JSC Khramhesi 1

Financial statements

for the year ended 31 December 2020
with independent auditor’s report

JSC Khramhesi 1

Financial statements

for the year ended 31 December 2020

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Independent auditor's report

To the Shareholders and Board of Directors of JSC Khramhesi 1

Report on the audit of the financial statements

Opinion

We have audited the financial statements of JSC Khramhesi 1 (hereinafter, the "Company", which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Emphasis of matter

We draw your attention to Note 18 to financial statements, which discloses a significant concentration of the Company's transactions with related parties. Our opinion is not qualified in respect of this matter.

Other information included in The Company's 2020 Annual Report

Other information consists of the information included in The Company's 2020 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2020 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ana Kusrashvili

On behalf of EY LLC

Tbilisi, Georgia

29 January 2021

JSC Khramhesi 1

Statement of comprehensive income

for the year ended 31 December 2020

in thousands of Georgian Lari

	Note	2020	2019
Revenue from sale of electric power	6	15,530	15,731
Depreciation	9	(4,358)	(5,062)
Wages and other employee benefits		(1,658)	(1,409)
Insurance		(708)	(615)
Repairs and maintenance		(640)	(561)
Property tax		(421)	(443)
Professional services		(314)	(223)
Transportation expenses		(140)	(146)
Loss on revaluation of property, plant and equipment	9	(3,357)	–
Other operating expenses		(520)	(520)
Operating income		**3,414**	**6,752**
Finance costs	7	(798)	(452)
Finance income	7	1,367	1,288
Income before income tax		**3,983**	**7,588**
Income tax charge	8	(1,588)	(1,694)
Net income for the year		**2,395**	**5,894**
Other comprehensive income			
Items that will not be reclassified to profit and loss in subsequent periods (net of tax)	9	(6,437)	–
Revaluation of property, plant and equipment			
Total comprehensive (loss)/income for the year, net of tax		**(4,042)**	**5,894**

These financial statements were approved by management on 29 January 2021 and were signed on its behalf by:

Devi Kandelaki
General Director

Elena Mchedlidze
Financial Director

სააქციო საზოგადოება "ხრამჰესი I"
JOINT-STOCK COMPANY "KHRAMHESI I"
243119727

The accompanying notes on pages 8-28 are an integral part of these financial statements.

JSC Khramhesi 1

Statement of financial position

for the year ended 31 December 2020

in thousands of Georgian Lari

	Note	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	9	43,402	51,342
Right of use assets	9	38	58
Intangible assets		49	55
Loans receivable	11	4,676	4,676
Total non-current assets		**48,165**	**56,131**
Current assets			
Inventories		408	429
Tax assets, net		750	623
Trade receivables	10	7,504	2,584
Loans receivable	11	–	6,049
Prepayments		247	212
Cash and cash equivalents	12	1,221	4,654
Total current assets		**10,130**	**14,551**
Total assets		**58,295**	**70,682**
Equity and liabilities			
Equity	13		
Issued capital		3,447	3,447
Revaluation reserve		11,776	19,734
Retained earnings		37,379	42,463
Total equity		**52,602**	**65,644**
Current liabilities			
Trade and other payables	14	5,647	4,971
Short-term portion of lease liabilities		22	20
Total current liabilities		**5,669**	**4,991**
Non-current liabilities			
Long-term lease liabilities		24	47
Total non-current liabilities		**24**	**47**
Total liabilities		**5,693**	**5,038**
Total equity and liabilities		**58,295**	**70,682**

The accompanying notes on pages 8-28 are an integral part of these financial statements.

JSC Khramhesi 1

Statement of changes in equity

for the year ended 31 December 2020

in thousands of Georgian Lari

	Issued capital	Revaluation reserve for property, plant and equipment	Retained earnings	Total
Balance at 31 December 2018	**3,447**	**21,550**	**44,353**	**69,350**
Net income for the year	–	–	5,894	**5,894**
Total comprehensive income for the year	**3,447**	**21,550**	**50,247**	**75,244**
Depreciation of revaluation reserve	–	(1,816)	1,816	**–**
Dividends (Note 13)	–	–	(9,600)	**(9,600)**
Balance at 31 December 2019	**3,447**	**19,734**	**42,463**	**65,644**
Net income for the year	–	–	2,395	**2,395**
Other comprehensive loss for the year	–	(6,437)	–	**(6,437)**
Total comprehensive income for the year	**3,447**	**13,297**	**44,858**	**61,602**
Depreciation of revaluation reserve, net of tax	–	(1,521)	1,521	**–**
Dividends (Note 13)	–	–	(9,000)	**(9,000)**
Balance at 31 December 2020	**3,447**	**11,776**	**37,379**	**52,602**

The accompanying notes on pages 8-28 are an integral part of these financial statements.

JSC Khramhesi 1

Statement of cash flows

for the year ended 31 December 2020

in thousands of Georgian Lari

	Note	2020	2019
Operating activities			
Income before income tax		3,983	7,588
Non-cash adjustments to reconcile income before tax to net cash flows			
Depreciation	9	4,358	5,062
Amortization		13	13
Gain on sale of property, plant and equipment		(8)	(48)
Loss on supply of property plant and equipment free of charge		14	57
Loss on revaluation of property, plant and equipment	9	3,357	–
Net foreign exchange loss on investing and financing activities		106	119
Finance costs		7	9
Finance income	7	(1,367)	(1,288)
		10,463	**11,512**
Working capital adjustments			
Change in inventories		21	(117)
Change in trade receivables		(4,920)	(5,297)
Change in prepayments		(35)	(21)
Change in tax assets, net		(627)	(25)
Change in trade and other payables		676	125
		5,578	**6,177**
Income tax paid		(1,088)	(1,694)
Net cash flows from operating activities		**4,490**	**4,483**
Investing activities			
Payments for property, plant and equipment		(6,203)	(4,612)
Proceeds from sale of property plant and equipment		–	55
Proceeds from loans receivable		6,049	2,329
Interest received		1,367	1,018
Net cash flows from/(used in) investing activities		**1,213**	**(1,210)**
Financing activities			
Dividends paid	13	(9,000)	(9,600)
Repayment of leases		(30)	(27)
Net cash flows used in financing activities		**(9,030)**	**(9,627)**
Net decrease in cash and cash equivalents		**(3,327)**	**(6,354)**
Cash and cash equivalents at the beginning of the period	12	4,654	11,127
Net foreign exchange difference on cash and cash equivalents		(106)	(119)
Cash and cash equivalents at the end of the period	12	**1,221**	**4,654**

The accompanying notes on pages 8-28 are an integral part of these financial statements.

1. Corporate information

JSC Khramhesi 1 (the “Company”) is a joint stock company incorporated and domiciled in Georgia. The Company’s registered office is Khramhesi, Tsalka region.

The Company’s principal activity is the generation of electric power. The Company’s primary operating asset is a hydro-power plant located in the Tsalka region, Georgia (HPP Khrami 1). Generated electric power is sold in Georgia. The Company’s main customer is JSC Telasi, an entity under common control.

The Company has an active license for the generation of electric power from HPP Khrami 1 until 24 December 2024.

As at 31 December 2020 and 2019, 100% of the Company’s shares are owned by Gardabani Holding B.V. (the “Parent”). The Parent is controlled by PJSC Inter RAO UES (the “Ultimate Parent”). PJSC INTER RAO is controlled by the Russian Federation.

As discussed in Note 18, most of the Company’s operating activities are with entities under common control of the Ultimate Parent.

These financial statements have not yet been approved by the shareholder. The shareholder meeting is usually held during the first half of the year subsequent to the reporting period. The shareholder has the power to amend the financial statements after issue.

2. Basis of preparation

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

The financial statements have been prepared on the historical cost basis except for property, plant and equipment that have been measured using revaluation model.

The financial statements are presented in thousands of Georgian Lari (GEL) and all values are rounded to the nearest thousand, unless otherwise indicated.

3. Summary of significant accounting policies

Significant accounting policies have been consistently applied to the financial statements. Newly issued standards had no significant impact on the Company’s financial statements.

(a) Foreign currency

GEL is the Company’s functional currency, since it is a currency of a primary economic environment where it operates. Transactions in foreign currency are initially recorded by the Company at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All translation differences are taken to the statement of comprehensive income. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions.

3. Summary of significant accounting policies (continued)

(b) Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- expected to be realised or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

(c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and subsequent measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. Management determines the classification of its financial assets at initial recognition and re-assesses this designation thereafter.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost;
- financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- financial assets at fair value through profit or loss.

3. Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

Financial assets at amortised cost

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

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

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

The Company recognises an allowance for expected credit losses (ECLs) for all of its financial assets at amortized cost. The Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

All financial assets that the Company owns at 31 December 2020 and 2019 are measured at amortised cost and include trade receivables, loans receivable and cash and cash equivalents.

Derecognition

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

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

When the Company 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 Company continues to recognise the transferred asset to the extent of the Company’s continuing involvement. In that case, the Company 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 Company has retained.

3. Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

All financial liabilities of the Company at 31 December 2020 and 2019 are classified as loans and borrowings and comprise of trade and other payables.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iii) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(iv) Fair value measurement

The Company measures instruments and non-financial assets such as property, plant and equipment at fair value at each balance sheet date.

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

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

The principal or the most advantageous market must be accessible to by the Company.

3. Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

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 Company 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 financial statements are categorised 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 recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 15.

(d) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is measured at fair value less accumulated depreciation and impairment loss recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3. Summary of significant accounting policies (continued)

(d) Property, plant and equipment (continued)

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the revaluation reserve for property, plant and equipment, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is recognised as gain on revaluation. A revaluation deficit is recognised as an expense, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve for property, plant and equipment.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use of disposal. Any gain or loss arising on derecognition of the asset (calculated as difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as incurred.

(iii) Depreciation

Depreciation is recognised in statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate. Effective 1 October 2020, the Company reassessed existing useful lives applicable for property, plant and equipment based on best estimate considerations of the management. External expert examined reasonableness and relevance of the revision initiated by the Company and proposed to adjust useful lives for several classes of assets.

The estimated useful lives for the current as well as comparative periods are as follows:

Buildings and facilities	up to 35 years
Plant and equipment	2-27 years
Vehicles	2-6 years
Other	2-5 years

3. Summary of significant accounting policies (continued)

(iii) Depreciation (continued)

All other factors remained constant, result of this re-estimation of useful economic lives translated into decrease of annual depreciation expense by GEL 689.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(f) Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

3. Summary of significant accounting policies (continued)

(g) Revenue from contracts with customers

The Company is in business of generation of electric power. The electric power generated is sold to an electricity distribution company, which is an entity under common control of the Ultimate Parent, and directly to third parties. 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.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payments and excluding taxes or duty. The Company applies practical expedient regarding the existence of a significant financial component, that is the promised amount of consideration is not adjusted for the effects of significant financing component if the period between the transfer of promised goods and the payment is one year or less.

Revenue from the sale of electric power is determined monthly based on the amount of electric power sold to customers as determined by an act of receipt of electric power issued by Georgian State Electrosystem, the operator of the high voltage electricity network of Georgia, and agreed with the customers.

Sales tariffs for electric power within Georgia are regulated by the Georgian National Energy Regulating Commission (GNERC). Based on the GNERC decree dated 31 October 2017 the tariff was set at GEL 0.09781 per MW/hr starting from 1 November 2017. Based on the GNERC decree dated 28 November 2019 the tariff was increased to GEL 0.10837 per MW/hr starting from 1 December 2019.

(h) Taxation

(i) Income tax

The annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017 (Note 7). Corporate income tax is paid on dividends is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia. Withholding tax payable in respect of dividend distribution to the shareholders of the Company is recognized as deduction from equity in the statement of changes in equity.

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

3. Summary of significant accounting policies (continued)

(h) Taxation (continued)

(ii) Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax, except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of VAT asset or liability in the statement of financial position.

(i) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

(j) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

(k) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate can not be readily determined, the Company’s incremental borrowing rate.

3. Summary of significant accounting policies (continued)

(l) New and amended standards and interpretations

Following amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Company:

- Amendments to IFRS 3 Definition of a business;
- Amendments to IAS 7, IFRS 9 and IAS 39 Interest rate benchmark reform;
- Amendments to IAS 1 and IAS 8 Definition of material;
- Amendments to IAS 16 Covid-19 related rent concession;

The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

4. Use of estimates, judgments and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(a) Judgments

In the process of applying the Company’s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

(i) Frequency for fair valuation of property, plant and equipment

The Company elected revalued basis for accounting of its property, plant and equipment. IAS 16 property, plant and equipment requires a company to make revaluations with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The last revaluation of property, plant and equipment was done as at 30 September 2020 and is reflected in the carrying value of the property, plant and equipment as at 31 December 2020 (Note 9).

(b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared.

Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

4. Use of estimates, judgments and assumptions (continued)

(b) Estimates and assumptions (continued)

(i) Net realizable value of inventory

The Company assesses at each reporting date whether there is any objective evidence that an inventory is obsolete. If there is objective evidence that impairment loss has occurred, the carrying amount of the asset is reduced through the use of a reserve account and the amount of loss is recognised as current period expense.

(ii) Provision for expected credit losses

The Company recognises an allowance for expected credit losses (ECLs) for all its financial assets at amortized cost and applies a simplified approach in calculating ECLs.

The Management has calculated expected credit losses based on lifetime of these financial instruments. The Company used a provision model that is prepared taking into account the Company’s historical credit loss experience, adjusted for forward-looking factors to the debtors and the economic environment.

The Company estimated that expected credit losses for its financial assets as at 31 December 2020 were immaterial and recognized nil provision for expected credit losses (Notes 10 and 11).

(iii) Revaluation of property, plant and equipment

On 30 September 2020 an independent appraiser, XL Partners LTD, determined the fair value of the Company's property, plant and equipment. The appraiser is an industry specialist in valuing these types of property, plant and equipment.

The majority of the Company's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in Georgia and does not provide evidence for using a market-based approach for determining their fair value. Consequently, the fair value of property, plant and equipment was primarily determined using a depreciated replacement cost basis for valuation, except for land, which was appraised on the basis of recent market transactions.

Depreciated replacement cost method considers the cost to reproduce or to replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence. The depreciated replacement cost was estimated based on internal sources and analysis of the Georgian and international markets for similar property, plant and equipment. In addition to determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values. The value based on the cash flow testing was lower than the one determined using depreciated replacement cost, and accordingly the fair value of property, plant and equipment was adjusted to the value as pet the cash flow testing model.

Key assumptions used in value in use calculation

The key assumptions used in performing the cash flow testing:

- The cash flows were forecasted based on actual operating results and the business plan as of the valuation date.
- For cash flow testing purposes management considered all property, plant and equipment as one cash generating unit as it is interdependent and a substantial part of cash outflows cannot be allocated to separate items of property, plant and equipment on a reasonable basis.
- Electricity generation of 194,000 MW/hr and 220,000 MW/hr is projected for 2021 and 2022-2028 years respectively. This is an average actual generation for the past 20 years.

4. Use of estimates, judgments and assumptions (continued)

(b) Estimates and assumptions (continued)

(iii) Revaluation of property, plant and equipment (continued)

- Selling price for 2021 and 2022-2025 years was projected as GEL 0.10837 and GEL 0.02300 per MW/hr respectively, based on the tariffs enacted by the GNERC based on the decree dated 1 December 2019 (Note 3). Starting from 2026 the selling price was determined based on general tariff-setting methodology of the GNERC: GEL 0.07142 for 2026, GEL 0.07175 for 2027 and GEL 0.07433 from 2028. An average discount rate of 12.5% was applied in determining the recoverable amount of property, plant and equipment. The discount rate was estimated based on an industry average weighted average cost of capital.

Terminal value of expected cash flows after 10 years (forecasted period) was estimated by discounting for perpetuity. The long-term growth rate assumed when calculating the terminal value is 3%.

The values assigned to the key assumptions represented in the management's best assessment of future trends in the business and were based on data from both external sources and internal sources available to the management at that time.
The calculation of a fair value of property, plant and equipment is more sensitive to the following assumptions:

- Discount rate;
- Selling prices.

Discount rate

Discount rate represents the current market assessment of the risks specific to the underlying assets, regarding time value of money. It also includes individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from expected return on investment by the investors. The cost of debt is based on the interest-bearing borrowings with the comparative risks and timing.

Selling prices

Selling price represents the price charged by the Company for the sale of each MW/hr of electric power. The selling prices for period 2021-2025 are based on latest enacted tariffs for the period. Selling price starting from 2026 are determined based on the general tariff-setting methodology of the GNERC

Sensitivity to changes in assumptions

The above estimates are particularly sensitive in the following area:

- An increase (decrease) of 1% in the discount rate used would have decreased (increased) the fair value by 12% (GEL 4,506).
- An increase (decrease) of 5% in the selling price estimate would have increased (decreased) the fair value by 12.5% (GEL 4,883).

5. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are limited to Amendments to IAS 1 Classification of Liabilities as Current or Non-current and Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement
- that a right to defer must exist at the end of the reporting period
- that classification is unaffected by the likelihood that an entity will exercise its deferral right
- that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is 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.

These amendments are not expected to have a material impact on the Company's financial statements.

Other standards and interpretations issued but not yet effective are listed below. Those standards are not expected to have an impact on the Company:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3 Reference to the Conceptual Framework
- Amendments to IAS 37 Onerous Contracts – Costs of Fulfilling a Contract
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

6. Revenue from contracts with customers

The total amount of revenue from contracts with customers is attributable to revenue from sale of electric power. Revenue is generated in Georgia. The revenue breakdown by customers is as follows:

	2020	2019
Revenue from sales to an entity under common control (Note 18)	8,851	15,731
Revenue from sales to third parties	6,679	–
Total revenue from contracts with customers	**15,530**	**15,731**

There were no contract liabilities as at 31 December 2020 and 2019.

7. Finance income and finance cost

	2020	2019
Interest expense for lease liability	(7)	(9)
Net foreign exchange loss	(791)	(443)
Total finance costs	**(798)**	**(452)**
Interest income on bank deposits and current accounts (Note 12)	297	497
Interest income on loans to entity under common control (Note 18)	1,070	791
Total finance income	**1,367**	**1,288**

Foreign exchange gains and losses are mainly caused by the revaluation of assets and liabilities of the Company denominated in US Dollars (USD). For more details on the foreign currency risk please refer to Note 15.

8. Income taxes

Following the enactment of the amendments to the tax law (Note 3), as at 1 January 2017 the Company reversed in full its deferred tax assets and liabilities based on IAS 12 Income Taxes requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017.

In 2020 the Company recognized GEL 1,588 as income tax charge on distributed profits (2019: GEL 1,694).

9. Property, plant and equipment

At 31 December 2020 property, plant and equipment consist of the following:

	Land	Buildings and facilities	Plant and equipment	Vehicles	Construction in Progress	Other	Total
Cost							
At 31 December 2018	**626**	**33,674**	**21,612**	**506**	**1,642**	**50**	**58,110**
Additions	–	–	178	119	4,124	240	**4,661**
Disposals	(57)	–	(7)	(31)	–	–	**(95)**
Transfers	–	–	225	–	(225)	–	**–**
At 31 December 2019	**569**	**33,674**	**22,008**	**594**	**5,541**	**290**	**62,676**
Additions	–	–	208	47	5,912	39	**6,206**
Disposals	–	–	(16)	(6)	–	(1)	**(23)**
Transfers	–	–	398	–	(379)	(19)	**–**
Revaluation increase recognized in OCI	17	925	3,443	332	1,033	83	**5,833**
Revaluation decrease recognized in OCI	–	(5,325)	(6,945)	–	–	–	**(12,270)**
Revaluation increase recognized in income statement	–	21	1,437	2	204	5	**1,669**
Revaluation decrease recognized in income statement	–	(1,865)	(3,161)	–	–	–	**(5,026)**
Elimination of accumulated depreciation at revaluation	–	(8,646)	(6,195)	(150)	–	(91)	**(15,082)**
At 31 December 2020	**586**	**18,784**	**11,177**	**819**	**12,311**	**306**	**43,983**
Accumulated depreciation							
At 31 December 2018	**–**	**(3,603)**	**(2,656)**	**(46)**	**–**	**(16)**	**(6,321)**
Disposals	–	–	3	27	–	–	**30**
Depreciation for the year	–	(2,882)	(2,047)	(77)	–	(37)	**(5,043)**
At 31 December 2019	**–**	**(6,485)**	**(4,700)**	**(96)**	**–**	**(53)**	**(11,334)**
Disposals	–	–	4	5	–	–	**9**
Elimination of accumulated depreciation at revaluation	–	8,646	6,195	150	–	91	**15,082**
Depreciation for the year	–	(2,344)	(1,823)	(118)	–	(53)	**(4,338)**
At 31 December 2020	**–**	**(183)**	**(324)**	**(59)**	**–**	**(15)**	**(581)**
Net book value							
At 31 December 2018	**626**	**30,071**	**18,956**	**460**	**1,642**	**34**	**51,789**
At 31 December 2019	**569**	**27,189**	**17,308**	**498**	**5,541**	**237**	**51,342**
At 31 December 2020	**586**	**18,601**	**10,853**	**760**	**12,311**	**291**	**43,402**

An independent appraiser, XL Partners LTD, determined the fair value of the Company's property, plant and equipment as at 30 September 2020 (Note 4). If the Company’s property, plant and equipment were measured using the cost model, it’s carrying amount as 31 December 2020 would be GEL 31,627 (31 December 2019: GEL 31,608).

The Company leases its office premises. Information about leases for which the Company is a lessee is presented below:

Right-of- use assets	**Office premises**
Balance at 31 December 2018	**77**
Depreciation charge for the year	(19)
Balance at 31 December 2019	**58**
Depreciation charge for the year	(20)
Balance at 31 December 2020	**38**

10. Trade receivables

	31 December 2020	31 December 2019
Trade receivables due from an entity under common control (Note 18)	6,889	2,583
Trade receivables due from other customers	615	1
	7,504	**2,584**

Trade receivables are non-interest bearing and are generally on 30-day terms. As at 31 December 2020 part of trade receivables from an entity under common control is overdue, but not impaired (Note 15). The forward-looking expected credit loss (ECL) approach has been used by the Company to estimate allowance for the trade receivables. Based on the Company’s judgments under this method estimated expected credit losses were immaterial thus no allowance has been recognized for the trade receivables.

The significant changes in the balances of trade receivables are related to accumulation of overdue balances from an entity under common control. The information about the credit exposures are disclosed in Note 15.

11. Loans receivable

	31 December 2020	31 December 2019
Current (a)	–	6,049
Non-current (b)	4,676	4,676
	4,676	**10,725**

(a) On 26 August 2019, GEL 7,408 of trade receivables from an entity under common control were converted into an interest-bearing loan denominated in GEL and maturing in 2020. This loan was redeemed in December 2020.

(b) On 1 June 2018, GEL 7,024 of trade receivables from an entity under common control were converted into an interest-bearing loan denominated in GEL and maturing in 2021. The loan had grace period on principal payments until 31 December 2019 and grace period on interest payment until 31 January 2019. In June 2020 terms of the loan were amended and its maturity was prolonged until 2022.

The forward-looking expected credit loss approach has been used by the Company to estimate allowance for the loans receivable measured at amortised cost. Based on the Company’s judgments under this method estimated expected credit losses were immaterial thus no allowance has been recognized for the loans receivable from an entity under common control.

12. Cash and cash equivalents

	31 December 2020	31 December 2019
Cash at bank	1,221	4,654

Interest earned on cash and cash equivalents in 2020 amounted to GEL 297 (2019: GEL 497).

13. Equity

(a) Issued capital

As at 31 December 2020 and 2019, the Company had 3,447,238 shares authorised and issued of GEL 0.001 each. 100% of the shares are owned by Gardabani Holdings B.V. as at 31 December 2020 and 2019.

(b) Dividends

In accordance with Georgian legislation, a company can declare dividends from its profits.
The Company's retained earnings are mostly result of fixed assets revaluation during adoption of IFRS on 1 January 2011. Georgian law is silent on the Company's right to distribute such reserves as dividends.

During 2020 the Company declared and paid out dividends in amount of GEL 9,000 (2019: GEL 9,600).

14. Trade and other payables

	31 December 2020	31 December 2019
Management fee payable to a related party (Note 18)	4,270	3,737
Technical fee payable to a related party (Note 18)	1,222	1,069
Trade payables to suppliers	105	102
Other payables	50	63
	5,647	**4,971**

Terms and conditions of the above financial liabilities:

- trade payables to suppliers are non-interest bearing and are normally settled on 30-day terms;
- payables to a related party originated form transactions prior to 2011, they are overdue but not paid since the related party have not requested a repayment;
- trade payable to suppliers and other payables are mainly denominated in USD.

15. Financial instruments and risk management

Overview

The Company's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to finance the Company's capital and operating expenditures.
The Company has trade receivables and cash on current accounts that arrive directly from its operations.

The Company is exposed to credit risk, liquidity risk and market risk.

The Company is part of a larger group controlled by the Ultimate Parent. Most of the financial risks are overseen and controlled at the level of the Ultimate Parent. Most of financial assets and liabilities of the Company are with entities under common control. Financial risk management objective is to safeguard the Company's day-to-day operations, raise sufficient cash from operations to finance operating and on-going capital expenditures and service obligations to third parties.

15. Financial instruments and risk management (continued)

(a) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks.

The Company has a significant concentration of credit risk with a single customer, JSC Telasi, an entity under common control. The total amount of receivable from JSC Telasi as at 31 December 2020 amounted to GEL 11,565 (31 December 2019: GEL 13,308), comprising of trade receivables (Note 10) and loans receivable (Note 11). As at 31 December 2020 GEL 2,562 of trade receivable from JSC Telasi was overdue for 31-120 days and GEL 2,722 for a period of 121-210 days (31 December 2019: nil). Loans receivable were not past due as at 31 December 2020 and 2019.

Settlement of overdue balances and other financial instruments within the group is managed by the Ultimate Parent based on the group's need for cash, rather than maturities of individual instruments. Management believes JSC Telasi is a creditworthy entity and any amounts due will be collected if a need for additional cash arises, thus that expected credit losses were deemed to be immaterial and no provision was made for amounts receivable from JSC Telasi.

All cash and cash equivalents are held with the three largest Georgian banks. None of cash and cash equivalents are impaired or past due.

The maximum exposure to credit risk at the reporting date was:

	31 December 2020	**31 December 2019**
Trade receivables (Note 10)	7,504	2,584
Cash and cash equivalents (Note 12)	1,221	4,654
Loans receivable (Note 11)	4,676	10,725
	13,401	**17,963**

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The majority of the Company's current liabilities and current assets are due to/from related parties and therefore management believes that this provides the Company with sufficient flexibility with regard to the timing of payments and receipts as required for ensuring adequate liquidity in the business into the future. The Company's current assets exceed its current liabilities as at the reporting date.

15. Financial instruments and risk management (continued)

(b) Liquidity risk (continued)

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

31 December 2020	Carrying value	Contractual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years
Financial liabilities						
Lease liabilities	46	53	–	7	20	26
Trade and other payables (Note 14)	5,647	5,647	5,491	156	–	–
	5,693	**5,700**	**5,491**	**163**	**20**	**26**

31 December 2019	Carrying value	Contractual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years
Financial liabilities						
Trade and other payables (Note 14)	67	80	–	7	20	53
Lease liabilities	4,971	4,971	4,806	165	–	–
	5,038	**5,051**	**4,806**	**172**	**20**	**53**

(c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risks: Interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings and current accounts in banks.

The sensitivity analysis in the following sections relate to the position as at 31 December 2020 and 2019. The sensitivity analyses have been prepared on the basis that the amount of net debt, the rate profile of the debt and the proportion of financial instruments in foreign currencies are all constant.

The Company is not subject to interest rate risk due to the fact that all of its financial assets and liabilities have fixed interest rates.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the financial liabilities denominated in foreign currencies.

The Company does not hedge its exposure to currency risk. The Company's exposure to foreign currency risk was as follows based on notional amounts:

	USD − denominated	
	31 December 2020	31 December 2019
Trade and other payables	(5,491)	(4,806)
Cash and cash equivalents	132	232
Net exposure	**(5,359)**	**(4,574)**

15. Financial instruments and risk management (continued)

(c) Market risk (continued)

A strengthening/weakening of the GEL, as indicated below, against the USD at 31 December 2020, would have increased/(decreased) profit or loss by the amounts shown below. The analysis is based on foreign currency exchanges rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Strengthening	Weakening
31 December 2020		
USD (20% movement)	1,072	(1,072)
31 December 2019		
USD (20% movement)	915	(915)

(d) Fair values

Fair values of the Company's financial assets and liabilities can be analyzed as follows:

		31 December 2020		31 December 2019	
	Level	Carrying value	Fair value	Carrying value	Fair value
Financial assets					
Trade receivables (Note 10)	Level 3	7,504	7,504	2,584	2,584
Cash and cash equivalents (Note 12)	Level 1	1,221	1,221	4,654	4,654
Loans receivable (Note 11)	Level 3	4,676	4,676	10,725	10,725
Financial liabilities					
Lease liabilities	Level 3	46	46	67	67
Trade and other payables (Note 14)	Level 3	5,647	5,647	4,971	4,971

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

- the fair values of cash and cash equivalents, trade and other payables and trade receivables are approximated by their carrying amounts due to the short-term maturities of these instruments;
- the fair value of loans receivable and lease liabilities is estimated by discounting future cash flows using the prevailing market rates at the reporting dates.

Assets measured at fair value are limited to property, plant and equipment measured using revaluation model and categorised as level 3 within the fair value hierarchy.

(e) Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company’s operational and strategic needs.

16. Capital commitments

Contracts to acquire property, plant and equipment

As of 31 December 2020, the Company does not have any open contracts to purchase property, plant and equipment (2019: none).

17. Contingencies

Taxation contingencies in Georgia

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after six years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

At each reporting date, management makes assessment of its tax positions and considers those transactions which may be challenged by Georgian Tax Authorities. When probability is assessed as high, the Company creates provisions.

18. Related party transactions

(i) Transactions with management

Key management personnel of the Company received GEL 129 as remuneration during 2020 (2019: GEL 125), which is included in wages and bonuses and other employee benefits.

(ii) Revenue

	Sales to related parties 2020	**Sales to related parties 2019**	**Amounts owed by related parties 31 December 2020**	**Amounts owed by related parties 31 December 2019**
Sale of electric power				
Entities under common control (Notes 6 and 10)	8,851	15,731	6,889	2,583

Sales are based on approved tariff as set by the GNERC.

(iii) Trade and other payables

	Amounts owed to related parties 31 December 2020	**Amounts owed to related parties 31 December 2019**
Entities under common control		
Management fees (Note 14)	4,270	3,737
Technical fees (Note 14)	1,222	1,069
	5,492	**4,806**

(iv) Loan issued

The total loans receivable balance as at 31 December 2020 is GEL 4,676 (31 December 2019: GEL 10,725). The interest income for 2020 comprised GEL 1,070 (2019: GEL 791).