**
EBITDA		**32,859**	**34,078**
Finance income		898	1,293
Finance costs	16	(21,851)	(24,873)
Net foreign exchange gain/(loss)		26	(25)
Depreciation and amortisation	6,7,21	(10,566)	(12,580)
Impairment of property, plant and equipment	6	–	(36,595)
Reassessment of estimates related to Eurobonds refinancing	10	–	(2,766)
Non−recurring expenses, net	17	(226)	(4,050)
Profit/(loss) before income tax expense		**1,140**	**(45,518)**
Income tax expense		–	–
Profit/(loss) for the year		**1,140**	**(45,518)**
Other comprehensive loss			
Other comprehensive loss income not to be reclassified to profit or loss in subsequent periods			
Exchange differences arising on translation to presentation currency		(5,192)	(4,129)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(5,192)**	**(4,129)**
Other comprehensive loss for the year		**(5,192)**	**(4,129)**
Total comprehensive loss for the year		**(4,052)**	**(49,647)**

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

	Share capital	*Merger reserve*	*Additional paid−in capital*	*Other reserves*	*Accumulated losses*	*Total equity*
Balance as at 31 December 2020	–	**104,664**	–	**22,434**	**(14,617)**	**112,481**
Loss for the year	–	–	–	–	(45,518)	**(45,518)**
Other comprehensive loss	–	–	–	(4,129)	–	**(4,129)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(4,129)**	**(45,518)**	**(49,647)**
Reduction of merger reserve (Note 9)	–	(20,000)	–	–	–	**(20,000)**
Balance as at 31 December 2021	**–**	**84,664**	**–**	**18,305**	**(60,135)**	**42,834**
Profit for the year	–	–	–	–	1,140	**1,140**
Other comprehensive loss	–	–	–	(5,192)	–	**(5,192)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(5,192)**	**1,140**	**(4,052)**
Incorporation of the Company (Note 9)	100	(84,664)	–	84,664	–	**100**
Contribution of energy subsidiaries (Note 9)	100	–	226,165	(226,265)	–	**–**
Reduction of share capital (Note 9)	(68)	–	(104,921)	86,847	–	**(18,142)**
Increase of share capital (Note 9)	100	–	27,269	–	–	**27,369**
Balance as at 31 December 2022	**232**	**–**	**148,513**	**(41,641)**	**(58,995)**	**48,109**

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

For the year ended 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

	Note	2022	2021
Cash flows from operating activities			
Profit/(loss) before income tax		**1,140**	**(45,518)**
Adjustments for:			
Depreciation and amortisation	6,7,21	10,566	12,580
Net foreign exchange (gains) losses		(26)	25
Finance income		(898)	(1,293)
Finance costs	16	21,851	24,873
Business interruption reimbursement gain	6	−	(587)
Impairment of property plant and equipment	6	−	36,595
Non−recurring expenses, net		226	3,381
Non−current assets write−off		−	(568)
Reassessment of estimates related to Eurobonds refinancing	10	−	2,766
Working capital changes			
Change in inventories		71	(41)
Change in trade and other receivables		688	(604)
Change in prepaid taxes other than income tax, net		354	178
Change in prepayments		238	(85)
Change in trade and other payables		201	(842)
Changes in reimbursement asset		−	587
Change in other tax payables, net		(621)	(428)
Operating cash flows before investments in trading securities		**33,790**	**31,019**
Change in trading securities		6,807	(8,308)
Net cash flows from operating activities		**40,597**	**22,711**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(2,725)	(7,055)
Proceeds from sale of property, plant and equipment		1,325	−
Payment of termination bonus		(1,306)	−
Loans repaid (issued)		(10,485)	146
Interest received		681	897
Net cash used in investing activities		**(12,510)**	**(6,012)**
Cash flows from financing activities			
Payment of principal portion of lease liabilities		(63)	(231)
Proceeds from borrowings and debt securities issued	10	483,201	2,525
Repayment of borrowings and debt securities issued	10	(500,444)	−
Interest paid	10	(25,855)	(23,754)
Share capital increase	9	100	−
Share capital and merger reserve decrease	9	(6,450)	(20,000)
Net cash used in financing activities		**(49,511)**	**(41,460)**
Effect of exchange rate changes on cash and cash equivalents		(3,154)	(1,553)
Net change in cash and cash equivalents		**(24,578)**	**(26,314)**
Cash and cash equivalents at the beginning of year	19	36,948	63,262
Cash and cash equivalents at the end of year	19	**12,370**	**36,948**

Material non−cash transactions are disclosed in Notes 9 and 10.

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements

(Amounts expressed in thousands of Georgian Lari)

1. Corporate information

Georgian Renewable Power Operations JSC ("GRPO" or the "Company") is a joint stock company incorporated on 28 June 2022. The Company is a holding entity of a group of companies incorporated and domiciled in Georgia (the "Group"). The registered office of the Company is located at 10 Medea (Mzia) Jugheli Str., 0179, Tbilisi, Georgia. The Company is a part of a larger group − Georgia Capital JSC ("GCAP"), which is a Georgia−based investment entity holding investments in various subsidiaries in Georgia.

The Group's business represents a platform for operating hydro power plants ("HPPs") and wind power plant ("WPP") across the country. The business operates commissioned renewable assets with 71MWs of installed capacity in aggregate: 30MW Mestiachala 2 HPP, 20MW Hydrolea HPPs and 21MW Qartli WPP.

As at 31 December 2022, the Company is fully owned by Georgian Renewable Power Holding JSC ("GRPH" or the "Parent"), which is under 100% ownership of GCAP. GCAP is wholly owned by Georgia Capital plc (the "Ultimate Parent"), an entity incorporated in England and listed on London Stock Exchange.

As at 31 December 2021, GCAP owned 100% in Georgia Global Utilities JSC ("GGU" or "the Former Parent"), which was a Georgian−based holding that operated, through a number of subsidiaries, in two operating segments based on products sold and services rendered: (1) electricity generation and sales (the "GGU Energy Segment") (2) water supply and wastewater collection services ("GGU Water Utility Segment").

On 31 December 2021 Georgia Capital plc announced that GCAP would sell an initial 80% of its equity interest in the water utility business of GGU to FCC Aqualia ("Aqualia"), by way of a two−stage transaction.

On 3 February 2022 with the receipt of full sales proceeds by the GCAP and transfer of respective shares of the GGU JSC to Aqualia the first stage of the water utility business sale transaction has been completed. Accordingly, Aqualia became the new controlling shareholder of GGU.

The second stage of the transaction followed the planned redemption in third quarter 2022 of USD 250 million Eurobond issued by GGU, which is financed pro−rata to their interests in GGU by Aqualia and GCAP by way of a shareholder loan. Following the bond redemption and subsequent demerger of the operational renewable energy assets via a spin−off, GCAP recovered full ownership of Group's renewable energy assets, and Aqualia's ownership in the water utility business increased to 80%.

Pursuant to the above, in 2022 GGU and its subsidiaries ("GGU Group") initiated the Group formation in order to spin−off its GGU Energy Segment to GCAP. In June 2022, GGU established a 100% owned subsidiary GRPO and in October 2022 transferred GGU's Energy Segment subsidiaries to GRPO in exchange for GRPO issuing its equity instruments. The effect of the Group formation on the basis of preparation of these consolidated financial statements is disclosed in Note 2.

In October 2022 GRPO closed USD 80 million green secured bond offering listed on Georgian Stock Exchange.

2. Basis of preparation

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, except for trading financial assets measured at fair value through profit or loss. The consolidated financial statements are presented in Georgian Lari (the "GEL") and all values are rounded to the nearest thousand, unless otherwise indicated.

The Group has prepared the consolidated financial statements on the basis that it will continue to operate as a going concern.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

(Amounts expressed in thousands of Georgian Lari)

2. Basis of preparation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ► The contractual arrangement(s) with the other vote holders of the investee;
- ► Rights arising from other contractual arrangements;
- ► The Group's voting rights and potential voting rights.

The Group re−assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra−group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non−controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Information about subsidiaries

The consolidated financial statements of the Group include the following subsidiaries:

	Country of incorporation	***Date of acquisition/ incorporation***	***31 December 2022***	***31 December 2021***
Svaneti Hydro JSC ("SH")	Georgia	20 April 2017	100%	100%
Hydrolea LLC ("HYDL"):	Georgia	28 October 2019	100%	100%
Geoenergy LLC	Georgia	28 October 2019	100%	100%
Hydro Georgia LLC	Georgia	28 October 2019	100%	100%
Kasleti 2 LLC	Georgia	28 October 2019	100%	100%
Darchi LLC	Georgia	28 October 2019	100%	100%
Qartli Wind Farm LLC ("QWF")	Georgia	31 December 2019	100%	100%

Basis of carve−out and combination of comparative information

The consolidated financial statements for the year ended 31 December 2022 are considered as a continuation of the GGU's Energy Segment (as described above). The comparative information in these consolidated financial statements corresponds to that of the combined carve−out financial statements of GGU's Energy Segment as at and for the year ended 31 December 2021, as approved for issue on 5 August 2022.

The consolidated financial statements provide comparative information in respect of the previous period, which has been prepared from the financial statements of the combined entities as if GRPO has been established and the Group formation has been completed as at 31 December 2021, and assuming that GRPO's date of transition to IFRS is the initial date of transition to IFRS of GGU. The assets and liabilities of GGU's Energy Segment subsidiaries presented in the table above were recognized at their carrying values as presented in the consolidated financial statements of GGU, for all the periods presented as long as they were under common control, subject to certain allocation adjustments as described further below:

1) Following issuance of USD 250m Eurobonds by GGU in July 2020, proceeds of which were applied to refinance the existing third−party debt of GRPO's subsidiaries through intercompany loans provided by GGU. GRPO recognized an allocation of USD 98.3 million and USD 97.2 million of GGU's 2020 USD 250 million Eurobonds in the consolidated statement of financial position as at 31 December 2021.

(Amounts expressed in thousands of Georgian Lari)

2. Basis of preparation (continued)

Finance costs attributable to this allocated debt were recognized in the consolidated statement of profit of loss and other comprehensive income accordingly using the original effective interest rate determined in GGU's consolidated financial statements, and respective portion of GGU's Eurobonds issuance proceeds and subsequent coupon cash payments made on the Eurobonds was presented in the consolidated statement of cash flows for the years ended 31 December 2022 and 2021. No liability for the financial guarantee issued by SH, HYDL and QWF in respect of the GGU Eurobonds was recognized in these consolidated financial statements to avoid double−counting of liabilities.

2) As at 31 December 2021, GEL 8,122 trading financial assets and cash balance allocated from GGU, were recognized in the consolidated statement of financial position representing cash and other liquid assets attributable to GGU's Energy Segment.

3) Allocation of certain GGU's holding company operating costs amounting in aggregate to GEL 201 and GEL 332 for the years ended 31 December 2022 and 2021, respectively, and representing Energy Business' attributed share in GGU holding company's running costs of doing business.

4) The difference between the Group's assets and liabilities determined as described above, is presented as equity in the consolidated statement of financial position as at 31 December 2021. Considering that as at 31 December 2021, GRPO had not yet been incorporated, no share capital was presented in the consolidated financial statements at that date. Instead, the Group presented merger reserve as a balancing equity component (Note 9). Merger reserve was eliminated and replaced with share capital and other reserves upon incorporation of GRPO in 2022.

Significant judgment was involved in determination of appropriate basis of preparation for these consolidated financial statements.

3. Operating environment

The Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well−developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets, including the risk that the Georgian Lari is not freely convertible outside the country, there are currency exchange fluctuation risks, debt and equity markets are not well developed. However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to 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.

Georgia's real Gross Domestic Product (GDP) increased by 11% year−on−year in December 2022, according to rapid estimates released by the National Statistics Office of Georgia (Geostat) on 31 January 2023. Growth was observed in construction, manufacturing, transportation and storage, financial and insurance activities as well as trade, hotels and restaurants. Meanwhile, the estimated real GDP growth amounted to 10.1% in 2022 compared to the previous year.

As published by Geostat, the level of inflation reached 9.8% year−on−year in December 2022. High inflation is a global economic challenge. In the post−pandemic period, Russia's invasion of Ukraine has further increased energy and food prices on international markets. As a result, consumer prices rose sharply all over the world. These globally increased prices were also transmitted to the Georgian market and remain the main reason for high inflation in the country. At the same time, economic activity in Georgia has been high, largely facilitated by the restoration of tourism against the backdrop of an increase in long−term visits by Russians and Belarusians. Strong economic activity increases the risk of demand−side inflationary pressure, although this has been partly offset by the recent appreciation of the lari exchange rate.

Covid−19

On 11 March 2020, the World Health Organization declared the Covid−19 outbreak to be a pandemic. The Covid−19 pandemic shows considerable signs of easing as many countries have lifted travel bans, ended lockdowns and eased quarantine measures. The Government of Georgia has introduced number of measures aimed at containment of the spread of Covid−19, which had significant social and economic impact. Considering the nature of the Group's business, Covid−19 virus did not have material adverse impact on its operations. Comparing to the prior years, restrictions are elevated people are getting vaccinated and recovery from pandemic is observed in the whole world. Georgia has seen significant growth in tourism and exports which indicates that the country is overcoming the adverse effects of the pandemic.

(Amounts expressed in thousands of Georgian Lari)

3. Operating environment (continued)

The war in Ukraine

As a result of the war in Ukraine, many countries have imposed, and continue to impose, new sanctions on specified Russian entities and individuals. Sanctions have also been imposed on Belarus. The situation together with potential fluctuations in commodity prices, foreign exchange rates, restrictions to imports and exports, availability of local materials and services and access to local resources will directly impact entities that have significant operations or exposures in, or to Russia, Belarus or Ukraine. The war and its direct and indirect consequences may impact entities other than those with direct interests in the involved countries, for instance, as a result of exposure to fluctuations in commodity prices and foreign exchange rates, as well as the possibility of a protracted economic downturn. As the war continues and new sanctions are introduced, it is impossible to reliably assess the impact this may have on the Group's business as there is uncertainty over the magnitude of the impact on the economy in general. The Group's management is monitoring the economic situation in the current environment. The current best estimate of the effects of the war on the Group has been reflected in these consolidated financial statements.

4. Summary of significant accounting policies

New and amended standards and interpretations

Following amendments and interpretations apply for the first time in 2022, but do not have a material impact on the consolidated financial statements of the Group:

- *Reference to the Conceptual Framework – Amendments to IFRS 3*;
- *Property, Plant and Equipment: Proceeds before Intended Use* – Amendments to IAS 16;
- *Onerous Contracts – Costs of Fulfilling a Contract* – Amendments to IAS 37;
- *IFRS 1 First−time Adoption of International Financial Reporting Standards* – Subsidiary as a first−time adopter;
- *IFRS 9 Financial Instruments* – Fees in the '10 per cent' test for derecognition of financial liabilities;
- *IAS 41 Agriculture* – Taxation in fair value measurements.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- IFRS 17 *Insurance Contracts* – effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.
- Amendments to IAS 1: *Classification of Liabilities as Current or Non−current* – effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.
- *Definition of Accounting Estimates* – Amendments to IAS 8 – effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.
- *Disclosure of Accounting Policies* – Amendments to IAS 1 and IFRS Practice Statement 2 – are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted.
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* − Amendments to IAS 12 – In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The Group is currently assessing the impact of the revised standards and amendments, but does not expect them to have any material effect on its consolidated financial statements.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Fair value measurement

The Group measures financial instruments, such as trading financial assets at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non−financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are measured in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re−assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

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

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

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

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

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss includes financial assets held for trading.

The Group classifies a financial asset as held for trading if acquired or originated principally for the purpose of generating a profit from short−term fluctuations in price or dealer's margin or if it is part of a portfolio of identified instruments that are managed together and for which there is evidence of a recent actual pattern of short−term profit−taking.

Financial assets held for trading include debt securities acquired by the Group with the intention of making a short−term profit from price or dealer's margin. Gains or losses on instruments held for trading are recognised in the profit or loss.

Impairment of trade receivables

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

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

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

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

If, in a subsequent year, the amount of the estimated ECLs increases or decreases, the previously recognised ECLs are increased or reduced by adjusting the allowance account. If a future write−off is later recovered, the recovery is credited to the profit or loss in the allowance for impairment of trade receivables line with a negative sign as a reversal of impairment. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the asset.

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass−through" arrangement; and
- The Group 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass−through' arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial liabilities

All of the Group's financial liabilities, including borrowings, bonds issued and trade and other payables, are carried at amortised cost.

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.

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.

The Group owns real estate that mainly consists of administrative buildings and operational premises.

All categories of property, plant and equipment are accounted for at cost less accumulated depreciation and impairment.

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation of depreciable amount (defined as cost less residual value) is calculated on a straight−line basis over estimated useful lives. Existing useful lives applicable for several classes of property, plant and equipment are:

	Useful lives
Buildings	60 years
Energy infrastructure assets [1]	10−50 years
Fixtures and fittings	5−10 years
Vehicles	5−10 years

[1] Energy infrastructure assets include the immediate parts of the power plant, including the generator, reservoir (in the case of a hydroelectric power plant), turbine and powerhouse.

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. If the possibility of outflow becomes probable, the Group recognizes respective Provisions for liabilities and charges to provisions. Contingent assets are not recognized in the consolidated statement of financial position unless reimbursement is virtually certain (which is usually the case with reimbursement from insurance companies) but disclosed when an inflow of economic benefits is probable.

Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight−line basis over their estimated useful lives (3−5 years) 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.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Taxation

The annual profit earned by entities other than banks, insurance companies and microfinance organizations are 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. Starting from 1 January 2016 changes were introduced in Georgian legislation on the rules of tax settlement. Based on new rules, Revenue Service of Georgia monitors taxpayers' net indebtedness towards to the State by introducing a consolidated accounts of taxpayer. Therefore, the Group presents assets and liabilities related to all taxes payables or receivables by each entity on a net basis.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventories comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of inventory is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Prepayments

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

Cash at bank (cash and cash equivalents)

Cash at bank 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 and merger reserve

The amount of the Company's authorised share capital is defined by the Company's charter. The difference between par value and actual contribution received is recognized in additional paid−in capital in the consolidated statement of changes in equity. For the purposes of these consolidated financial statements, the Group eliminated and replaced merger reserve with share capital and other reserves upon incorporation of GRPO in 2022.

As of 31 December 2021, before incorporation of GRPO, merger reserve movements included those related to contribution of GGU Energy Segment subsidiaries to GGU by GCAP, and equity contributions from, and distribution to the shareholders of the GRPO subsidiaries (such as their share capital increases or decreases to the extent not eliminated at consolidation).

Debt to equity swaps with shareholders

When the Group's financial liabilities are converted to equity in a debt to equity swap transaction with the Parent or entities under common control, the Group records the value of resulting equity instruments issued at carrying value of the extinguished financial liability so that no profit or loss is recognized.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Value added tax

Value added tax ("VAT", charged at 18% in Georgia) 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. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the end of the reporting period is recognised in the consolidated statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of prepaid taxes other than income tax or taxes payable other than income tax in the consolidated statement of financial position.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from borrowings in foreign currency to the extent that they are regarded as an adjustment to interest costs. 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 construction phase.

Provisions for liabilities and charges to provisions

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

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

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

Non−recurring income and expenses

The Group separately classifies and discloses those income and expenses that are non−recurring by nature. Any type of income or expense may be non−recurring by nature. The Group defines non−recurring income or expense as income or expense triggered by or originated from an unusual economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Offsetting

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

Functional currencies and foreign currency translation

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

- The electricity tariff is set in USD in Georgia, hence the Group's revenue is denominated in USD;
- Capital contributions from as well as distributions to the shareholders were largely in USD;
- The Group'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.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Functional currencies and foreign currency translation (continued)

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 2022 and 2021 were GEL 2.7020 and 3.0976 to 1 USD, respectively.

In accordance with statutory requirement the Group's presentation currency is GEL. Items in the consolidated financial statements are translated to presentation currency based on following principles: assets and liabilities are translated into GEL at the rate of exchange ruling at the reporting date, income and expenses are translated at the exchange rates at the dates of the transactions (or at the average rate for the period when this is a reasonable approximation) and equity components are maintained at the rate of exchange ruling at the date of change in functional currency. The exchange differences arising on the translation are taken to other comprehensive income.

Included in effect of exchange rate changes on cash and cash equivalents in the consolidated statement of cash flows are net foreign exchange gain/loss on cash and cash equivalents and effect of foreign currency translation made in order to prepare statement of cash flow in GEL.

EBITDA

The Group separately presents EBITDA on the face of consolidated statement of profit or loss and other comprehensive income. EBITDA is not defined in IFRS and is defined by the Group as earnings before interest, taxes, depreciation and amortisation, and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation, finance income, finance costs, net foreign exchange gain/(loss), reassessment of estimates related to Eurobonds refinancing, impairment expense and non−recurring expenses, net.

Operating segment

As at 31 December 2022, the chief operating decision maker evaluates the whole Group as a single operating segment, renewable energy business. The chief operating decision maker evaluates performance based on revenue, profit before tax and net profit measured in accordance with IFRS as presented in these consolidated financial statements.

All of Group's assets and liabilities are concentrated in Georgia and revenue from external customers is received from the operations in Georgia. There was one external customer, Electricity System Commercial Operator JSC ("ESCO") that accounted for more than 10% of the Group's total revenue for 2022 (2021: two external customers: ESCO and related party company (entity under common control) Georgian Energy Trading Company LLC ("GETC")). Total revenue recognised from ESCO in 2022 amounted to GEL 25,987, that accounted 62% of the Group's revenue for the period. Total revenue recognised from ESCO and GETC in 2021 amounted GEL 37,678, that accounted 87% of the Group's revenue for the period. The Group did not have any other customers that accounted for more than 10% of the Group's total revenue for 2022 and 2021.

Income and expense recognition

Revenue is recognized when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for promise to transfer the goods and services to a customer. The following specific principles also apply to the Group's major classes of revenues:

Revenue from electric power sales

The Group sells electric power which is generated by their own wind and hydro power plants. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue is recognised net of value added tax. Revenues are measured at the fair value of the consideration received or receivable.

The electric power is sold in separate identified contracts and sale of electric power is the only performance obligation. The performance obligation is satisfied and the revenue recognition occurs at a point in time when control of the asset is transferred to the customer, generally upon delivery of electricity at an agreed measurement meter.

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. Customers are usually obliged to pay the respective balances by a following month end.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Business interruption reimbursement gain

Business interruption reimbursement gain is recognized based on insurance claim acts.

Electricity and transmission costs

Electricity and transmission costs include payments for guaranteed power, for transit and dispatching of electric power and for maintenance of stations.

Interest and similar income and expense

For all financial instruments measured at amortized cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, and such asset meets definition of credit−impaired, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Employee benefits

The Group recognises the expected cost of profit−sharing and bonus payments when, and only when:

(a) The entity has a present legal or constructive obligation to make such payments as a result of past events; and

(b) A reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

Wages, salaries, annual leave and sick leave, bonuses, share−based compensations and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group or when legal or constructive obligation to make the payment arises.

5. Significant accounting judgements and estimates

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. In addition to the significant judgments made in determination an appropriate basis of preparation of these consolidated financial statements as disclosed in Note 2, judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of property, plant and equipment

For the years ended 31 December 2022 and 2021, the Group analysed property, plant and equipment impairment or recovery indicators. Management found no indications of potential impairment of property, plant and equipment nor recovery of previously recognized impairment as at 31 December 2022.

Measurement of reimbursement assets

Significant judgment is required to assess whether an insurance reimbursement for a loss event is virtually certain and whether recognition of respective insurance claim receivable is appropriate, as well as in the measurement of the insurance claim receivable at the reporting date. Information about impairment losses and the respective insurance reimbursement recognised as at 31 December 2022 and 2021 is disclosed in Note 6.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

(Amounts expressed in thousands of Georgian Lari)

6. Property, plant and equipment

	Land plots	*Buildings*	*Energy Infrastructure assets*	*Vehicles*	*Fixtures and fittings*	*Construction in progress*	*Total*
Gross carrying amount							
31 December 2020	**1,327**	**79,095**	**296,897**	**820**	**1,417**	**1,108**	**380,664**
Additions	−	222	3,130	47	−	3,565	**6,964**
Disposals/write offs	−	−	(2,117)	−	−	−	**(2,117)**
Currency translation	(72)	(4,343)	(16,172)	(45)	(36)	(232)	**(20,900)**
31 December 2021	**1,255**	**74,974**	**281,738**	**822**	**1,381**	**4,441**	**364,611**
Additions	−	47	190	119	49	2,122	**2,527**
Disposals	−	−	(38,963)	(25)	(207)	(29)	**(39,224)**
Currency translation	(160)	(9,575)	(33,040)	(114)	(177)	(740)	**(43,806)**
31 December 2022	**1,095**	**65,446**	**209,925**	**802**	**1,046**	**5,794**	**284,108**
Accumulated depreciation and impairment							
31 December 2020	**−**	**3,212**	**12,963**	**38**	**102**	**−**	**16,315**
Depreciation charge	−	2,886	9,528	32	38	−	**12,484**
Impairment and write off	−	−	36,472	−	−	−	**36,472**
Currency translation	−	(270)	(977)	(3)	(7)	−	**(1,257)**
31 December 2021	**−**	**5,828**	**57,986**	**67**	**133**	**−**	**64,014**
Depreciation charge	−	2,196	8,253	24	40	−	**10,513**
Disposals	−	−	(36,305)	−	−	−	**(36,305)**
Currency translation	−	(903)	(5,192)	(10)	(20)	−	**(6,125)**
31 December 2022	**−**	**7,121**	**24,742**	**81**	**153**	**−**	**32,097**
Net book value							
31 December 2021	**1,255**	**69,146**	**223,752**	**755**	**1,248**	**4,441**	**300,597**
31 December 2022	**1,095**	**58,325**	**185,183**	**721**	**893**	**5,794**	**252,011**

As at 31 December 2022, the Group pledged all its property, plant and equipment as collateral for its bonds issued. As at 31 December 2021, the Group has no property, plant and equipment pledged as collateral for its borrowings and bonds issued. As at 31 December 2022, the Group has remaining contractual obligation for acquisition of turbines, generators and electrical equipment amounting to GEL 10,393 (EUR 3,603,080) and for design, construction and supervision of tunnel works amounting to GEL 688 (EUR 238,605).

In July 2021, flood event occurred in the valley of Kasleti river, causing damage to the Kasleti 2 HPP. As a result, to the flood event, Kasleti 2 stopped operating for one month, but resumed generations in September 2021. As at 31 December 2022 and 2021, the negotiations with the insurance company was ongoing. As at 31 December 2021 the Group wrote−off the damaged items of property, plant and equipment with the net carrying amount of GEL 1,994. In relation to the loss event, the Group recognized a reimbursement asset (insurance claim receivable) from an insurance company, an entity under common control, in the amount of GEL 2,022 as at 31 December 2022 (31 December 2021: GEL 2,318). Respective net loss of GEL 263 is included in non−recurring items and business interruption reimbursement gain in the amount of GEL 587 in the consolidated statement of profit or loss and comprehensive income for 2021.

In relation to the Mestiachala 1 HPP rock avalanche loss event, occurred in July 2019, the Group's initially recognized reimbursement asset was mostly settled in cash and, in respect of outstanding GEL 2,158 thousand, written−off to non−recurring expenses based on revised agreement with the insurer in 2021. Hence, as at 31 December 2022 and 2021, in relation to the mentioned loss event, no reimbursement assets were outstanding. In line with the outcome of the comprehensive cost and feasibility assessment, the restoration process of the Mestiachala 1 HPP has been suspended indefinitely in 2021. Hence, as at 31 December 2021, impairment of the assets of Mestiachala 1 HPP was recognized resulting in GEL 36,595 impairment charge in profit or loss for 2021. On 20 June 2022, the Group signed a sale and purchase agreement (SPA) with a third party to dispose the assets of Mestiachala 1 HPP with net book value of GEL 2,448 (comprising of gross book value of GEL 38,753 and accumulated depreciation and impairment of GEL 36,305) for total consideration of USD 3 million, out of which USD 0.3 million (GEL 877) was transferred at the signing date of the SPA. The rest of receivables from the sale of Mestiachala 1 with outstanding carrying value of USD 0.6 million (GEL 1,789) was transferred to a related party (entity under common control) in 2022 (Note 9). As the result of those transaction, net gain of GEL 218 was included in non−recurring items in the consolidated statement of profit or loss and comprehensive income for 2022 in respect of Mestiachala 1 HPP disposal (Note 17).

(Amounts expressed in thousands of Georgian Lari)

7. Other non−current assets

	31 December 2022	*31 December 2021*
Prepayments for non−current assets	624	114
Intangible assets	428	836
Other non−current assets	27	193
Total other non−current assets	**1,079**	**1,143**

Historical cost of intangible assets and accumulated amortization as at 31 December 2022 amounted to GEL 601 and GEL 173, respectively (2021: GEL 988 and GEL 152, respectively).

In 2022, the Group written−off intangible assets related to Mestiachala 1 HPP with net book value of GEL 300 (Note 17).

Intangible assets amortization charge, including software licenses, was GEL 21 in 2022 (2021: GEL 22).

8. Trade and other receivables

	31 December 2022	*31 December 2021*
Current		
Trade receivables from electric power sales	1,678	2,366
Total trade and other receivables, net	**1,678**	**2,366**

As at 31 December 2022. carrying amounts of trade receivables approximate fair values due to their short−term maturities. All trade and other receivables are current and related to revenue from electric power sales. Expected credit losses are immaterial as at 31 December 2022 and 2021.

9. Equity

Share capital and merger reserve

As at 31 December 2021, GRPO was not incorporated. Accordingly, no share capital was presented as at 31 December 2021 and until GRPO's incorporation on 28 June 2022. In accordance with the Group's accounting policy (Note 4), until incorporation of GRPO certain equity movements are presented within merger reserve. Subsequent to incorporation, share capital movements were presented as follows:

Merger reserve	***Nominal amounts***
31 December 2020	**104,664**
Reduction of merger reserve (a)	(20,000)
31 December 2021	**84,664**
Incorporation of GRPO (b)	(84,664)
28 June 2022	**–**

Share capital	***Nominal amounts***	***Number of shares***
28 June 2022	**–**	**–**
Incorporation of GRPO (b)	100	100,000
Contribution of Energy Subsidiaries (c)	100	100,000
Reduction of share capital (d)	(49)	(49,000)
Reduction of share capital (e)	(19)	(19,000)
Increase of share capital (f)	100	100,000
31 December 2022	**232**	**232,000**

Authorized share capital of the Company comprised of 200,000,000 (2021: nill) ordinary shares as of 31 December 2022. Each share has a nominal value of 1 (one) GEL. Issued share capital of the Company comprised of 232,000 ordinary shares as of 31 December 2022 (2021: nil). Each share has a nominal value of 1 (one) GEL.

(Amounts expressed in thousands of Georgian Lari)

9. Equity (continued)

(a) In 2021, the Group recognized reduction in merger reserve in the consolidated statement of changes in equity attributed to GEL 20,000 distribution to the shareholder settled in cash through proceeds from GRPO subsidiaries.

(b) On 28 June 2022, GRPO was incorporated issuing 100,000 shares with nominal value of GEL 100 for cash consideration of GEL 100. At incorporation date, accumulated merger reserve of GEL 84,664 was eliminated with balancing increase in other reserves.

(c) On 20 September 2022, the Parent legally contributed Energy Subsidiaries to GRPO, in exchange for 100,000 shares issued with total par value of GEL 100. Additional paid−in capital of GEL 226,165 was recognized representing the difference between the par value of shares issued and the statutory fair value of the contributed subsidiaries. As GRPO already consolidated the contributed subsidiaries as at 31 December 2021, the transaction did not have effect on GRPO's consolidated equity. Accordingly, balancing decrease in other reserves of GEL 226,265 was recognized at the point of contribution.

(d) On 23 September 2022, the Parent resolved to decrease GRPO's equity by total notional amount of GEL 86,847 by cancelling 49,000 shares with total par value of GEL 49, for no consideration. In accordance with its accounting policy (Note 4), GRPO recognized reduction in share capital by GEL 49 and balancing decrease in additional paid−in capital by GEL 86,798 in respect of this transaction.

(e) On 7 October 2022, the Parent resolved to decrease GRPO's equity by GEL 18,142 by cancelling 19,000 shares with total par value of GEL 19, partially in exchange for cash consideration of GEL 6,450 paid by GRPO and partially for non−cash consideration of GEL 11,692, comprising of the Group's outstanding loans issued to related party (entity under common control) with carrying value of GEL 9,903 and the outstanding receivable from sale of Mestiachala 1 assets with carrying value of USD 0.6 million (GEL 1,789) (Note 6). In accordance with its accounting policy (Note 4), the Group recognized reduction in share capital by GEL 19 and balancing decrease in additional paid−in capital by GEL 18,123 in respect of this transaction.

(f) On 2 September 2022, GCAP issued intercompany loan of USD 90 million (GEL 261,324) to GGU Energy Segment to redeem the renewable business' portion of GGU's USD 250 million Eurobond. After incorporation of GRPO and contribution of energy business subsidiaries to the Company, intercompany loan from GCAP was partially repaid by the Group to GCAP out of proceeds from USD 80 million Green bond (Note 10), while the outstanding USD 10 million (GEL 27,369) of the intercompany loan was converted into the Group's equity in a debt to equity swap transaction via exchange to 100,000 issued shares with total notional amount of GEL 100 and balancing increase in additional paid−in capital by GEL 27,269.

Dividends

In 2022 and 2021 no dividends were declared and paid.

Other reserves

Other reserves reflect unrealised gains/(losses) from transactions with owners of non−controlling interests in existing subsidiaries, foreign currency translation reserve and the effect of the Group formation and contribution of energy business subsidiaries to the Company transactions to the extent not reflected in share capital and additional paid−in capital. Movements in other reserves for the years ended 31 December 2022 and 2021 are attributed to other comprehensive loss for the year related to currency translation reserve, as well as the results of the Group formation and contribution of energy business subsidiaries to the Company as presented in "Share capital and merger reserve" section above.

Management of capital

The Group's objectives when managing capital are:

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

To achieve these goals the Group performs a detailed analysis of capital structure considering the cost of borrowed funds and level of own capital available. The Group defines capital for capital management purposes as equity and borrowings and bonds issued recognized in the consolidated financial statements.

There were no changes in the objectives, policies or processes for managing capital in 2022 and 2021.

(Amounts expressed in thousands of Georgian Lari)

10. Borrowings and bonds issued

	31 December 2022		*31 December 2021*	
	Current liabilities	***Non−current liabilities***	***Current liabilities***	***Non−current liabilities***
Eurobonds issued allocated	–	–	9,546	295,078
Green bonds issued	3,363	213,201	–	–
Loans from related parties	4,149	–	134	2,570
Total borrowings	**7,512**	**213,201**	**9,680**	**297,648**

On 23 July 2020, GGU issued US Dollar 250 million green bonds, out of which USD 95.4 million was allocated on Energy Segment. The senior unsecured US Dollar−denominated 7.75% green notes, with a 5−year non−call 2−year bullet maturity, were settled on 30 July 2020. The bonds were issued and sold at par value and were listed on the Global Exchange Market of the Irish Stock Exchange and rated B+ (RWE) by Fitch and B (stable) by S&P. The proceeds of the bonds were used to refinance major existing loan arrangements of the Group. As of 31 December 2021, the Group has recognized an allocation of USD−denominated Eurobonds issued of GEL 304,624.

As one of the conditions to demerger of the Group from GGU, GGU was obliged to redeem its Eurobonds in third quarter 2022, pursuant to which GGU exercised call option specified in the terms and conditions of the Eurobonds. Accordingly, as at 31 December 2021 the management revised its expectations in relation to timing of future cash flows attributed to the GGU Energy Segment's allocated share in the Eurobonds liability, which resulted in GEL 2,766 loss from revision of amortized cost estimate recognized in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021.

On 12 October 2022, GRPO issued US Dollar 80 million Green bonds. The bonds are US Dollar−denominated with a 5−year non−call 2−year bullet maturity and carry a 7.00% coupon rate. The Green bonds are listed on the Georgian Stock Exchange.
The bonds were issued and sold at par value. The Green bonds are secured by all of the Group's property. The proceeds of the bonds were fully used to refinance the shareholder loan from GCAP in amount of USD 90 million (GEL 261,324), provided in 2022 for redeeming the Energy Segment's portion of GGU's USD 250 million (of which attributed to Energy Segment: USD 95.4 million) 7.75% Eurobond in September 2022.

Part of the shareholder loan from GCAP in the amount of USD 10 million (GEL 27,369) was converted to share capital of GRPO on 29 November 2022 in a debt to equity swap transaction (Note 9).

As of 31 December 2022, the Group's borrowings from related parties (represented by an entity under common control) are denominated in USD with a fixed interest rate of 10% and with average maturity of 1 years (2021: fixed interest rate of 10% with average maturity of 2 years). The Group withdrew additional GEL 1,572 (USD 547,475) from credit limit in 2022. As at 31 December 2022 the Group has undrawn loan commitment of GEL 1,351 (USD 500,525). The loan is related to the development of the Darchi HPP project.

In 2022, the Group incurred borrowings costs of GEL 21,785 (2021: GEL 24,587) of which GEL 312 has been capitalized to property, plant and equipment (2021: GEL 134).

(Amounts expressed in thousands of Georgian Lari)

10. Borrowings and bonds issued (continued)

Changes in liabilities arising from financial activities

	Borrowings	*Eurobonds Issued allocated*	*Shareholder's loan*	*Green Bond Issued*	*Lease liabilities*	*Total*
Carrying amount at 31 December 2020	**159**	**318,488**	–	–	**1,237**	**319,884**
Foreign currency translation	(114)	(17,659)	–	–	–	**(17,773)**
Cash proceeds	2,525	–	–	–	–	**2,525**
Cash repayments	–	–	–	–	(231)	**(231)**
Interest accrued	134	24,622	–	–	161	**24,917**
Interest paid	–	(23,593)	–	–	(161)	**(23,754)**
Reassessment of estimates related to Eurobonds refinancing	–	2,766	–	–	–	**2,766**
Other	–	–	–	–	303	**303**
Carrying amount at 31 December 2021	**2,704**	**304,624**	–	–	**1,309**	**308,637**
Foreign currency translation	(439)	(19,204)	(11,307)	(7,152)	(144)	**(38,246)**
Cash proceeds	1,572	–	261,324	220,305	–	**483,201**
Cash repayments	–	(277,372)	(223,072)	–	(63)	**(500,507)**
Interest accrued	312	15,655	2,407	3,411	169	**21,954**
Interest paid	–	(23,703)	(1,983)	–	(169)	**(25,855)**
Debt to equity swap (Note 9)	–	–	(27,369)	–	–	**(27,369)**
Carrying amount at 31 December 2022	**4,149**	**–**	**–**	**216,564**	**1,102**	**221,815**

11. Trade and other payables

	31 December 2022	*31 December 2021*
Trade payables	1,173	941
Other payables	–	31
Total trade and other payables	**1,173**	**972**

Trade and other payables are non−interest bearing and are normally settled within 60 days.

12. Revenue from electric power sales

	2022	*2021*
Revenue from electric power sales to legal entities	16,234	11,499
Revenue from electric power sales to ESCO	25,987	31,810
Total revenue from electric power sales	**42,221**	**43,309**

13. Salaries and other employee benefits

	2022	*2021*
Salaries	1,183	912
Bonuses	151	17
Total salaries and benefits	**1,334**	**929**

(Amounts expressed in thousands of Georgian Lari)

14. Professional fees

	2022	*2021*
Consulting expenses	442	526
Legal and other professional fees	179	206
Total professional fees	**621**	**732**

Fees for the audit of the Group's consolidated financial statements for the year ended 31 December 2022 comprised GEL 113 (2021: GEL 130).

15. Other operating expenses

	2022	*2021*
Insurance expense	1,148	1,502
Maintenance expenditure	264	169
Rent expenses related to short−term leases	168	163
Charity expenses	76	34
Other expenses	45	95
Total other operating expenses	**1,701**	**1,963**

16. Finance costs

	2022	*2021*
Interest expenses on borrowings, bonds issued and allocated Eurobonds measured at effective interest rate method	21,473	24,587
Loss from sale of trading securities	204	−
Interest expenses on lease liability	169	161
Bank fees and charges	5	125
Total finance costs	**21,851**	**24,873**

17. Non−recurring expenses, net

	2022	*2021*
Reassessment of insurance reimbursement asset (Note 6)	−	2,158
Non−recurring gain related to Mestiachala 1 disposal (Note 6)	(218)	−
Termination−related cash−based employee compensation (a)	121	1,185
Income on grant related to Mestiachala 1 (b)	−	(794)
Technical due diligence service fee	−	669
Non−current assets write−off (Note 7)	300	569
Non−recurring expenses related to kasleti flood	−	263
Other	23	−
Total non−recurring expenses, net	**226**	**4,050**

a) Termination−related cash−based employee compensation are recognized with regards to the constructive obligation existing as at 31 December 2021 towards the members of the management expected to be terminated upon change of control. In February 2022 the Group adjusted the amount according to the actual bonus payment.

b) On 27 of December 2017, the Group received a grant from Oesterreichische Entwicklungsbank AG ("OEEB"), an Austrian government agency. The grant amounted to GEL 480 and GEL 550, as of 31 December 2022 and 2021, respectively and after meeting certain contractual conditions, reimbursed for amounts paid in relation to technical design of Mestiachala HPPs. The amount of grant received was recorded as deferred income in other non−current liabilities and recognized as income in equal amounts over the expected useful life of the related asset. Due to impairment of Mestiachala 1 in 2021, the Group recognized non−recurring income in relation to grant related to Mestiachala 1 in the amount of GEL 794.

(Amounts expressed in thousands of Georgian Lari)

18. Commitments and contingencies

Commitments

As at 31 December 2022 and 2021, certain entities of the Group (Qartli Wind Farm LLC, Svaneti Hydro JSC, Kasleti 2 LLC, Hydro Georgia LLC) have active agreements with Electricity System Commercial Operation (ESCO) on the guaranteed purchase of electric power generated by these entities for the period from eight to fifteen years. Geoenergy HPP power purchase agreement has expired in February 2022, since then the company sells generated electricity on market. In accordance with the agreements, the companies are obliged to sell the produced electricity to ESCO during winter months, except for Qartli Wind Farm LLC, which on top of this obligation has an option of sell electricity to ESCO for a full year. The expiration dates for respective power purchase agreements are as follows:

- Mestiachala 2 HPP− April 2034
- Kasleti 2 HPP− September 2028
- Qartli Wind Farm WPP− January 2030
- Hydro Georgia HPP− December 2023

Guaranteed prices vary from 5.4 to 6.5 USD cents per 1 kWh.

Environmental matters

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

In assessing the existence of indicators of impairment of the Group's non−current assets, the management considered known and estimable effects of climate risks.

Taxation

In Georgia, tax returns remain open and subject to inspection for a period of up to three years. If an understatement of a tax liability is detected as a result of an inspection, penalties and fines to be paid might be material in respect of the tax liability misstatement. The Group's management does not expect the outcome of the inspections to have a material impact on the Group's consolidated financial position or results of operations. Management believes that the Group has paid and accrued all taxes that are applicable.

19. Financial instruments

Financial instruments overview

Cash at bank

Cash at bank as at 31 December 2022 and 2021 includes the funds placed on current accounts in Georgian banks. All cash at bank balances are classified as current and not impaired.

Trade receivables

Trade receivables as at 31 December 2022 and 2021 are represented by short−term receivables from sales of electricity, due from ESCO and Georgian corporate customers. All trade receivables are classified as current and not impaired.

Trading securities

Financial instruments at fair value through profit or loss recognized in the consolidated statement of financial position as at 31 December 2021 are represented by an allocated Eurobonds issued by GCAP, quoted on Irish Stock Exchange (Level 2 of fair value hierarchy). Additionally, in January 2022 the Group acquired a corporate bond issued by a Georgian issuer, quoted on Georgian Stock Exchange. As at 31 December 2022 both bonds were sold. The Group recognized GEL 204 loss from sale of trading securities presented in finance costs (2021: nil) and GEL 385 (2021: GEL 390) interest income from trading securities presented in finance income for the year ended 31 December 2022.

(Amounts expressed in thousands of Georgian Lari)

19. Financial instruments (continued)

Fair value measurement

Fair value measurement of all financial instruments held by the Group as at 31 December 2022 and 2021, is performed using a valuation technique with quoted prices in active and non−active markets and market observable inputs.

The fair values of other instruments in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique, with exception to bond liabilities as at 31 December 2022 and 2021 which were measured using bid prices from the market that was not active (Level 2). The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Fair values analyzed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

		31 December 2022		***31 December 2021***	
	Level	***Carrying value***	***Fair value***	***Carrying value***	***Fair value***
Financial assets					
Reimbursement asset (Note 6)	Level 3	2,022	2,022	2,318	2,318
Cash at bank	Level 1	12,370	12,370	36,948	36,948
Financial liabilities					
Borrowings and bonds issued (Note 10)	Level 2	220,713	207,786	307,328	319,959
Lease liabilities	Level 2	1,102	1,102	1,309	1,309
Trade and other payables	Level 3	1,173	1,173	972	972

The following methods and assumptions were used to estimate the fair values:

- the fair values of cash at banks, reimbursement asset and trade and other payables are approximated by their carrying amounts due to the short−term maturities of these instruments;
- the fair value of fixed rate borrowings and lease liabilities is estimated by discounting future cash flows using the prevailing market rates at the reporting dates;
- the fair value of bonds issued is estimated with reference to bid prices at inactive markets.

Risk arising from financial instruments

In the course of its ordinary activity the Group is exposed to interest rate, currency, credit and liquidity risks. The Group does not have any floating interest rate financial instruments and as such is not exposed to interest rate risk.
The Group’s management oversees the management of these risks.

Currency risk

As at 31 December 2022 and 2021 currency risk arises from the EUR and GEL denominated cash at banks, trade and other payables and borrowings. As at 31 December 2022, the effect of reasonably possible change is disclosed in below table:

Currency	***Increase/ decrease in % 2022***	***Effect on profit 2022***
GEL	18.92%	381
GEL	−18.92%	(381)

Currency	***Increase/ decrease in % 2022***	***Effect on profit 2022***
EUR	11%	316
EUR	−11%	(316)

(Amounts expressed in thousands of Georgian Lari)

19. Financial instruments (continued)

As at 31 December 2021, the effect of reasonably possible change is disclosed in below table:

Currency	***Increase/ decrease in % 2021***	***Effect on profit 2021***
GEL	15%	302
GEL	−7%	(129)

Currency	***Increase/ decrease in % 2021***	***Effect on profit 2021***
EUR	14%	224
EUR	−6%	(105)

Credit risk

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

As at 31 December 2022 and 2021, the Group has no other significant financial assets subject to credit risk except for:

- Cash and cash equivalents: as at 31 December 2022 total cash and cash equivalents of GEL 12,370 (31 December 2021: GEL 36,948) was kept with Georgian banks having rating of "BB−/bb−" from Fitch Ratings;
- Trade and other receivables (Note 8).

All cash and cash equivalents and trade and other receivable balances are classified as current and are not impaired. Due to short−term and (in respect of cash and cash equivalents) highly liquid nature of these financial assets, the Group has assessed corresponding expected credit losses to be immaterial. Therefore, no impairment is recognized for cash and cash equivalents and trade and other receivables under IFRS 9. The credit quality of all financial assets 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. The Group does not have an internal credit rating system for evaluation of credit rating of its trade and other receivables.

As at 31 December 2022 and 2021 carrying values of financial instruments best represent their maximum exposure to the credit risk.

Liquidity risk

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

The table below shows financial liabilities as at 31 December 2022 and 2021 based on contractual undiscounted repayment obligations.

	Less than 1 year	***1−3 years***	***3−5 years***	***Over 5 years***	***Total***
As at 31 December 2022					
Long−term and short−term borrowings and bonds issued	15,131	30,262	246,422	−	**291,815**
Trade and other payables	1,173	−	−	−	**1,173**
Lease liabilities	112	225	225	5,158	**5,720**
Total future payments	**16,416**	**30,487**	**246,647**	**5,158**	**298,708**
As at 31 December 2021					
Long−term and short−term borrowings	32,454	45,816	318,497	−	**396,767**
Trade and other payables	972	−	−	−	**972**
Lease liabilities	118	224	224	3,648	**4,214**
Total future payments	**33,544**	**46,040**	**318,721**	**3,648**	**401,953**

(Amounts expressed in thousands of Georgian Lari)

19. Financial instruments (continued)

In managing liquidity risk, the management of the Group considers the Group will be able to settle the liabilities falling due by applying cash proceeds from operations towards the upcoming coupon and interest payments due on the Green bonds and other borrowings (Note 10).

20. Related parties disclosures

In accordance with IAS 24, *Related Party Disclosures*, parties are considered to be related if one party has the ability to control or jointly 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.

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

	31 December 2022		*31 December 2021*	
	The Parent	***Entities under common control***	***The Parent***	***Entities under common control***
Assets				
Reimbursement asset (Note 6)	−	2,022	−	2,318
Financial assets held for trading (a)	−	−	8,122	−
Borrowings as at 1 January	**−**	**2,704**	**−**	**159**
Proceeds from borrowings and interest and foreign currency translation accrued during the year	−	1,445	−	2,545
Borrowings as at 31 December	**−**	**4,149**	**−**	**2,704**

(a) In March 2021, GGU purchased 2,493 notes worth USD 2,500,000 issued by the Parent as a tap issue to the original notes issued in 2018 on Irish Stock Exchange. The acquired notes were recognized by the Group in these consolidated financial statements (Note 2). The notes accrue annual 6.125% and mature in 2024. The financial assets were classified at fair value through profit or loss as held for trading. In January 2022, the Group purchased 1,000 notes worth USD 1,000,000. During 2022 the Group recognized GEL 385 (2021: GEL 390) of finance income on the notes. As at 31 December 2022 both bonds were sold, the Group recognized GEL 204 loss from sale of trading securities presented in finance costs (2021: nil).

	2022	***2021***
Income and expenses		
Revenue from electric power sales[1]	1,285	7,339
Business interruption reimbursement gain from entities under common control[2]	−	587
Finance cost due to the Parent	(2,540)	−
Finance income from the Parent	260	390
Other operating expenses due to entities under common control[4]	(937)	(2,421)

[1] Revenue from electricity supply to GGU subsidiary companies GETC.

[2] Business interruption reimbursement income in 2021 represents the insurance claim for the business interruption caused by the insurance event.

[4] Other operating expenses mostly comprises of insurance expense for the year, including reassessment of reimbursement asset recognized in non−recurring expenses for 2021.

In addition, the Group entered in a number of debt and equity transactions with related parties in 2022 and 2021 (including a debt to equity swap), as detailed in Notes 9 and 10.

Key management personnel remuneration amounted to:

	2022	***2021***
Salaries and other short−term employee benefits	162	110
Cash bonus	62	55
Termination benefits	121	1,185

(Amounts expressed in thousands of Georgian Lari)

21. Leases

Group as a lessee

The Group has lease contracts for various items of land, building, vehicles and other equipment used in its operations. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. Some lease contracts include extension and termination options and variable lease payments, which are further discussed below. The Group applies the 'short–term lease' and 'lease of low–value assets' recognition exemptions for these leases.

Carrying amounts of right–of–use assets (mostly in relation to leases of land) recognised and the movements during the period comprise:

	2022	*2021*
At 1 January	**1,254**	**1,279**
Additions	–	188
Depreciation expense	(32)	(74)
Cancelled contracts	–	(47)
Currency translation	(102)	(92)
At 31 December	**1,120**	**1,254**

Carrying amounts of lease liabilities and the movements during the period comprise:

	2022	*2021*
At 1 January	**1,309**	**1,237**
Additions	–	188
Interest expense on lease liabilities	169	161
Interest paid	(169)	(161)
Cancelled contracts	–	(47)
Payments of lease liabilities	(63)	(53)
Foreign exchange rate movements	(144)	(16)
At 31 December	**1,102**	**1,309**
Current	112	118
Non–current	990	1,191

The following are the amounts recognised in profit or loss:

	2022	*2021*
Depreciation expense of right–of–use assets	(32)	(74)
Interest expense on lease liabilities	(169)	(161)
Expense relating to leases (included in other operating expenses)	(168)	(163)
Total amount recognized in profit or loss	**(369)**	**(398)**

Total lease payments including low–value and short–term leases during the year was GEL 400 (2021: GEL 555).

The Group has several lease contracts that include extension and termination options. These options were negotiated to provide flexibility in managing the leased–asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised. As at 31 December 2022 future lease payments of GEL 5,608 are included to the lease term in respect of termination options (2021: GEL 4,096).

Georgian Renewable Power Operations JSC

Management Report

For the year ended 31 December 2022

Contents

Notes to the Management Report

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Report in accordance with the requirements of Article 7, paragraph 10 of the Georgian Law on Accounting, Reporting and Auditing

To the Shareholder and Supervisory Board of Georgian Renewable Power Operations JSC

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 29 March 2023. The audited consolidated financial statements do not reflect the effects of events that occurred subsequent to the date our report on the audited consolidated financial statements. The effect of events described in the Management Report that occurred after the date of our auditor's report on the audited consolidated financial statements were not audited by us.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Management report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- The Management report includes the information required by the Article 7 of the Georgian Law on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Ruslan Khoroshvili

On behalf of EY LLC

11 May 2023

Tbilisi, Georgia

1. Corporate information

Georgian Renewable Power Operations JSC (“GRPO” or the “Company”) is a joint stock company incorporated on 28 June 2022. The Company is a holding entity of a group of companies incorporated and domiciled in Georgia (the “Group”). The registered office of the Company is located at 10 Medea (Mzia) Jugheli Str., 0179, Tbilisi, Georgia. The Company is a part of a larger group - Georgia Capital JSC (“GCAP”), which is a Georgia-based investment entity holding investments in various subsidiaries in Georgia.

The Group’s business represents a platform for operating hydro power plants (“HPPs”) and wind power plant (“WPP”) across the country. The business operates commissioned renewable assets with 71MWs of installed capacity in aggregate: 30MW Mestiachala 2 HPP, 20MW Hydrolea HPPs and 21MW Qartli WPP.

As at 31 December 2022, the Company is fully owned by Georgian Renewable Power Holding JSC (“GRPH” or the “Parent”), which is under 100% ownership of GCAP. GCAP is wholly owned by Georgia Capital plc (the “Ultimate Parent”), an entity incorporated in England and listed on London Stock Exchange.

As at 31 December 2022 the subsidiaries of the Group are presented in the table below:

	Country of incorporation	***Date of acquisition/incorporation***	***31 December 2022***
Svaneti Hydro JSC (“SH”)	Georgia	20 April 2017	100%
Hydrolea LLC (“HYDL”):	Georgia	28 October 2019	100%
Geoenergy LLC	Georgia	28 October 2019	100%
Hydro Georgia LLC	Georgia	28 October 2019	100%
Kasleti 2 LLC	Georgia	28 October 2019	100%
Darchi LLC	Georgia	28 October 2019	100%
Qartli Wind Farm LLC (“QWF”)	Georgia	31 December 2019	100%

2. Operating environment

The Group’s business is concentrated in Georgia. As an emerging market, Georgia does not possess a well−developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets, including the risk that the Georgian Lari is not freely convertible outside the country, there are currency exchange fluctuation risks, debt and equity markets are not well developed. However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to 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. Business overview

The Group’s business represents a platform for operating hydro power plants (“HPPs”) and wind power plant (“WPP”) across the country. The business operates commissioned renewable assets with 71MWs of installed capacity in aggregate: 30MW Mestiachala 2 HPP, 20MW Hydrolea HPPs and 21MW Qartli WPP. The latter two assets represent successful acquisitions made by the business at the end of 2019, while the Mestiachala 2 HPP was built and commissioned by GCAP’s renewable energy business in 2019. All power plants (except for the Akhmeta HPP, whose PPA has expired) benefit from long-term power purchase agreements (the “PPAs”) formed with the Electricity System Commercial Operator (“ESCO”), resulting in predictable dollar-linked cash flows, as PPAs are fixed in US dollars.

4. Definitions of key financial indicators

The main source of revenue of the Group is the production and sale of electricity. During FY 2022 revenue from electricity sales decreased by 2.5% compared to the previous year, reaching 42,221 thousand GEL (in USD up y-o-y by 8.1%, reaching 14,583 thousand USD) mainly due to GEL's appreciation against USD. Revenue growth in USD was mainly attributable to higher generation of power plants and higher market selling prices. Electricity generation of the Group power plants reached 268,329 MWh in 2022, up by 0.9% y-o-y. In 2022 average electricity selling prices increased by 7.1% y-o-y, reaching 5.43 USc/ KWh, while average electricity market selling price reached USc/Kwh 4.61 up by 30.3%. During 2022, around 61.5% of electricity sales were covered by PPA contracts.

In 2022 operating expenses incurred by the Group decreased by 5.2% (to 9,362 thousand GEL) mainly due to savings in maintenance and other operating costs due GEL appreciation against USD/EUR. QWF receives maintenance services from Vestas LLC, since maintenance contract is in EUR due to appreciation of GEL against EUR, maintenance expense was lower than in 2022 compared to 2021.

EBITDA in 2022 decreased by 3.6% (reaching 32,859 thousand GEL), mainly due to currency fluctuations affecting revenue in presentation currency- GEL.

Bond issuance and Group changes

As at 31 December 2021, GCAP owned 100% in Georgia Global Utilities JSC ("GGU" or "the Former Parent"), which was a Georgian−based holding that operated, through a number of subsidiaries, in two operating segments based on products sold and services rendered: (1) electricity generation and sales (the "GGU Energy Segment") (2) water supply and wastewater collection services ("GGU Water Utility Segment").

On 31 December 2021 Georgia Capital plc announced that GCAP would sell an initial 80% of its equity interest in the water utility business of GGU to FCC Aqualia ("Aqualia"), by way of a two−stage transaction.

On 3 February 2022 with the receipt of full sales proceeds by the GCAP and transfer of respective shares of the GGU JSC to Aqualia the first stage of the water utility business sale transaction has been completed. Accordingly, Aqualia became the new controlling shareholder of GGU.

The second stage of the transaction followed the planned redemption in third quarter 2022 of USD 250 million Eurobond issued by GGU, which is financed pro−rata to their interests in GGU by Aqualia and GCAP by way of a shareholder loan. Following the bond redemption and subsequent demerger of the operational renewable energy assets via a spin−off, GCAP recovered full ownership of Group's renewable energy assets, and Aqualia's ownership in the water utility business increased to 80%.

Pursuant to the above, in 2022 GGU and its subsidiaries ("GGU Group") initiated the Group formation in order to spin−off its GGU Energy Segment to GCAP. In June 2022, GGU established a 100% owned subsidiary Georgian Renewable Power Operations JSC and in October 2022 transferred GGU's Energy Segment subsidiaries to the Group in exchange for GRPO issuing its equity instruments. Detailed information about the equity changes of the Group and on acquisition of its own shares is presented in the consolidated financial statement of the Group as of 31 December 2022 in Note 9 "Equity".

In October 2022 the Group closed USD 80 million green secured bond offering listed on Georgian Stock Exchange.

Corporate governance reporting

5. Governing body and management

Under the Law on Entrepreneurs and the Charter, shareholders are authorised to pass resolutions, inter alia, on the following issues at a General Meeting of Shareholders ("GMS"):

- changing the share capital of the Issuer;
- approval of amendments to the Charter;
- liquidation of the Issuer;
- any merger, division or transformation of the Issuer into another legal entity;
- full or partial cancellation of pre-emptive rights during an increase of share capital;
- approval of proposals by Supervisory Board and/or General Director regarding distributions of profits;
- election and dismissal of the members of the Supervisory Board and determination of its members' term of service;
- approval of the reports of the Supervisory Board and the General Director;
- acquisition, sale, transfer, exchange or encumbrance (whether through a single transaction or a series of related transactions) of the Issuer's assets, with a value exceeding GEL 20,000,000 (twenty million);
- approval of the annual accounts of the Issuer;
- election and/or dismissal of an external auditor; and
- other matters provided by the Law on Entrepreneurs and the Charter.

Supervisory Board

The Supervisory Board shall consist of at least three members, each of whom is elected by shareholders at the GMS. The Supervisory Board members are required to act in the best interests of the Issuer and its business when performing their duties.

The responsibilities of the Supervisory Board, inter alia, include:

- appointing and dismissing the General Director and controlling his/her activities;
- approving and amending the Issuer's policies and other regulatory documentation;
- inspecting the Issuer's accounts and property, personally or with the help of invited experts;
- requesting reports of the Issuer's activities from the General Director (including information concerning related companies and subsidiaries) and reviewing the information provided by internal audit or external inspections;
- convening extraordinary general meetings, if necessary;
- reviewing annual reports and the proposals on profit distribution;
- approving the annual budget;
- other matters provided by the Law on Entrepreneurs and the Charter.

In accordance with the Law of Georgia on the Securities Market, GRPO, as a reporting entity, has set up an audit committee that controls accuracy of financial reports of the Issuer and ensures the efficiency of internal control systems. The audit committee was established on 23 September 2022, the chairperson of which is independent member of the Supervisory Board of the Issuer.

6. The process of preparing consolidated financial statements

The reporting and budgeting department is responsible for the preparation of consolidated financial statements. The department should provide not only a presentation of the Group's financial performance, but also a description of its activities, operating environment and accounting policies. The consolidated financial statements of the Group are approved by the financial and general directors. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022.

A non-financial report

7. Non-financial indicators

During FY22, the wind and hydropower plants included in the Group produced a total of 268,329 megawatt hours of electricity.

During 2022 operational hydro power plants of the Group showed exceptional availability of more than 99%. This metric shows how efficiently the power plant is operating and how often are there unscheduled stoppages over a period of time. Availability- is calculated based on the power plant hours worked divided by the full working time (excluding time spent due to planned maintenance). From the table below we see that unplanned stoppages are less than 1% for the Group's power plants.

HPP	Availibility %
Mestiachala M2	99.7%
Akhmeta	99.9%
Debeda	99.2%
Kasleti 2	99.2%

8. Credit, market, liquidity and cash flow risks and mechanisms for their management

Currency risk

Volatility of the exchange rate of the national currency, GEL, against USD/other currencies of economically related countries may have a material adverse effect on the Group's activities. Given its mode of activities, the Group has a sort of natural protection against currency risks related to loan liabilities, because its revenues, much like its loan liabilities, are largely denominated in USD (Financial assets/liabilities per currency is shown in subsection "Financial Condition"). At the same time, the Group's revenue under its Power Purchase Agreements ("PPA") is denominated in USD. In addition, sales to third parties on the open market are typically conducted in USD rather than Georgian GEL. This effectively provides the Group with a hedge against GEL depreciation, which is particularly valuable given 2022 fluctuations in the USD/GEL exchange rate. In addition, sale to third party in open market is denominated in USD or is tied to ESCO balancing price which is dependent on import denominated in USD and PPA prices. In 2021-2022 the Group did not export electricity and 100% of sale happened in local market. In accordance with Georgian legislation, local transactions are executed in GEL, although every agreement is directly or indirectly denominated in USD. As interest-bearing liabilities are denominated in foreign currency, namely in USD, financial expenses are also in USD.

Market risks

The Group sells electricity mainly to ESCO in terms of long-term Power Purchase Agreements ("PPA"), but in months which PPA does not cover, the Group takes market risks, which can be expressed in two sub-risks, which are 1) risk of finding off-taker and 2) market price risk;

In the non-PPA period, power plants may sell electricity via a bilateral agreement to any off-taker or sell to ESCO as balancing electricity. After the start of operation of DAM and the Intraday market ("IDM"), the power plants will have two additional channels for power sales, and off-taker risk will be almost fully eliminated. Currently if the power plant neither has PPA nor a bilateral agreement, according to applicable market rules, ESCO pays them the lowest regulated HPP price during the summer months (May to August) or the highest TPP price in winter months (September to April). As of 2022, Enguri HPP has the lowest regulated price of 1.857 Tetri/kWh set for the 2021-23 period – in case of non-existence of the bilateral agreement, this would be the ESCO settlement price. Considering the deficit in recent years, the Group always managed to sell the electricity according to the direct contract and sale to ESCO was less than 0.1%. As mentioned above, the volumes can easily be traded on these markets after the launch of DAM and IDM. The launch of DAM and IDM will not affect PPAs with ESCO - the tariff, other terms of payment, term of agreement will remain the same.

Ability to generate, distribute and supply electricity is dependent upon the Georgian transmission system.

The distribution of electricity to the Group's distribution networks, as well as the distribution of electricity to customers, is dependent upon the infrastructure of the transmission systems in Georgia. The Group has no control over the operation of the transmission system and it is entirely reliant on the System Operator, which is a state-owned entity. Any failure in the transmission system in Georgia, including as a result of natural disasters, insufficient maintenance or inadequate development, could prevent the Group from distributing electricity to its end customers. As a result, any failure in the transmission system could in turn have an adverse effect on the Group's business, results of operations and financial condition.

Environmental, health and safety laws

The Group is subject to various environmental and health and safety laws and regulations governing, among other things, pollution caused by the Group's operations and the health and safety of the Group's employees. The Group is also required to obtain environmental and safety permits from various governmental authorities for its operations.

Although environmental laws and regulations have an increasing impact on the Group's activities, it is impossible to predict accurately the effect of future developments in such laws and regulations on the Group's business. While the Group has budgeted for future capital and operating expenditures to comply with current environmental and health and safety laws, it is possible that any of these laws may change or become more stringent in the future or that new laws may be adopted. Any of the foregoing could have a material adverse effect on the Group's business, results of operations and financial condition.

9. Corporate-social responsibilities

The Group is aware of its corporate responsibility and believes that it can contribute to the sustainable development of society. The Group considers key stakeholders (customers, shareholders, employees, creditors) to develop business strategies and improve operations.

Within the framework of social responsibility, the Group conducts full environment and social monitoring process on regular bases; reports any social related issues and taking corrective actions. The Group cooperates with central and local government bodies, with non-government organizations and supports and finances cultural, educational and sport activities in areas Group operates.

The Group is subject to various environmental, health and safety laws and regulations that regulate, among other things, the pollution caused by Group operations and the health and safety of Group employees. The Group is also required to obtain environmental and safety permits from various government agencies for its operations.

The Group has established environmental standards that apply to its operations. Although, as of the date of this Management Report, the Group is in compliance with all applicable Georgian environmental, health and safety regulations in all material respects. It cannot guarantee that all requirements will be met in the future. If the Group does not comply with these regulations, it can be held responsible for sanctions and/or the consequences of breaching contractual obligations.

10. Protection of human rights

Basic human rights, including labor rights, are protected fully in the Group. Explanations about the mentioned rights are given extensive space in the labor regulations of the subsidiaries, which together with the labor code are available to all employees of the companies.

The Group offers equal employment opportunities to all candidates regardless of race, religion, gender, nationality, age, etc. This policy applies to all employment situations, including: hiring, promotion, contracting, compensation, training and other employment law actions.

11. Corruption

The Group conducts its business activities in compliance with ethical principles, as well as in accordance with applicable domestic and international anti-corruption requirements and international practices. The Group's anti-bribery and anti-corruption policy is based on Georgian legislation and regulations and international standards.

The Group's Anti-Bribery and Anti-Corruption Policy prohibits the transfer or offer of any benefit of value to any person, as well as the acceptance or encouragement of any benefit from any person with a corrupt motive, such as giving an undeserved reward or favor to a public official or to obtain an illegal business advantage for a private person.

12. Training, qualification and career development

The Group pays great attention to train and raise the qualifications of its personnel. These training consist of not only their field related and technical, but also cross-segment and HS&E related qualifications. As a result of these trainings employees are able to deepen their field knowledge and widen their Social & Environmental overview. Skilled and well performed employees are given opportunity to develop and get promoted in the Group.

By training employees, the Group creates professionals with the help of which it plans to implement various projects.

13. Caring for the safety of employees

Trainings are often conducted on how to maintain a safe working environment. In order to protect safety for employees, contractors, visitors and any other stakeholders, the Group implements standards that are stipulated in agreed occupational Health & Safety Policy. The Group implements safety hazard and near miss reporting system and conducts monthly safety reporting. All the incidents and accidents and investigated and corrective action items are set with responsible parties fully involved.

14. Major risks and uncertainties

Under normal business conditions, the Group has the risk that the demand for electricity in the country reduce and accordingly affect the market prices. Demand for electricity is mainly determined by the level of economic activity in Georgia. Since the functional currency of the Group is USD, the Group is also exposed to depreciation of US Dollar against the GEL.

15. Strategies and future developments

The Georgian Renewable Power Holding JSC ("GRPH" or "Parent") plans to develop 172MW installed capacity power plants in the medium term: Zoti HPP (46MW), Tbilisi and Kaspi WPPs (108MW) and Darchi HPP (18MW). The business aims to establish a renewable energy platform with growing dollar-linked cash flows and profitability.

Note*: The Group was not involved in Research and Development (R&D) activities in 2022.

Approved for issue and signed on behalf of Georgia Renewable Power Operations JSC on 11 May 2023:

Zurab Gordeziani
General Director

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