# Georgian Renewable Power Operations JSC (Georgia Global Utilities JSC Energy Segment)

## Combined carve-out financial statements

*for the years ended 31 December 2021 and 2020*
*with independent auditor's report*

*(Amounts expressed in thousands of Georgian Lari)*

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## Independent auditor's report

## Combined carve−out financial statements



## Notes to the combined carve−out financial statements

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# Independent auditor's report

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

***Opinion***

We have audited the combined carve-out financial statements of Georgia Renewable Power Operations JSC and its certain entities under common control (hereinafter, the "Group"), which comprise the combined carve-out statements of financial position as at 31 December 2021, 31 December 2020 and 1 January 2020, and the combined carve-out statements of profit or loss and other comprehensive income, combined carve-out statements of changes in equity and combined carve-out statements of cash flows for the years ended 31 December 2021 and 31 December 2020, and notes to the combined carve-out financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined carve-out financial statements present fairly, in all material respects, the combined carve-out financial position of the Group as at 31 December 2021, 31 December 2020 and 1 January 2020 and its combined carve-out financial performance and its combined carve-out cash flows for the years ended 31 December 2021 and 31 December 2020 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 combined carve-out 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.

***Responsibilities of management and Supervisory Board for the combined carve-out financial statements***

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

In preparing the combined carve-out 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.

Supervisory Board is responsible for overseeing the Group's financial reporting process.

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***Auditor's responsibilities for the audit of the combined carve-out financial statements***

Our objectives are to obtain reasonable assurance about whether the combined carve-out 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 combined carve-out 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 combined carve-out 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 combined carve-out 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 combined carve-out financial statements, including the disclosures, and whether the combined carve-out 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 combined carve-out 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 Supervisory Board 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.

Ruslan Khoroshvili

On behalf of EY LLC

Tbilisi, Georgia

5 August 2022

## Combined carve-out statement of financial position

## For the year ended 31 December 2021

*(Amounts expressed in thousands of Georgian Lari)*

| | Note | 31 December 2021 | 31 December 2020 | 1 January 2020 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non−current assets** | | | | |
| Property, plant and equipment | 6 | 300,597 | 364,349 | 319,936 |
| Right−of−use assets | 22 | 1,254 | 1,279 | 699 |
| Other non−current assets | 7 | 1,143 | 987 | 539 |
| **Total non−current assets** | | **302,994** | **366,615** | **321,174** |
| **Current assets** | | | | |
| Inventories | | 406 | 365 | 129 |
| Trade and other receivables | 8 | 2,366 | 1,762 | 2,067 |
| Loans issued | | 14 | 164 | 82 |
| Prepaid taxes other than income tax | | 1,262 | 1,440 | 2,164 |
| Reimbursement assets | 6 | 2,318 | 2,808 | 46,457 |
| Financial assets held for trading | 21 | 8,122 | – | – |
| Prepayments | | 369 | 284 | 102 |
| Restricted cash | 20 | – | – | 6,581 |
| Cash at bank | 20 | 36,948 | 63,262 | 20,218 |
| **Total current assets** | | **51,805** | **70,085** | **77,800** |
| **Total assets** | | **354,799** | **436,700** | **398,974** |
| **Equity** | | | | |
| Merger reserve | 9 | 84,664 | 104,664 | 84,370 |
| Retained earnings | | (60,135) | (14,617) | (436) |
| Other reserves | 9 | 18,305 | 22,434 | 5,061 |
| **Equity attributable to the owners of the parent** | | **42,834** | **112,481** | **88,995** |
| Non−controlling interests | 9 | – | – | 24,895 |
| **Total equity** | | **42,834** | **112,481** | **113,890** |
| **Liabilities** | | | | |
| **Non−current liabilities** | | | | |
| Borrowings and bonds issued | 10 | 297,648 | 308,549 | 255,908 |
| Lease liabilities | 22 | 1,191 | 1,140 | 605 |
| Other non−current liabilities | 18 | 550 | 1,472 | 1,436 |
| **Total non−current liabilities** | | **299,389** | **311,161** | **257,949** |
| **Current liabilities** | | | | |
| Borrowings and bonds issued | 10 | 9,680 | 10,098 | 18,483 |
| Trade and other payables | 11 | 972 | 1,814 | 1,448 |
| Lease liabilities | 22 | 118 | 97 | 52 |
| Other current liabilities | 12 | 1,185 | – | 5,479 |
| Taxes payable other than income tax | | 621 | 1,049 | 1,673 |
| **Total current liabilities** | | **12,576** | **13,058** | **27,135** |
| **Total liabilities** | | **311,965** | **324,219** | **285,084** |
| **Total liabilities and equity** | | **354,799** | **436,700** | **398,974** |

Approved for issue and signed on behalf of Georgia Renewable Power Operations JSC on 5 August 2022:

Zurab Gordeziani
Chief Executive Officer

Nana Mshvidobadze
Chief Financial Officer

*The accompanying notes on pages 5 to 27 are an integral part of these combined carve−out financial statements*

## Combined carve-out statement of profit or loss and other comprehensive income

## For the year ended 31 December 2021

*(Amounts expressed in thousands of Georgian Lari)*

| | *Note* | *2021* | *2020* |
|---|---|---|---|
| Revenue from electric power sales | 13 | 43,309 | 38,258 |
| Business interruption reimbursement gain | 6 | 587 | 4,252 |
| Other revenue | | 55 | − |
| **Total revenue and gains** | | **43,951** | **42,510** |
| Electricity and transmission costs | | (524) | (221) |
| Salaries and other employee benefits | 14 | (929) | (1,063) |
| Taxes other than income tax | | (2,480) | (2,536) |
| Other general and administrative expenses | | (329) | (376) |
| Professional fees | 15 | (732) | (677) |
| Raw materials, fuel and other consumables | | (285) | (55) |
| Maintenance expenditure | | (2,631) | (2,801) |
| Other operating expenses | 16 | (1,963) | (1,734) |
| | | **(9,873)** | **(9,463)** |
| **EBITDA** | | **34,078** | **33,047** |
| Finance income | | 1,293 | 355 |
| Finance costs | 17 | (24,873) | (23,772) |
| Net foreign exchange loss | | (25) | (1,301) |
| Depreciation and amortisation | 6,7, 22 | (12,580) | (12,640) |
| Impairment of property plant and equipment | 6 | (36,595) | − |
| Reassessment of estimates related to Eurobonds refinancing | 10 | (2,766) | − |
| Loss on extinguishment of financial liabilities | 10 | − | (10,002) |
| Non−recurring expenses, net | 18 | (4,050) | (575) |
| **Loss before income tax expense** | | **(45,518)** | **(14,888)** |
| Income tax expense | | − | − |
| **Loss for the year** | | **(45,518)** | **(14,888)** |
| **Attributable to:** | | | |
| Owners of the parent | | (45,518) | (14,152) |
| Non−controlling interests | | − | (736) |
| **Other comprehensive income** | | | |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods* | | | |
| Exchange differences arising on translation to presentation currency | | (4,129) | 15,298 |
| **Net other comprehensive income not to be reclassified to profit or loss in subsequent periods** | | **(4,129)** | **15,298** |
| **Other comprehensive (loss) income for the year** | | **(4,129)** | **15,298** |
| **Total comprehensive (loss) income for the year** | | **(49,647)** | **410** |
| **Attributable to:** | | | |
| Owners of the parent | | (49,647) | 2,604 |
| Non−controlling interests | | − | (2,194) |

*The accompanying notes on pages 5 to 27 are an integral part of these combined carve−out financial statements*

## Combined carve-out statement of changes in equity

## For the year ended 31 December 2021

*(Amounts expressed in thousands of Georgian Lari)*

| | *Merger reserve* | *Other reserves* | *Retained earnings* | *Total equity attributable to owners of the parent* | *Non−controlling interests* | *Total equity* |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | **84,370** | **5,061** | **(436)** | **88,995** | **24,895** | **113,890** |
| Loss for the year | − | − | (14,152) | **(14,152)** | **(736)** | **(14,888)** |
| Other comprehensive income | − | 16,756 | − | **16,756** | **(1,458)** | **15,298** |
| **Total comprehensive income for the year** | **−** | **16,756** | **(14,152)** | **2,604** | **(2,194)** | **410** |
| Contributions from shareholders (Note 9) | 3,108 | − | − | **3,108** | − | **3,108** |
| Distributions to shareholders (Note 9) | (4,927) | − | − | **(4,927)** | − | **(4,927)** |
| Acquisition of non−controlling interest in existing subsidiaries (Note 9) | 22,113 | 617 | (29) | **22,701** | (22,701) | **−** |
| **Balance as at 31 December 2020** | **104,664** | **22,434** | **(14,617)** | **112,481** | **−** | **112,481** |
| Loss for the year | − | − | (45,518) | **(45,518)** | − | **(45,518)** |
| Other comprehensive loss | − | (4,129) | − | **(4,129)** | **−** | **(4,129)** |
| **Total comprehensive loss for the year** | **−** | **(4,129)** | **(45,518)** | **(49,647)** | **−** | **(49,647)** |
| Reduction of merger reserve (Note 9) | (20,000) | − | − | **(20,000)** | − | **(20,000)** |
| **Balance as at 31 December 2021** | **84,664** | **18,305** | **(60,135)** | **42,834** | **−** | **42,834** |

*The accompanying notes on pages 5 to 27 are an integral part of these combined carve−out financial statements*

## Combined carve-out statement of cash flows

## For the year ended 31 December 2021

*(Amounts expressed in thousands of Georgian Lari)*

| | Note | 2021 | 2020 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Loss before income tax** | | **(45,518)** | **(14,888)** |
| *Adjustments for:* | | | |
| Depreciation and amortisation | 6,7,22 | 12,580 | 12,640 |
| Net foreign exchange losses | | 25 | 1,301 |
| Finance income | | (1,293) | (355) |
| Finance costs | 17 | 24,873 | 23,772 |
| Loss on extinguishment of financial liabilities | | − | 10,002 |
| Business interruption reimbursement gain | 6 | (587) | (4,252) |
| Impairment of property plant and equipment | 6 | 36,595 | − |
| Non−recurring expenses, net | | 3,381 | 575 |
| Non−current assets write−off | | (568) | − |
| Reassessment of estimates related to Eurobonds refinancing | 10 | 2,766 | − |
| *Working capital changes* | | | |
| Change in inventories | | (41) | (236) |
| Change in trade and other receivables | | (604) | 305 |
| Change in prepaid taxes other than income tax | | 178 | 724 |
| Change in prepayments | | (85) | (182) |
| Change in trade and other payables | | (842) | 941 |
| Changes in reimbursement asset | | 587 | 11,246 |
| Change in other tax payables | | (428) | (624) |
| Change in restricted cash | | − | 6,581 |
| **Operating cash flows before investments in trading securities** | | **31,019** | **47,550** |
| Net investment in trading securities | | (8,308) | − |
| **Net cash flows from operating activities** | | **22,711** | **47,550** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | | (7,055) | (12,280) |
| Reimbursement of property damage received | | − | 40,892 |
| Payment of deferred consideration for acquisition of subsidiaries | 12 | − | (6,008) |
| Loans repaid (issued) | | 146 | (71) |
| Interest received | | 897 | 355 |
| **Net cash (used in) from investing activities** | | **(6,012)** | **22,888** |
| **Cash flows from financing activities** | | | |
| Payment of principal portion of lease liabilities | | (231) | (245) |
| Proceeds from borrowings and debt securities issued | 10 | 2,525 | 294,709 |
| Repayment of borrowings and debt securities issued, including commission paid for loan prepayment | 10 | − | (298,537) |
| Interest paid | 10 | (23,754) | (20,238) |
| Bond issuance commissions and costs paid | | − | (4,435) |
| Contributions from the shareholders | 9 | − | 3,108 |
| Distributions to the parent | 9 | (20,000) | (4,927) |
| **Net cash used in financing activities** | | **(41,460)** | **(30,565)** |
| Effect of exchange rate changes on cash and cash equivalents | | (1,553) | 3,171 |
| **Net change in cash and cash equivalents** | | **(26,314)** | **43,044** |
| Cash and cash equivalents at the beginning of year | 20 | 63,262 | 20,218 |
| **Cash and cash equivalents at the end of year** | 20 | **36,948** | **63,262** |

*The accompanying notes on pages 5 to 27 are an integral part of these combined carve−out financial statements*

*(Amounts expressed in thousands of Georgian Lari)*

## 1. Corporate information

Georgia Global Utilities JSC ("GGU" or "the Parent") is a Georgian−based holding that operates, 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").

GGU is the issuer of USD 250 million Eurobonds listed on Irish Stock Exchange in July 2020. Prior to and in connection with the Eurobonds issuance in 2020, Georgia Capital JSC (GCAP), the controlling shareholder of GGU, contributed to GGU a number of subsidiaries comprising GGU Energy Segment in exchange of shares issued by GGU (Note 9). This contribution was accounted for as a business combination under common control under pooling of interest method (with restatement of comparative information) in GGU's consolidated financial statements.

The GGU's and its subsidiaries' registered address is 10 Medea (Mzia) Jugheli Str., 0179, Tbilisi, Georgia.

As at 31 December 2021, 2020 and 1 January 2020 GCAP owned 100% in GGU. GCAP is wholly owned by Georgia Capital plc (the ultimate parent of GGU at those dates), an entity incorporated in England and premium−listed on London Stock Exchange.

On 31 December 2021 Georgia Capital plc announced that GCAP will 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.

The first stage of the transaction, completed in February 2022 (Note 9), involved the initial sale of a 65% equity interest in GGU (representing an 80% economic interest in the water utility business).

The second stage of the transaction will follow the planned redemption in third quarter 2022 of USD 250 million Eurobond issued by GGU will be 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 will recover full ownership of Group's renewable energy assets, and Aqualia's ownership in the water utility business will increase to 80%. The second stage of the transaction is expected to be completed by the end of September 2022.

Pursuant to the above, in 2022 GGU and its subsidiaries ("GGU Group") initiated a corporate reorganization in order to spin−off its GGU Energy Segment to GCAP. In June 2022, the Parent established a 100% owned subsidiary Georgia Renewable Power Operations JSC ("the Company" or "GRPO")) and initiated a plan (expected to be completed in August−September 2022) to transfer GGU's Energy Segment subsidiaries to GRPO in exchange for GRPO issuing its equity instruments. GRPO will then aim at the issuance of the local bonds and their listing on Georgian Stock Exchange. At the date of approval of these combined carve-out financial statements, the transfer of GGU's Energy Segment subsidiaries listed in "Basis of carve-out and combination" section in Note 2 below, has not been completed.

In the view of the bonds listing and in order to reflect the effects of reorganization through the spin−off of GGU Energy Segment and establishment of GRPO, the management of GGU Energy Segment prepared these combined carve−out financial statements of GRPO for the year ended 31 December 2021.

## 2. Basis of preparation

*Statement of compliance*
These combined carve−out financial statements have been prepared in accordance with International Financial reporting standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

*Basis of carve−out and combination*
These combined carve−out financial statements have been prepared from the financial statements of the combined entities as if GRPO has been established and the GGU Group reorganization 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 below (collectively referred to as "GRPO subsidiaries" or "the Group") were recognized in these combined carve−out financial statements 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:

| | ***Country of incorporation*** | ***Date of acquisition/ incorporation*** | ***31 December 2021*** | ***31 December 2020*** | ***1 January 2020*** |
|---|---|---|---|---|---|
| Svaneti Hydro JSC ("SH")* | Georgia | 20 April 2017 | 100% | 100% | 65% |
| Georgia Energy Holding LLC** | Georgia | 26 September | − | − | 100% |
| Hydrolea LLC ("HYDL"): | Georgia | 28 October 2019 | 100% | 100% | 100% |
| Geoenergy LLC | Georgia | 28 October 2019 | 100% | 100% | 100% |
| Hydro Georgia LLC | Georgia | 28 October 2019 | 100% | 100% | 100% |
| Kasleti 2 LLC | Georgia | 28 October 2019 | 100% | 100% | 100% |
| Darchi LLC | Georgia | 28 October 2019 | 100% | 100% | 100% |
| Georgia Wind Company LLC**: | Georgia | 18 June 2019 | − | − | 100% |
| Qartli Wind Farm LLC ("QWF") | Georgia | 31 December 2019 | 100% | 100% | 100% |

*(Amounts expressed in thousands of Georgian Lari)*

## 2. Basis of preparation (continued)

* As at 1 January 2020, RP Global, an Austrian based business controlled by Dr. Gerhard Matzinger and the family, owned 35% non−controlling interest stake in SH. In 2020, GCAP acquired additional 35% in SH, which was contributed to GGU in exchange for its equity instruments, making GGU 100% shareholder of SH as at 31 December 2020.
** Georgia Energy Holding LLC and Georgia Wind Company LLC were legally merged with GGU in 2020.

In preparing these combined carve−out financial statements, the following adjustments and allocations of GGU's holding company assets, liabilities, income, expenses and cash flows have been made:

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 (GEL 304.6) and USD 97.2 (GEL 318.5) of GGU's 2020 USD 250 million Eurobonds in these combined carve−out financial statements as at 31 December 2021 and 31 December 2020. Finance costs attributable to this allocated debt were recognized in the combined carve−out 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 combined carve−out out statement of cash flows. No liability for the financial guarantee issued by SH, HYDL and QWF in respect of the GGU Eurobonds was recognized in these combined carve−out financial statements to avoid double−counting of liabilities.

2) As at 31 December 2021 and 2020, GEL 8,122 and GEL 3,336 trading financial assets and cash balance, respectively, allocated from GGU, were recognized in the combined carve−out 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 332 and GEL 343 for the years ended 31 December 2021 and 2020, respectively, and representing Renewable Energy's attributed share in GGU holding company's running costs of doing business.

The difference between the Group's assets and liabilities determined as described above, is presented as equity in the combined carve−out statement of financial position. Considering that as at 31 December 2021, GRPO had not yet been incorporated, no share capital is presented in these carve-out combined financial statements. Instead, the Group presents merger reserve as a balancing equity component (Note 9). Merger reserve will be eliminated and replaced with share capital and share premium or equivalent accounts upon incorporation of GRPO.

Subsidiaries controlled by entities that comprise these combined carve−out financial statements are consolidated. 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.

Generally, there is a presumption that a majority of voting rights results in 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 combined carve−out 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.

*General*

These combined carve−out financial statements have been prepared on a going concern basis and under the historical cost convention, except for trading financial assets measured at fair value through profit or loss.

These combined carve−out financial statements have been presented in thousands of Georgian Lari (GEL), except otherwise stated.

*(Amounts expressed in thousands of Georgian Lari)*

## 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.

In March 2020, the World Health Organization confirmed the novel coronavirus ("COVID−19") as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on Georgian economy. First COVID−19 infection was confirmed by the National Centre for Disease Control ("NCDC") in February 2020. The Government of Georgia has introduced number of measures aimed at containment of the spread of COVID−19, which have significant social and economic impact. The Group is monitoring impact of COVID−19 outbreak on its business, customers and employees and follows the official guidance introduced by the Government of Georgia to safeguard its people and to maintain business continuity.

*Impairment of property, plant and equipment*

The management of the Group concluded that COVID−19 outbreak did not have a material impact on recoverability of the electric power generation. The terminal value of the electric power generation were not significantly affected by the current economic downturn. The management assessed that no significant decrease in operating free cash flows from the energy business assets is expected that would result in their recoverable amount, at the level of individual assets or cash−generating unit, to be less than their carrying value as at 31 December 2021 and 2020, except for the assets of Mestiachala 1, being physically damaged due to rock avalanche event (Note 6).

## 4. Summary of significant accounting policies

### 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 combined carve−out 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.
- Amendments to IFRS 3: *Reference to the Conceptual Framework* – effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.
- Amendments to IAS 16: *Property, Plant and Equipment: Proceeds before Intended Use* – effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.
- Amendments to IAS 37: *Onerous Contracts – Costs of Fulfilling a Contract* – effective for annual reporting periods beginning on or after 1 January 2022.
- IFRS 1 *First−time Adoption of International Financial Reporting Standards* – Subsidiary as a first−time adopter – effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.
- IFRS 9 *Financial Instruments* – Fees in the '10 per cent' test for derecognition of financial liabilities – effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.
- IAS 41 *Agriculture* – Taxation in fair value measurements – effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.
- *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.

*(Amounts expressed in thousands of Georgian Lari)*

## 4. Summary of significant accounting policies (continued)

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 combined carve−out financial statements.

### Fair value measurement

The Group measures financial instruments, such as trading financial assets, and certain non−financial assets such as investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 20.

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 combined carve−out 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 combined carve−out 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, 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, restricted cash 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.

*(Amounts expressed in thousands of Georgian Lari)*

## 4. Summary of significant accounting policies (continued)

### Financial assets (continued)

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.

***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 entity 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.

*(Amounts expressed in thousands of Georgian Lari)*

## 4. Summary of significant accounting policies (continued)

### Derecognition of financial instruments (continued)

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.

*Financial liabilities*

All of the Group's financial liabilities, including borrowings, bonds issued and trade and other payables, are carried at amortised cost. The Group's borrowings comprise of an allocation of the Parent's debt securities issued (Note 10), loans from Georgian and international financial institutions and loans from other entities.

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 combined carve−out 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 combined carve−out 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.

*(Amounts expressed in thousands of Georgian Lari)*

## 4. Summary of significant accounting policies (continued)

### 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 include acquired software licenses and 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.

### 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.

### 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 and restricted cash

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. Restricted balances are excluded from cash at bank for the purposes of the cash flow statement. Balances restricted from being immediately exchanged or used to settle a liability at discretion of the Group are included in restricted cash separately.

### Merger reserve

For the purposes of these combined carve−out financial statements, the Group presents merger reserve as a balancing equity component. Merger reserve will be eliminated and replaced with share capital and share premium or equivalent accounts upon incorporation of GRPO. Merger reserve movements include those related to contribution of GGU Energy Segment subsidiaries to GGU by GCAP in 2020, 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).

### 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 combined carve−out 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.

### 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 combined carve−out 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 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 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)

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 2021 and 2020 were GEL 3.0976 and 3.2766 to 1 USD, respectively.

In accordance with statutory requirement the Group's presentation currency is GEL. Items in the 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 combined carve−out 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.

### Operating segment

As at 31 December 2021, 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 combined carve−out 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 were several external customers− ESCO and related party company GETC, that accounted for 88% of Group's revenue in 2021 (2020: 93%). Total revenue recognized from ESCO and GETC in 2021 amounted to GEL 38.2 (2020: GEL 35.7).

### 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.

*EBITDA*

The Group separately presents EBITDA on the face of combined carve−out 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, interest income, finance costs, net foreign exchange losses, loss on extinguishment of financial liabilities, reassessment of estimates related to Eurobonds refinancing, impairment expense and non−recurring expenses.

*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.

*(Amounts expressed in thousands of Georgian Lari)*

## 4. Summary of significant accounting policies (continued)

### Income and expense recognition (continued)

*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 combined carve−out 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 combined carve−out financial statements as disclosed in Note 2, judgements that have the most significant effect on the amounts recognized in the combined carve−out 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 2021 and 2020 and as at 1 January 2020, 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, except as in relation to an impairment due to physical damage or loss event. In case of any impairment as a result of physical damage or destruction of assets, the Group assesses the extent of such damage for each individual item and writes−off respective items of the property, plant and equipment that are no longer usable. Such assessment requires judgment in determination whether the assets can be usable. During 2021, the Group wrote−off GEL 36,595 of property, plant and equipment related to Svaneti Hydro LLC impairment of property, plant and equipment due to physical damage sustained in 2019 rock avalanche event. The additional impairment resulted from Group's decision not to pursue rehabilitation of the damaged HPP made in 2021 following careful evaluation of the rehabilitation project risks and Group's investment alternatives.

### 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 2021, 31 December 2020 and 1 January 2020 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

The movements in property, plant and equipment in 2020 were as follows:

| | *Land plots* | *Buildings* | *Energy Infrastructure assets* | *Vehicles* | *Fixtures and fittings* | *CIP* | *Total* |
|---|---|---|---|---|---|---|---|
| **Historical cost 1 January 2020** | **1,161** | **69,216** | **251,693** | **408** | **146** | **177** | **322,801** |
| Additions | – | – | 9,037 | 331 | 1,212 | 868 | **11,448** |
| Currency translation | 166 | 9,879 | 36,167 | 81 | 59 | 63 | **46,415** |
| **31 December 2020** | **1,327** | **79,095** | **296,897** | **820** | **1,417** | **1,108** | **380,664** |
| **Accumulated depreciation and impairment** | | | | | | | |
| **1 January 2020** | **–** | **354** | **2,408** | **19** | **84** | **–** | **2,865** |
| Depreciation charge | – | 2,711 | 9,842 | 16 | 6 | – | **12,575** |
| Currency translation | – | 147 | 713 | 3 | 12 | – | **875** |
| **31 December 2020** | **–** | **3,212** | **12,963** | **38** | **102** | **–** | **16,315** |
| **Net book value** | | | | | | | |
| **1 January 2020** | **1,161** | **68,862** | **249,285** | **389** | **62** | **177** | **319,936** |
| **31 December 2020** | **1,327** | **75,883** | **283,934** | **782** | **1,315** | **1,108** | **364,349** |

The movements in property, plant and equipment in 2021 were as follows:

| | *Land plots* | *Buildings* | *Energy Infrastructure assets* | *Vehicles* | *Fixtures and fittings* | *CIP* | *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** |
| **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** |
| **Net book value** | | | | | | | |
| **31 December 2020** | **1,327** | **75,883** | **283,934** | **782** | **1,315** | **1,108** | **364,349** |
| **31 December 2021** | **1,255** | **69,146** | **223,752** | **755** | **1,248** | **4,441** | **300,597** |

As at 31 December 2021 and 2020, the Group has no property, plant and equipment pledged as collateral for its borrowings. As at 1 January 2020, the Group pledged GEL 236,125 of its property, plant and equipment as collateral for its borrowings.

In July 2019, a rock avalanche event in the valley of the Mestiachala river caused damage to the Mestiachala HPPs and the surrounding infrastructure. As a result of the rock avalanche event, Mestiachala HPPs were damaged and stopped operations. Mestiachala 2 HPP resumed generation in December 2019.

*(Amounts expressed in thousands of Georgian Lari)*

## 6. Property, plant and equipment (continued)

As at 31 December 2020 and 1 January 2020, in relation to the Mestiachala 1 loss event, the Group recognized a reimbursement assets (insurance claim receivable) from an insurance company, an entity under common control, of GEL 2,808 (1 January 2020: GEL 46,457) in the combined carve−out statement of financial position with related business interruption reimbursement income of GEL 4,252 in the combined carve−out statement of comprehensive income for the year ended 31 December 2020 included in Business interruption reimbursement gain.

During 2021, the Group remeasured the reimbursement assets previously recognized, based on revised agreement with the insurer. As a result of the amendment, the reimbursement assets in the amount of GEL 2,158 was written−off in non−recurring expenses. Remaining portion of reimbursement asset has been received by the Group during 2021 in cash. Hence, as at 31 December 2021, in relation to the mentioned loss event, no reimbursement assets were outstanding.

For Mestiachala 1 HPP, in addition to the impairment and write-off of the damaged assets that was recognized in 2019, and in line with the outcome of the comprehensive cost and feasibility assessment, the restoration process of the HPP has been suspended indefinitely in 2021. Hence, as at 31 December 2021, impairment of the remaining assets of Mestiachala 1 HPP was recognized resulting in GEL 36,595 impairment charge in profit or loss for 2021. The management considered that recoverable amount for Mestiachala 1 HPP was equal to the scrap value of the associated assets (GEL 2,618 as at 31 December 2021) as after the damage the HPP is not able to generate any cash inflows.

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 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 1,731. Respective net loss of GEL 263 is included in non−recurring items in the combined carve−out statement of profit or loss and comprehensive income for 2021.

In relation to the above Kasleti loss event, the Group also recognized reimbursement asset and business interruption reimbursement gain in the amount of GEL 587 in the combined carve−out statement of profit or loss and other comprehensive income for the year ended 31 December 2021.

## 7. Other non−current assets

| | *31 December 2021* | *31 December 2020* | *1 January 2020* |
|---|---|---|---|
| Intangible assets | 836 | 178 | 73 |
| Prepayments for non−current assets | 114 | 635 | 376 |
| Other non−current assets | 193 | 174 | 90 |
| **Total other non−current assets** | **1,143** | **987** | **539** |

Historical cost of intangible assets and accumulated amortization as at 31 December 2021 amounted to GEL 988 and GEL 152, respectively (2020: GEL 308 and GEL 130, 1 January 2020: GEL 187 and GEL 114, respectively).

Intangible assets amortization charge, including software licenses, was GEL 22 in 2021 (2020: GEL 16).

## 8. Trade and other receivables

| | *31 December 2021* | *31 December 2020* | *1 January 2020* |
|---|---|---|---|
| **Current** | | | |
| Trade receivables from electric power sales | 2,366 | 1,762 | 2,067 |
| **Total restructured trade receivables, net** | **2,366** | **1,762** | **2,067** |

As at 31 December 2021, carrying amount of trade and other receivables equals GEL 2,366 (31 December 2020: GEL 1,762, 1 January 2020: GEL 2,067. Carrying amounts 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 2021 and 2020 and 1 January 2020.

*(Amounts expressed in thousands of Georgian Lari)*

## 9. Equity

### Merger reserve

As at 31 December 2021, GRPO was not incorporated. Accordingly, no share capital is presented in these combined carve−out financial statements. In accordance with the Group's accounting policy (Note 3), until incorporation of GRPO certain equity movements are presented within merger reserve:

| | ***Nominal amounts*** |
|---|---|
| **1 January 2020** | **84,370** |
| Capital contributions from shareholder (a) | 3,108 |
| Capital distributions (b) | (4,927) |
| Acquisition of non−controlling interest in existing subsidiaries (b) | 22,113 |
| **31 December 2020** | **104,664** |
| Reduction of merger reserve (b) | (20,000) |
| **31 December 2021** | **84,664** |

(a) In 2020, Svaneti Hydro JSC increased merger reserve in exchange for cash consideration from the shareholders of GEL 3,108.

(b) In 2020, Georgia Wind Company LLC decreased its charter capital by distributing GEL 4,927 to the shareholder.

(c) On 25 February 2020, GCAP acquired additional 34.4% in Georgian Renewable Power Company JSC and, as a result, became the 100% owner of Svaneti Hydro JSC. Following the acquisition, GCAP contributed the acquired 34.4% interest in SH to the Group. The Group reflected that non−cash transaction as acquisition of non−controlling interest in existing subsidiary in the combined carve−out statement of changes in equity resulting in decrease in equity attributable to non−controlling interests and increase in equity attributable to owners of the Immediate Parent (merger reserve) by GEL 22,113.

(d) In 2021, the Group recognized reduction in merger reserve in the combined carve−out statement of changes in equity attributed to GEL 20,000 distribution to the shareholder settled in cash through proceeds from GRPO subsidiaries

### Dividends

In 2021 and 2020 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, and foreign currency translation reserve. Movements in other reserves for the years ended 31 December 2021 and 2020 are largely attributed to other comprehensive (loss)/ income for the year related to currency translation reserve.

### 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 combined carve−out financial statements.

There were no changes in the objectives, policies or processes for managing capital in 2021 and 2020.

*(Amounts expressed in thousands of Georgian Lari)*

## 10. Borrowings and allocated debt securities issued

| | *31 December 2021* | | *31 December 2020* | | *1 January 2020* | |
|---|---|---|---|---|---|---|
| | ***Current liabilities*** | ***Non−current liabilities*** | ***Current liabilities*** | ***Non−current liabilities*** | ***Current liabilities*** | ***Non−current liabilities*** |
| Eurobonds issued allocated | 9,546 | 295,078 | 10,098 | 308,390 | − | − |
| Loans from International financial institutions | − | − | − | − | 5,350 | 44,960 |
| Loans from Georgian financial institutions | − | − | − | − | 12,989 | 175,402 |
| Loans from related parties | 134 | 2,570 | − | 159 | 144 | 35,546 |
| **Total borrowings** | **9,680** | **297,648** | **10,098** | **308,549** | **18,483** | **255,908** |

On 23 July 2020, GGU issued US Dollar 250 million green bonds, out of which USD 95.4 million was allocated on Energy Segment and recognized in these combined carve−out financial statements (Note 2). The senior unsecured US Dollar−denominated 7.75% green notes, with a 5−year non−call 2−year bullet maturity (“the Notes”), were settled on 30 July 2020. The Notes were issued and sold at par value. The Notes are 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 Notes were used to refinance major existing loan arrangements of the Group. The Group incurred loss on extinguishment of the financial liabilities, mostly related to the prepayment fees on the borrowings refinanced out of the Notes proceeds, in amount GEL 10,002, recognized in the combined carve−out statement of profit or loss and other comprehensive income in 2020.

As of 31 December 2021, the Group has recognized an allocation of USD−denominated Eurobonds issued of GEL 304,624 (2020: GEL 318,488).

As of 1 January 2020, the Group has recognized USD−denominated loan from International financial institutions− European Bank of Reconstruction and Development (“EBRD”) of GEL 50,310, USD−denominated loans obtained from local banks of GEL 188,390 and USD−denominated loans from GCAP of GEL 35,691.

As one of the conditions to demerger of the Group from GGU, GGU is obliged to redeem its Eurobonds in third quarter 2022 (Note 1), pursuant to which GGU intends to exercise 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 combined carve−out statement of profit or loss and other comprehensive income for the year ended 31 December 2021.

At 31 December 2021 and 2020, the Group does not have any undrawn borrowing facilities. As at 1 January 2020, the Group had GEL 13,627 undrawn loan facility from a local commercial bank.

As of 31 December 2021, the Group’s borrowings from entity under common control are denominated in USD with a fixed interest rate of 10% and with average maturity of 2 years (2020: fixed interest rate of 10% with average maturity of 2 years). The loan is related to the development of the Darchi HPP project.

Borrowings and allocated Eurobonds issued matures on average in 4 years (2020: 5 years).

In 2021, the Group incurred borrowings costs of GEL 24,587, (2020: GEL 23,641) of which GEL 134 has been capitalized to property, plant and equipment (2020: GEL nil).

*(Amounts expressed in thousands of Georgian Lari)*

## 10. Borrowings and allocated debt securities issued (continued)

### Changes in liabilities arising from financial activities

| | *Borrowings* | *Eurobonds Issued* | *Lease liabilities* | Total |
|---|---|---|---|---|
| **Carrying amount at 1 January 2020** | **274,391** | **–** | **657** | **275,048** |
| Foreign currency translation | 19,249 | 19,151 | – | **38,400** |
| Cash proceeds | 160 | 294,549 | – | **294,709** |
| Cash repayments | (292,522) | (876) | (246) | **(293,644)** |
| Interest accrued | 13,348 | 10,313 | 111 | **23,772** |
| Interest paid | (20,127) | – | (111) | **(20,238)** |
| Commission paid for loan prepayment | (5,139) | – | – | **(5,139)** |
| Loss on extinguishment of financial liabilities | 10,002 | – | – | **10,002** |
| Other | 797 | (4,649) | 826 | **(3,026)** |
| **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** |

## 11. Trade and other payables

| | *31 December 2021* | *31 December 2020* | *1 January 2020* |
|---|---|---|---|
| Trade payables | 941 | 1,782 | 1,448 |
| Other payables | 31 | 32 | – |
| **Total trade and other payables** | **972** | **1,814** | **1,448** |

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

## 12. Other current liabilities

On 28 October 2019, the Group acquired 100% equity interest in Hydrolea LLC, operator of three HPPs with an aggregate 21MW installed capacity. Deferred consideration with a fair value of GEL 5,479 as at is presented in other current liabilities in the combined carved−out statement of financial position as at 1 January 2020. The Group settled the outstanding consideration in full and paid GEL 6,008 to the former shareholders during 2020.

As at 31 December 2021, other current liabilities represent termination−related cash−based employee compensation (Note 18).

## 13. Revenue from electric power sales

| | *2021* | *2020* |
|---|---|---|
| Revenue from electric power sales to legal entities | 11,499 | 9,808 |
| Revenue from electric power sales to government−related entities | 31,810 | 28,450 |
| **Total revenue from electric power sales** | **43,309** | **38,258** |

*(Amounts expressed in thousands of Georgian Lari)*

## 14. Salaries and other employee benefits

| | *2021* | *2020* |
|---|---|---|
| Salaries | 912 | 1,060 |
| Bonuses | 17 | 3 |
| **Total salaries and benefits** | **929** | **1,063** |

## 15. Professional fees

| | *2021* | *2020* |
|---|---|---|
| Consulting expenses | 526 | 501 |
| Legal and other professional fees | 206 | 176 |
| **Total professional fees** | **732** | **677** |

## 16. Other operating expenses

| | *2021* | *2020* |
|---|---|---|
| Insurance expense | 1,502 | 1,306 |
| Maintenance expenditure | 169 | 78 |
| Rent expenses related to short−term leases | 163 | 139 |
| Other expenses | 95 | 210 |
| Charity expenses | 34 | 1 |
| **Total other operating expenses** | **1,963** | **1,734** |

## 17. Finance costs

| | *2021* | *2020* |
|---|---|---|
| Interest expenses on borrowings and allocated Eurobonds measured at effective interest rate method | 24,587 | 23,641 |
| Interest expenses on lease liability | 161 | 111 |
| Bank fees and charges | 125 | 20 |
| **Total finance costs** | **24,873** | **23,772** |

## 18. Non−recurring expenses

| | *2021* | *2020* |
|---|---|---|
| Reassessment of insurance reimbursement asset (Note 6) | 2,158 | 575 |
| Termination−related cash−based employee compensation (a) | 1,185 | − |
| Income on grant related to Mestiachala 1 (b) | (794) | − |
| Technical due diligence service fee | 669 | − |
| Non−current assets write−off | 569 | − |
| Non−recurring expenses related to kasleti flood | 263 | − |
| **Total non−recurring (income)/expenses** | **4,050** | **575** |

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.

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 550, GEL 1,422 and GEL 1,387 as of 31 December 2021 and 2020 and 1 January 2020, 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)*

## 19. Commitments and contingencies

### Commitments

As at 31 December 2021 and 2020 and 1 January 2020, certain entities of the Group (Qartli Wind Farm LLC, Svaneti Hydro JSC, Kasleti 2 LLC Geoenergy 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. 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
- Geoenergy HPP− February 2022

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.

### 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 combined carve−out financial position or results of operations. Management believes that the Group has paid and accrued all taxes that are applicable.

## 20. Financial instruments

Financial instruments overview

*Cash at bank*

Cash at bank as at 31 December 2021 and 2020 and 1 January 2020 includes the funds placed on current accounts in Georgian banks. All cash at bank balances are classified as current and not impaired. As of 1 January 2020 company held GEL 6,581 restricted cash that was placed in Citi Bank account as minimal cash reserve related to the EBRD loan agreement (Note 10).

*Trade receivables*
Trade receivables as at 31 December 2021 and 2020 and 1 January 2020 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 combined carve−out statement of financial position as at 31 December 2021 are represented by an allocated Eurobonds issued by GCAP, quoted on Irish Stock Exchange.

*(Amounts expressed in thousands of Georgian Lari)*

## 20. Financial instruments (continued)

*Fair value measurement*

Fair value measurement of all financial instruments held by the Group as at 31 December 2021 and 2020 and 1 January 2020, is performed using a valuation technique with quoted prices in active markets and market observable inputs.

Instruments measured at fair value in the combined carve−out statement of financial position include only trading securities as at 31 December 2021 with fair value of GEL 8,122, measured with reference to their bid price at the market that is not active (Level 2 of the fair value hierarchy).

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 allocated Eurobond liabilities as at 31 December 2021 and 2020 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 2021*** | | ***31 December 2020*** | | ***1 January 2020*** | |
|---|---|---|---|---|---|---|---|
| | ***Level*** | ***Carrying value*** | ***Fair value*** | ***Carrying value*** | ***Fair value*** | ***Carrying value*** | ***Fair value*** |
| **Financial assets** | | | | | | | |
| Reimbursement asset (Note 6) | Level 3 | 2,318 | 2,318 | 2,808 | 2,808 | 46,457 | 46,457 |
| Cash and cash equivalents | Level 1 | 36,948 | 36,948 | 63,262 | 63,262 | 26,799 | 26,799 |
| **Financial liabilities** | | | | | | | |
| Borrowings (Note 10) | Level 2 | 307,328 | 319,959 | 318,647 | 326,552 | 274,391 | 274,391 |
| Lease liabilities | Level 2 | 1,309 | 1,309 | 1,237 | 1,237 | 657 | 657 |
| Payables for non−current assets | Level 3 | 972 | 972 | 1,814 | 1,814 | 1,448 | 1,448 |

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

- the fair values of cash and cash equivalents, 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 floating rate borrowings was estimated to be equal to their carrying amount.

### 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 2021 and 2020 and 1 January 2020 currency risk arises from the EUR/GEL denominated cash and cash equivalents, trade and other payables and borrowings. As at 31 December 2021, the effect of reasonably possible change is disclosed in below table:

| **Currency** | ***Increase/ decrease in % 31 December 2021*** | ***Effect on profit 31 December 2021*** |
|---|---|---|
| GEL | 15% | 302 |
| GEL | −7% | (129) |

| **Currency** | ***Increase/ decrease in % 31 December 2021*** | ***Effect on profit 31 December 2021*** |
|---|---|---|
| EUR | 14% | 224 |
| EUR | −6% | (105) |

*(Amounts expressed in thousands of Georgian Lari)*

## 20. Financial instruments (continued)

As at 31 December 2020, the effect of reasonably possible change is disclosed in below table:

| Currency | Increase/ decrease in % 31 December 2020 | Effect on profit 31 December 2020 |
|---|---|---|
| GEL | 15% | 420 |
| GEL | −7% | (196) |

| Currency | Increase/ decrease in % 31 December 2020 | Effect on profit 31 December 2020 |
|---|---|---|
| EUR | 9% | 275 |
| EUR | −10% | (306) |

As at 1 January 2020, the effect of reasonably possible change is disclosed in below table:

| Currency | Increase/ decrease in % 1 January 2020 | Effect on profit 1 January 2020 |
|---|---|---|
| GEL | 10.00% | 1,207 |
| GEL | −5.00% | (603) |

| Currency | Increase/ decrease in % 1 January 2020 | Effect on profit 1 January 2020 |
|---|---|---|
| EUR | 11.00% | 159 |
| EUR | −8.00% | (115) |

*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 2021 and 2020 and 1 January 2020, the Group has no other significant financial assets subject to credit risk except for:

- Cash and cash equivalents: as at 31 December 2021 total cash and cash equivalents of GEL 36,948 (31 December 2020: GEL 63,262, 1 January 2020: GEL 20,218) was kept with Georgian banks having rating of “BB−/bb−” from Fitch Ratings;
- Trade and other receivables (Note 8).
- Trading securities issued by GCAP with fair value of GEL 8,122 as at 31 December 2021 (2020 and 1 January 2020: nil) with credit rating of B+ from S&P Global as at 31 December 2021.

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 that are neither past due nor impaired is appropriate and is constantly monitored in order to identify any potential adverse changes in the credit quality. There are no financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired. 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 2021 and 2020 and 1 January 2020 carrying values of financial instruments best represent their maximum exposure to the credit risk.

*(Amounts expressed in thousands of Georgian Lari)*

## 20. Financial instruments (continued)

*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 and trade and other payables.

The table below shows financial liabilities as at 31 December 2021 and 2020 and 1 January 2020 based on contractual undiscounted repayment obligations.

| | *Less than 1 year* | *1−3 years* | *3−5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|
| **As at 31 December 2021** | | | | | |
| Long−term and short−term borrowings and bonds issued | 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** |
| **As at 31 December 2020** | | | | | |
| Long−term and short−term borrowings | 10,098 | 73,472 | 360,330 | − | **443,900** |
| Trade and other payables | 1,814 | − | − | − | **1,814** |
| Lease liabilities | 97 | 193 | 193 | 3,960 | **4,443** |
| **Total future payments** | **12,009** | **73,665** | **360,523** | **3,960** | **450,157** |
| **As at 1 January 2020** | | | | | |
| Long−term and short−term borrowings | 18,483 | 62,432 | 54,363 | 236,293 | **371,571** |
| Trade and other payables | 1,448 | − | − | − | **1,448** |
| Lease liabilities | 89 | 178 | 178 | 3,772 | **4,217** |
| **Total future payments** | **20,020** | **62,610** | **54,541** | **240,065** | **377,236** |

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 payments due on the allocated Eurobonds (Note 10). As disclosed in Note 10, the Group expects to repay the Eurobonds in full in 2022, which is earlier than presented in the above table based on contractual cash flows. The Group's shareholder, GCAP, committed to provide shareholder loans for the Eurobonds refinancing (Note 1), which is further expected to be partially refinanced through local bonds issuance.

## 21. 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.
All transactions with related parties disclosed below have been conducted on an arm's−length basis.

*(Amounts expressed in thousands of Georgian Lari)*

## 21. Related parties disclosures (continued)

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 2021* | | *31 December 2020* | | *1 January 2020* | |
|---|---|---|---|---|---|---|
| | *The Parent* | *Entities under common control* | *The Parent* | *Entities under common control* | *The Parent* | *Entities under common control* |
| **Assets** | | | | | | |
| Reimbursement asset (Note 6) | – | 2,318 | – | 2,808 | – | 46,457 |
| Financial assets held for trading (a) | 8,122 | – | – | – | – | – |
| **Borrowings as at 1 January** | **–** | **159** | **35,691** | **–** | **–** | **–** |
| Proceeds from borrowings and interest accrued during the year | – | 2,545 | 2,580 | 159 | 65,125 | **–** |
| Repayment of borrowing including interest during the year | – | – | (38,271) | – | (29,434) | **–** |
| **Borrowings as at 31 December** | **–** | **2,704** | **–** | **159** | **35,691** | **–** |

(a) In March 2021, GGU purchased 2,493 notes worth USD 2,500 thousand 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 combined carve−out financial statements (Note 2). The notes accrue annual 6.125% and mature in 2024. The financial assets are classified at fair value through profit or loss as held for trading. During 2021 the Group recognized GEL 390 of finance income on the notes.

| | *2021* | *2020* |
|---|---|---|
| **Income and expenses** | | |
| Revenue from electric power sales[1] | 7,339 | 7,223 |
| Business interruption reimbursement gain from entities under common control[2] | 587 | 4,252 |
| Finance cost due to the Parent | – | (1,897) |
| Finance income from the Parent | 390 | – |
| Other operating expenses due to entities under common control[3] | (2,421) | – |

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

[2] Business interruption reimbursement income in 2021 and 2020 represents the insurance claim for the business interruption caused by the insurance event.

[3] Other operating expenses mostly comprises of insurance expense for the year.

Key management personnel remuneration amounted to:

| | *2021* | *2020* |
|---|---|---|
| Salaries and other short−term employee benefits | 110 | 72 |
| Cash bonus | 55 | 18 |
| Termination benefits | 1,185 | – |

*(Amounts expressed in thousands of Georgian Lari)*

## 22. 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 office) recognised and the movements during the period comprise:

| | *2021* | *2020* |
|---|---|---|
| **At 1 January** | **1,279** | **699** |
| Additions | 188 | 735 |
| Depreciation expense | (74) | (49) |
| Cancelled contracts | (47) | (173) |
| Currency translation | (92) | 67 |
| **At 31 December** | **1,254** | **1,279** |

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

| | *2021* | *2020* |
|---|---|---|
| **At 1 January** | **1,237** | **657** |
| Additions | 188 | 690 |
| Prepayments | – | 45 |
| Interest expense on lease liabilities | 161 | 111 |
| Interest paid | (161) | (111) |
| Cancelled contracts | (47) | (173) |
| Payments of lease liabilities | (53) | (58) |
| Foreign exchange rate movements | (16) | 76 |
| **At 31 December** | **1,309** | **1,237** |
| Current | 118 | 97 |
| Non–current | 1,191 | 1,140 |

The following are the amounts recognised in profit or loss:

| | *2021* | *2020* |
|---|---|---|
| Depreciation expense of right–of–use assets | (74) | (49) |
| Interest expense on lease liabilities | (161) | (111) |
| Expense relating to leases (included in other operating expenses) | (163) | (139) |
| **Total amount recognized in profit or loss** | **(398)** | **(299)** |

Total lease payments including low–value and short–term leases during the year was GEL 555 (2020: GEL 496).

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 Dec 2021 future lease payments of GEL 4,096 are included to the lease term in respect of termination options (2020: 4,346, 1 January: GEL 4,128).

*(Amounts expressed in thousands of Georgian Lari)*

## 23. Events after the reporting period

### Change in GGU's controlling shareholder

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.

### War in Ukraine

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian Ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Georgia. It is expected that the war will have a negative impact on the Georgian economy. As the war is still waging, 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 Group considers the war in Ukraine to be a non−adjusting post balance sheet event.

### Disposal of Mestiachala 1 HPP assets

In 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 as at 31 December 2021 of GEL 2,618 for total consideration of USD 3,000, out of which USD 300 was transferred at the signing date of the SPA. Remaining USD 2,700 shall be transferred subject to certain conditions determined in the SPA.

### Movements in foreign exchange rates

As at 5 August 2022, USD depreciated against GEL by 13% as compared to 31 December 2021.

### Loans issued

In 2022, the Group issued USD-denominated loans to entity under common control with aggregate value of USD 2,700 (GEL 8,498).

# Georgian Renewable Power Operations JSC (Georgia Global Utilities JSC Energy Segment)

## Interim managerial report for the six months ended

*30 June 2022*

# Contents

## Notes to the Interim managerial report

## 1. Corporate information

GRPO's business represents a platform for operating hydro power plants ("HPPs") and the wind power plant ("WPP") across the country.
Georgia Global Utilities JSC ("GGU" or "the Parent") is a Georgian−based holding that operates, 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" or **"GRPO"**) (2) water supply and wastewater collection services ("GGU Water Utility Segment").

GGU is the issuer of USD 250 million Eurobonds listed on Irish Stock Exchange in July 2020. Prior to and in connection with the Eurobonds issuance in 2020, Georgia Capital JSC (GCAP), the controlling shareholder of GGU, contributed to GGU a number of subsidiaries comprising GGU Energy Segment in exchange of shares issued by GGU (Note 9). This contribution was accounted for as a business combination under common control under pooling of interest method (with restatement of comparative information) in GGU's consolidated financial statements.

The GGU's and its subsidiaries' registered address is 10 Medea (Mzia) Jugheli Str., 0179, Tbilisi, Georgia.

As at 30 June 2022 GCAP owned 35% in GGU (representing an 20% economic interest in the water utility business and 100% interest in energy business). GCAP is wholly owned by Georgia Capital plc (the ultimate parent of GGU at those dates), an entity incorporated in England and premium−listed on London Stock Exchange. The subsidiaries of GRPO are presented in the table below:

| | *Country of incorporation* | *Date of acquisition/incur−poration* | *30 June 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% |

## 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.

In March 2020, the World Health Organization confirmed the novel coronavirus ("COVID−19") as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on Georgian economy. First COVID−19 infection was confirmed by the National Centre for Disease Control ("NCDC") in February 2020. The Government of Georgia has introduced number of measures aimed at containment of the spread of COVID−19, which have significant social and economic impact. The Group is monitoring impact of COVID−19 outbreak on its business, customers and employees and follows the official guidance introduced by the Government of Georgia to safeguard its people and to maintain business continuity.

## 3. Business Overview

GRPO Group produces electricity through "Mestiachal HPP", "Kasleti 2 HPP", "Akhmeta HPP", "Debeda HPP" and "Qartli WPP". The electricity generated from hydroelectric power plants and wind power plants is sold to the commercial customers and Government. Revenues under the contracts are denominated in US dollars.
All power plants are included in the unified electrical system of Georgia.

## 4. Definitions of key financial indicators

The main source of revenue of JSC "GRPO" is the production and sale of electricity. In US$ terms, revenue in HY 2022 increased by 3.6%, on the back of a 9.1% y-o-y increase in the average electricity selling prices. In GEL terms, which reflects the impact of GEL's appreciation against US$ by ~10% y-o-y, HY22 revenue was down by 5.8% y-o-y.

On 31 December 2021 Georgia Capital plc announced that GCAP will 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.

The first stage of the transaction, completed in February 2022, involved the initial sale of a 65% equity interest in GGU (representing an 80% economic interest in the water utility business).

The second stage of the transaction will follow the planned redemption in third quarter 2022 of USD 250 million Eurobond issued by GGU will be financed pro−rata to their interests in GGU by Aqualia and GCAP by way of shareholder loans. Following the bond redemption and subsequent demerger of the operational renewable energy assets via a spin−off, GCAP will recover full ownership of Group's renewable energy assets, and Aqualia's ownership in the water utility business will increase to 80%. The second stage of the transaction is expected to be completed by the end of September 2022.

Pursuant to the above, in 2022 GGU and its subsidiaries ("GGU Group") initiated a corporate reorganization in order to spin−off its GGU Energy Segment to GCAP. In June 2022, the GGU established a 100% owned subsidiary Georgia Renewable Power Operations JSC ("the Company" or "GRPO")) and initiated a plan (expected to be completed in August−September 2022) to transfer GGU's Energy Segment subsidiaries to GRPO in exchange for GRPO issuing its equity instruments. GRPO will then aim at the issuance of the local bonds and their listing on Georgian Stock Exchange.

In the view of the bonds listing and in order to reflect the effects of reorganization through the spin−off of GGU Energy Segment and establishment of GRPO, the management of GGU Energy Segment prepared interim condensed combined carve−out financial statements of GRPO for the six months ended 30 June 2022.

# 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 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 CEO 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 CEO;
- 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 CEO 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 CEO (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.

## 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. Consolidated financial statements are submitted for approval to external audit representatives who, after closing the financial year, carry out an examination of GRPO’s procedures, documentation and consolidated financial indicators.

# A non-financial Report

## 7. Non-financial indicators

During HY22, the wind and hydropower plants included in the GRPO group produced a total of 122,498 megawatt hours of electricity. Approximately 59% of electricity sales during HY22, were covered by long-term fixed-price power purchase agreements (PPAs) formed with a Government-backed entity.

## 8. Corporate-Social Responsibilities

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

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

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

The GRPO has established environmental standards that apply to its operations. Although, as of the date of this Offering Memorandum, GRPO 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. also comply in the future. If a GRPO company does not comply with these regulations, it can be held responsible for sanctions and/or the consequences of breaching contractual obligations.

## 9. Protection of Human Rights

Basic human rights, including labor rights, are protected as much as possible 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 at least all employees of the companies.

GRPO 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.

## 10. Corruption

GRPO 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.

GRPO'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.

## 11. Training, qualification and career development

GRPO 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 company.

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

## 12. Caring 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, GRPO implements standards that are stipulated in agreed occupational Health & Safety Policy. Company 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.

Approved for issue and signed on behalf of Georgia Renewable Power Operations JSC on 2022 September 27:

Zurab Gordeziani
Chief Executive Officer

# Georgian Renewable Power Operations JSC (Georgia Global Utilities JSC Energy Segment)

## Interim condensed combined carve-out financial statements for the six months ended

*30 June 2022 (unaudited)*

# Contents

## Report on review of Interim combined carve−out Financial Information

## Interim combined carve−out financial statements



## Notes to the Interim condensed combined carve−out financial statements

## Combined carve-out statement of financial position

## For the six month ended 30 June 2022

*(Amounts expressed in thousands of Georgian Lari)*

| | Note | 30 June 2022 | 31 December 2021 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 278,212 | 300,597 |
| Right-of-use assets | | 1,211 | 1,254 |
| Other non-current assets | 7 | 1,961 | 1,143 |
| **Total non-current assets** | | **281,384** | **302,994** |
| **Current assets** | | | |
| Inventories | | 480 | 406 |
| Trade and other receivables | 8 | 3,206 | 2,366 |
| Loans issued | | 7,160 | 14 |
| Prepaid taxes other than income tax | | 2,726 | 1,262 |
| Reimbursement assets | | 2,192 | 2,318 |
| Financial assets held for trading | 20 | 10,938 | 8,122 |
| Prepayments | | 842 | 369 |
| Cash at bank | 20 | 18,923 | 36,948 |
| **Total current assets** | | **46,467** | **51,805** |
| **Total assets** | | **327,851** | **354,799** |
| **Equity** | | | |
| Share capital | 9 | 84,664 | 84,664 |
| Retained earnings | | (64,127) | (60,135) |
| Other reserves | 9 | 17,417 | 18,305 |
| **Equity attributable to the owners of the parent** | | **37,954** | **42,834** |
| Non-controlling interests | 9 | – | – |
| **Total equity** | | **37,954** | **42,834** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings and bonds issued | 10 | 275,372 | 297,648 |
| Lease liabilities | | 1,225 | 1,191 |
| Other non-current liabilities | | 520 | 550 |
| **Total non-current liabilities** | | **277,117** | **299,389** |
| **Current liabilities** | | | |
| Borrowings and bonds issued | 10 | 9,067 | 9,680 |
| Trade and other payables | 11 | 1,129 | 972 |
| Lease liabilities | | 112 | 118 |
| Other current liabilities | 12 | - | 1,185 |
| Taxes payable other than income tax | | 2,472 | 621 |
| **Total current liabilities** | | **12,780** | **12,576** |
| **Total liabilities** | | **289,897** | **311,965** |
| **Total liabilities and equity** | | **327,851** | **354,799** |

Approved for issue and signed on behalf of Georgia Renewable Power Operations JSC on September 27:

Zurab Gordeziani
Chief Executive Officer

Nana Mshvidobadze
Chief Financial Officer

*The accompanying notes on pages 5 to 15 are an integral part of these combined carve-out financial statements*

## Combined carve-out statement of profit or loss and other comprehensive income

## For the six month ended 30 June 2022

*(Amounts expressed in thousands of Georgian Lari)*

| | *Note* | *30 June 2022* | *30 June 2021* |
|---|---|---|---|
| Revenue from electric power sales | 13 | 19,244 | 20,432 |
| **Total revenue and gains** | | **19,244** | **20,432** |
| Electricity and transmission costs | | (338) | (275) |
| Salaries and other employee benefits | 14 | (576) | (444) |
| Taxes other than income tax | | (1,159) | (1,360) |
| Other general and administrative expenses | | (190) | (161) |
| Professional fees | 15 | (361) | (286) |
| Raw materials, fuel and other consumables | | (96) | (25) |
| Maintenance expenditure | | (1,218) | (1,367) |
| Other operating expenses | 16 | (843) | (1,042) |
| | | **(4,781)** | **(4,960)** |
| **EBITDA** | | **14,463** | **15,472** |
| Finance income | | 646 | 581 |
| Finance costs | 17 | (11,706) | (12,734) |
| Net foreign exchange loss | | (27) | 22 |
| Depreciation and amortisation | 6,7 | (5,585) | (6,564) |
| Non−recurring expenses, net | 18 | (1,783) | (1,328) |
| **Loss before income tax expense** | | **(3,992)** | **(4,551)** |
| Income tax expense | | - | – |
| **Loss for the year** | | **(3,992)** | **(4,551)** |
| **Attributable to:** | | | |
| Owners of the parent | | (3,992) | (4,551) |
| Non−controlling interests | | – | – |
| **Other comprehensive income** | | | |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods* | | | |
| Exchange differences arising on translation to presentation currency | | (888) | (2,676) |
| **Net other comprehensive income not to be reclassified to profit or loss in subsequent periods** | | **(888)** | **(2,676)** |
| **Other comprehensive (loss) income for the year** | | **(888)** | **(2,676)** |
| **Total comprehensive (loss) income for the year** | | **(4,880)** | **(7,227)** |
| **Attributable to:** | | | |
| Owners of the parent | | (4,880) | (7,227) |
| Non−controlling interests | | – | – |

*The accompanying notes on pages 5 to 15 are an integral part of these combined carve−out financial statements*

## Combined carve-out statement of changes in equity

## For the six month ended 30 June 2022

*(Amounts expressed in thousands of Georgian Lari)*

| | *Share capital* | *Other reserves* | *Retained earnings* | *Total equity* |
|---|---|---|---|---|
| **Balance as at 1 January 2021** | **104,664** | **22,434** | **(14,617)** | **112,481** |
| Loss for the year | − | − | (45,518) | **(45,518)** |
| Other comprehensive income | − | (4,129) | − | **(4,129)** |
| **Total comprehensive income for the year** | **−** | **(4,129)** | **(45,518)** | **(49,647)** |
| Distributions to shareholders (Note 9) | (20,000) | − | − | **(20,000)** |
| **Balance as at 31 December 2021** | **84,664** | **18,305** | **(60,135)** | **42,834** |
| Loss for the year | − | − | (3,992) | **(3,992)** |
| Other comprehensive loss | − | (888) | − | **(888)** |
| **Total comprehensive loss for the year** | **−** | **(888)** | **(3,992)** | **(4,880)** |
| **Balance as at 30 June 2022** | **84,664** | **17,417** | **(64,127)** | **37,954** |

*The accompanying notes on pages 5 to 15 are an integral part of these combined carve−out financial statements*

## Combined carve-out statement of cash flows

## For the six month ended 30 June 2022

*(Amounts expressed in thousands of Georgian Lari)*

| | Note | 30 June 2022 | 30 June 2021 |
|---|---|---|---|
| **Cash flows from operating activities** | | (3,992) | (4,551) |
| **Loss before income tax** | | | |
| *Adjustments for:* | | | |
| Depreciation and amortisation | 6,7 | 5,585 | 6,564 |
| Net foreign exchange losses | | 27 | (22) |
| Finance income | | (646) | (581) |
| Finance costs | 17 | 11,706 | 12,734 |
| Non−recurring expenses, net | | 1,783 | 976 |
| *Working capital changes* | | | |
| Change in inventories | | (74) | (97) |
| Change in trade and other receivables | | (840) | (3,082) |
| Change in prepaid taxes other than income tax | | (1,464) | (555) |
| Change in prepayments | | (473) | 22 |
| Change in trade and other payables | | 157 | (846) |
| Change in other tax payables | | 307 | (1,033) |
| **Cash flow from operating activities before investments in securities** | | **12,076** | **9,529** |
| Net investment in securities | | (3,064) | (8,308) |
| **Net cash from operating activities** | | **9,012** | **1,221** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | | (1,285) | (4,533) |
| Proceeds from sale of property, plant and equipment | | 2,456 | - |
| Bonus termination | | (1,306) | - |
| Loans repaid (issued) | | (7,883) | - |
| Interest received | | 542 | 581 |
| **Net cash (used in) from investing activities** | | **(7,476)** | **(3,952)** |
| **Cash flows from financing activities** | | | |
| Payment of principal portion of lease liabilities | | (174) | (117) |
| Proceeds from borrowings and debt securities issued | 10 | - | 1,899 |
| Repayment of borrowings and debt securities issued | 10 | (6,889) | - |
| Interest paid | 10 | (11,521) | (12,192) |
| Bond issuance commissions and costs paid | | - | (9,471) |
| **Net cash used in financing activities** | | **(18,584)** | **(19,881)** |
| Effect of exchange rate changes on cash and cash equivalents | | (977) | (507) |
| **Net change in cash and cash equivalents** | | **(18,025)** | **(23,119)** |
| Cash and cash equivalents at the beginning of year | 20 | 36,948 | 63,262 |
| **Cash and cash equivalents at the end of year** | 20 | **18,923** | **40,145** |

*The accompanying notes on pages 5 to 15 are an integral part of these combined carve−out financial statements*

*(Amounts expressed in thousands of Georgian Lari)*

## 1. Corporate information

Georgia Global Utilities JSC ("GGU" or "the Parent") is a Georgian−based holding that operates, 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").

GGU is the issuer of USD 250 million Eurobonds listed on Irish Stock Exchange in July 2020. Prior to and in connection with the Eurobonds issuance in 2020, Georgia Capital JSC (GCAP), the controlling shareholder of GGU, contributed to GGU a number of subsidiaries comprising GGU Energy Segment in exchange of shares issued by GGU (Note 9). This contribution was accounted for as a business combination under common control under pooling of interest method (with restatement of comparative information) in GGU's consolidated financial statements.

The GGU's and its subsidiaries' registered address is 10 Medea (Mzia) Jugheli Str., 0179, Tbilisi, Georgia.

As at 30 June 2022 GCAP owned 35% in GGU (representing an 20% economic interest in the water utility business and 100% interest in energy business). GCAP is wholly owned by Georgia Capital plc (the ultimate parent of GGU at those dates), an entity incorporated in England and premium−listed on London Stock Exchange.

On 31 December 2021 Georgia Capital plc announced that GCAP will 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.

The first stage of the transaction, completed in February 2022, involved the initial sale of a 65% equity interest in GGU (representing an 80% economic interest in the water utility business).

The second stage of the transaction will follow the planned redemption in third quarter 2022 of USD 250 million Eurobond issued by GGU will be financed pro−rata to their interests in GGU by Aqualia and GCAP by way of shareholder loans. Following the bond redemption and subsequent demerger of the operational renewable energy assets via a spin−off, GCAP will recover full ownership of Group's renewable energy assets, and Aqualia's ownership in the water utility business will increase to 80%. The second stage of the transaction is expected to be completed by the end of September 2022.

Pursuant to the above, in 2022 GGU and its subsidiaries ("GGU Group") initiated a corporate reorganization in order to spin−off its GGU Energy Segment to GCAP. In June 2022, the GGU established a 100% owned subsidiary Georgia Renewable Power Operations JSC ("the Company" or "GRPO")) and initiated a plan (expected to be completed in August−September 2022) to transfer GGU's Energy Segment subsidiaries to GRPO in exchange for GRPO issuing its equity instruments. GRPO will then aim at the issuance of the local bonds and their listing on Georgian Stock Exchange.

In the view of the bonds listing and in order to reflect the effects of reorganization through the spin−off of GGU Energy Segment and establishment of GRPO, the management of GGU Energy Segment prepared these interim condensed combined carve−out financial statements of GRPO for the six months ended 30 June 2022.

## 2. Basis of preparation

*Statement of compliance*
These interim condensed combined carve-out financial statements (the "combined carve-out financial statements") for the six months ended 30 June 2022 were prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting.

*Basis of carve−out and combination*
These interim condensed combined carve−out financial statements have been prepared from the financial statements of the combined entities as if GRPO has been established and the GGU Group reorganization 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 below (collectively referred to as "GRPO subsidiaries" or "the Group") were recognized in these combined carve−out financial statements 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:

| | ***Country of incorporation*** | ***Date of acquisition/incur−poration*** | ***30 June 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% |

*(Amounts expressed in thousands of Georgian Lari)*

## 2. Basis of preparation (continued)

*General*

These combined carve−out financial statements have been prepared on a going concern basis and under the historical cost convention, except for trading financial assets measured at fair value through profit or loss.

These combined carve−out financial statements have been presented in thousands of Georgian Lari (GEL), except otherwise stated.

## 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.

In March 2020, the World Health Organization confirmed the novel coronavirus ("COVID−19") as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on Georgian economy. First COVID−19 infection was confirmed by the National Centre for Disease Control ("NCDC") in February 2020. The Government of Georgia has introduced number of measures aimed at containment of the spread of COVID−19, which have significant social and economic impact. The Group is monitoring impact of COVID−19 outbreak on its business, customers and employees and follows the official guidance introduced by the Government of Georgia to safeguard its people and to maintain business continuity.

## 4. Summary of significant accounting policies

### 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 combined carve−out financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the interim condensed 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.

*(Amounts expressed in thousands of Georgian Lari)*

## 5. Significant accounting judgements and estimates

The Group makes estimates and assumptions that affect the amounts recognised in the combined carve−out 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 combined carve−out financial statements, judgements that have the most significant effect on the amounts recognized in the combined carve−out 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 six month ended 30 June 2022 and year ended 31 December 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, except as in relation to an impairment due to physical damage or loss event. In case of any impairment as a result of physical damage or destruction of assets, the Group assesses the extent of such damage for each individual item and writes−off respective items of the property, plant and equipment that are no longer usable. Such assessment requires judgment in determination whether the assets can be usable. During 2021, the Group wrote−off GEL 36,595 of property, plant and equipment related to Svaneti Hydro LLC impairment of property, plant and equipment due to physical damage sustained in 2019 rock avalanche event. The additional impairment resulted from Group's decision not to pursue rehabilitation of the damaged HPP made in 2021 following careful evaluation of the rehabilitation project risks and Group's investment alternatives.

### 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.

### 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

The movements in property, plant and equipment as at 30 June 2022 were as follows:

| | *Land plots* | *Buildings* | *Energy Infrastructure assets* | *Vehicles* | *Fixtures and fittings* | *CIP* | *Total* |
|---|---|---|---|---|---|---|---|
| **Historical cost 31 December 2021** | **1,255** | **74,974** | **281,738** | **822** | **1,381** | **4,441** | **364,611** |
| Additions | – | 10 | 20 | 94 | – | 1,491 | **1,615** |
| Write-off * | – | – | (38,753) | – | – | – | **(38,753)** |
| Currency translation | (68) | (4,083) | (15,204) | (47) | (75) | (283) | **(19,760)** |
| **30 June 2022** | **1,187** | **70,901** | **227,801** | **869** | **1,306** | **5,649** | **307,713** |
| **Accumulated depreciation and impairment** | | | | | | | |
| **31 December 2021** | – | **5,828** | **57,986** | **67** | **133** | – | **64,014** |
| Depreciation charge | – | 1,282 | 4,234 | 14 | 17 | – | **5,547** |
| Write-off * | – | – | (36,305) | – | – | – | **(36,305)** |
| Currency translation | – | (378) | (3,365) | (4) | (8) | – | **(3,755)** |
| **30 June 2022** | – | **6,732** | **22,550** | **77** | **142** | **–** | **29,501** |
| **Net book value** | | | | | | | |
| **31 December 2021** | **1,255** | **69,146** | **223,752** | **755** | **1,248** | **4,441** | **300,597** |
| **30 June 2022** | **1,187** | **64,169** | **205,251** | **792** | **1,164** | **5,649** | **278,212** |

The movements in property, plant and equipment as at 31 December 2021 were as follows:

| | *Land plots* | *Buildings* | *Energy Infrastructure assets* | *Vehicles* | *Fixtures and fittings* | *CIP* | *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** |
| **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** |
| **Net book value** | | | | | | | |
| **31 December 2020** | **1,327** | **75,883** | **283,934** | **782** | **1,315** | **1,108** | **364,349** |
| **31 December 2021** | **1,255** | **69,146** | **223,752** | **755** | **1,248** | **4,441** | **300,597** |

As at 30 June 2022 and 31 December 2021, the Group has no property, plant and equipment pledged as collateral for its borrowings.

*In July 2019, a rock avalanche event in the valley of the Mestiachala river caused damage to the Mestiachala HPPs and the surrounding infrastructure. As a result of the rock avalanche event, Mestiachala HPPs were damaged and stopped operations. Mestiachala 2 HPP resumed generation in December 2019. As for Mestiachala 1 HPP, the damage was much more severe. In line with the outcome of the comprehensive cost and feasibility assessment, the restoration process of the HPP has been suspended indefinitely. 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. Disposal of Mestiachala 1 HPP assets resulted in impairment charge of GEL 2,448 for 2022.

*(Amounts expressed in thousands of Georgian Lari)*

## 7. Other non−current assets

| | *30 June 2022* | *31 December 2021* |
|---|---|---|
| Non-current loans issued | 874 | - |
| Intangible assets | 790 | 836 |
| Prepayments for non−current assets | 224 | 114 |
| Other non−current assets | 73 | 193 |
| **Total other non−current assets** | **1,961** | **1,143** |

Historical cost of intangible assets and accumulated amortization as at 30 June 2022 amounted to GEL 935 and GEL 145, respectively (2021 FY: GEL 988 and GEL 152).

Intangible assets amortization charge, including software licenses, was GEL 10 in 2022 HY (2021 HY: GEL 11).

## 8. Trade and other receivables

| | *30 June 2022* | *31 December 2021* |
|---|---|---|
| **Current** | | |
| Trade receivables from electric power sales | 3,206 | 2,366 |
| **Total restructured trade receivables, net** | **3,206** | **2,366** |

As at 30 June 2022, carrying amount of trade and other receivables equals GEL 3,206 (31 December 2021: GEL 2,366). Carrying amounts 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 30 June 2022 and 31 December 2021.

## 9. Equity

### Share Capital

As at 30 June 2022, share capital as presented in these combined carve-out financial statements comprised of GEL 84,664 (31 December 2021: GEL 84,664).

| | *Nominal amounts* |
|---|---|
| **31 December 2020** | **104,664** |
| Reduction of share capital (a) | (20,000) |
| **31 December 2021** | **84,664** |
| Change in share capital | **–** |
| **30 June 2022** | **84,664** |

(a) In 2021, the Group recognized reduction in share capital in the combined carve−out statement of changes in equity attributed to GEL 20,000 distribution to the shareholder settled in cash through proceeds from GRPO subsidiaries.

### Dividends

In 2022 half year 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, and foreign currency translation reserve. Movements in other reserves for the years ended 30 June 2022 and 31 December 2021 are largely attributed to other comprehensive (loss)/ income for the year related to currency translation reserve.

*(Amounts expressed in thousands of Georgian Lari)*

## 9. Equity (continued)

### 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 combined carve−out financial statements.

There were no changes in the objectives, policies or processes for managing capital as of six months ended 2022 and year ended 2021.

## 10. Borrowings and allocated debt securities issued

| | *30 June 2022* | | *31 December 2021* | |
|---|---|---|---|---|
| | ***Current liabilities*** | ***Non−current liabilities*** | ***Current liabilities*** | ***Non−current liabilities*** |
| Eurobonds issued allocated | 8,773 | 272,334 | 9,546 | 295,078 |
| Loans from related parties | 294 | 3,038 | 134 | 2,570 |
| **Total borrowings** | **9,067** | **275,372** | **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 and recognized in these combined carve−out financial statements. The senior unsecured US Dollar−denominated 7.75% green notes, with a 5−year non−call 2−year bullet maturity ("the Notes"), were settled on 30 July 2020. The Notes were issued and sold at par value. The Notes are 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 Notes were used to refinance major existing loan arrangements of the Group. The Group incurred loss on extinguishment of the financial liabilities, mostly related to the prepayment fees on the borrowings refinanced out of the Notes proceeds, in amount GEL 10,002, recognized in the combined carve−out statement of profit or loss and other comprehensive income in 2020.

As of 30 June 2022 and 31 December 2021, the Group has recognized an allocation of USD−denominated Eurobonds issued of GEL 281,107 and GEL 304,624 respectively (2022: USD 95,977 and 2021: USD 98,348).

As one of the conditions to demerger of the Group from GGU, GGU is obliged to redeem its Eurobonds in third quarter 2022 (Note 1), pursuant to which GGU intends to exercise 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 combined carve−out statement of profit or loss and other comprehensive income for the year ended 31 December 2021.

At 30 June 2022 and 31 December 2021, the Group does not have any undrawn borrowing facilities.

As of 30 June 2022, the Group's borrowings from entity under common control are denominated in USD with a fixed interest rate of 10% and with average maturity of 2 years (2021: fixed interest rate of 10% with average maturity of 2 years). The loan is related to the development of the Darchi HPP project.

As of 30 June 2022, the Group repaid bond principal of GEL 6,889 (USD: 2,266).

*(Amounts expressed in thousands of Georgian Lari)*

## 10. Borrowings and allocated debt securities issued (continued)

### Changes in liabilities arising from financial activities

| | *Borrowings* | *Eurobonds 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 | (147) | (16,811) | – | **(16,958)** |
| Cash repayments | – | (6,889) | (174) | **(7,063)** |
| Interest accrued | 294 | 11,319 | 90 | **11,703** |
| Interest paid | – | (11,431) | (90) | **(11,521)** |
| Other | 481 | 295 | 202 | **978** |
| **Carrying amount at 30 June 2022** | **3,332** | **281,107** | **1,337** | **285,776** |

## 11. Trade and other payables

| | *30 June 2022* | *31 December 2021* |
|---|---|---|
| Trade payables | 1,083 | 941 |
| Other payables | 46 | 41 |
| **Total trade and other payables** | **1,129** | **972** |

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

## 12. Revenue from electric power sales

| | *30 June 2022* | *30 June 2021* |
|---|---|---|
| Revenue from electric power sales to legal entities | 7,847 | 14,776 |
| Revenue from electric power sales to government−related entities | 11,397 | 5,656 |
| **Total revenue from electric power sales** | **19,244** | **20,432** |

*(Amounts expressed in thousands of Georgian Lari)*

## 13. Salaries and other employee benefits

| | *30 June 2022* | *30 June 2021* |
|---|---|---|
| Salaries | 570 | 439 |
| Bonuses | 6 | 5 |
| **Total salaries and benefits** | **576** | **444** |

## 14. Professional fees

| | *30 June 2022* | *30 June 2021* |
|---|---|---|
| Consulting expenses | 274 | 235 |
| Legal and other professional fees | 87 | 51 |
| **Total professional fees** | **361** | **286** |

## 15. Other operating expenses

| | *30 June 2022* | *30 June 2021* |
|---|---|---|
| Insurance expense | 641 | 810 |
| Maintenance expenditure | 102 | 88 |
| Rent expenses related to short−term leases | 82 | 86 |
| Charity expenses | 10 | 9 |
| Other expenses, net | 8 | 49 |
| **Total other operating expenses** | **843** | **1,042** |

## 16. Finance costs

| | *30 June 2022* | *30 June 2021* |
|---|---|---|
| Interest expenses on borrowings and allocated Eurobonds measured at effective interest rate method | 11,613 | 12,581 |
| Interest expenses on lease liability | 90 | 87 |
| Bank fees and charges | 3 | 66 |
| **Total finance costs** | **11,706** | **12,734** |

## 17. Non−recurring expenses

| | *30 June 2022* | *30 June 2021* |
|---|---|---|
| Mestiachala 1 PPE write-off | 2,448 | − |
| Technical due diligence service fee | − | 352 |
| Reassessment of insurance reimbursement asset | − | 976 |
| Other net non-recurring expenses | (665) | − |
| **Total non−recurring (income)/expenses** | **1,783** | **1,328** |

*(Amounts expressed in thousands of Georgian Lari)*

## 18. Commitments and contingencies

### Commitments

As at 30 June 2022 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. In accordance with the agreements, the companies are obliged to sell the produced electricity to ESCO during winter months (September to April), 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
- Geoenergy HPP− February 2022

Guaranteed prices vary from 5.5 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.

### 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 combined carve−out financial position or results of operations. Management believes that the Group has paid and accrued all taxes that are applicable.

*(Amounts expressed in thousands of Georgian Lari)*

## 19. Financial instruments

Financial instruments overview

*Cash at bank*

Cash at bank as at 30 June 2022 and 31 December 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 30 June 2022 and 31 December 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.

### 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.

*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 30 June 2022 and 31 December 2021 the Group has no other significant financial assets subject to credit risk except for:

- Cash and cash equivalents: as at 30 June 2022 total cash and cash equivalents of GEL 18,923 (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).
- Trading securities issued by GCAP and Silknet with fair value of GEL 10,938 as at 30 June 2022 (31 December 2021: GCAP issued Bond in the amount of GEL 8,122) with credit rating of B+ from S&P Global (GCAP) and B Stable from Fitch (Silknet) as at 30 June 2022.

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 that are neither past due nor impaired is appropriate and is constantly monitored in order to identify any potential adverse changes in the credit quality. There are no financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired. The Group does not have an internal credit rating system for evaluation of credit rating of its trade and other receivables.

As at 30 June 2022 and 31 December 2021 carrying values of financial instruments best represent their maximum exposure to the credit risk.

*(Amounts expressed in thousands of Georgian Lari)*

## 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.
All transactions with related parties disclosed below have been conducted on an arm's−length basis.
The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

| | *30 June 2022* | | *31 December 2021* | |
|---|---|---|---|---|
| | *The Parent* | *Entities under common control* | *The Parent* | *Entities under common control* |
| **Assets** | | | | |
| Reimbursement asset | - | 2,192 | - | 2,318 |
| Financial assets held for trading (a) | 7,902 | - | 8,122 | - |
| **Borrowings as at 1 January** | - | **2,704** | - | **159** |
| Proceeds from borrowings and interest accrued during the year | - | 628 | - | 2,545 |
| Repayment of borrowing including interest during the year | - | - | - | - |
| **Borrowings as at the end of the period** | - | **3,332** | - | **2,704** |

(a) In March 2021, GGU purchased 2,493 notes worth USD 2,500 thousand 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 combined carve−out financial statements. The notes accrue annual 6.125% and mature in 2024. The financial assets are classified at fair value through profit or loss as held for trading. During 2022 six months the Group recognized GEL 231 of finance income on the notes.

| | *30 June 2022* | *30 June 2021* |
|---|---|---|
| **Income and expenses** | | |
| Revenue from electric power sales[1] | 27 | 1,864 |
| Finance income from the Parent | 231 | 149 |
| Other operating expenses due to entities under common control[2] | 641 | 810 |
| Reassessment of insurance reimbursement asset[3] | - | (976) |

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

[2] Other operating expenses mostly comprises of insurance expense for the year.

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

Key management personnel remuneration amounted to:

| | *30 June 2022* | *30 June 2021* |
|---|---|---|
| Salaries and other short−term employee benefits | 55 | 36 |
| Cash bonus | 22 | 9 |