JSC Khramhesi I

Financial statements

for the year ended 31 December 2023
with independent auditor's report

JSC Khramhesi I

Financial statements

for the year ended 31 December 2023

Contents

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Independent auditor's report

To the Shareholders and Supervisory Board of JSC Khramhesi I

Opinion

We have audited the financial statements of JSC Khramhesi I (hereinafter, the "Company"), which comprise the statement of financial position as at 31 December 2023, 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 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) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 attention to Note 17 to the financial statements, which describes a significant concentration of the Company's transactions with related parties. Our opinion is not modified in respect of this matter.

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Other information included in the Company's 2023 Management Report

Other information consists of the information included in the Company's 2023 Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2023 Management 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 Management Report 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 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 Supervisory Board 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.

Supervisory Board is 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.

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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 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.

Ana Kusrashvili (SARAS-A-169041)

On behalf of EY LLC (SARAS-F-855308)

2 February 2024

Tbilisi, Georgia

JSC Khramhesi I

Statement of comprehensive income

for the year ended 31 December 2023

in thousands of Georgian Lari

	Note	2023	2022
Revenue from contracts with customers	6	4,653	5,243
Depreciation	9	(2,907)	(2,584)
Wages and other employee benefits		(2,175)	(1,888)
Insurance		(630)	(702)
Property tax		(550)	(521)
Repairs and maintenance		(615)	(229)
Professional services		(263)	(245)
Transportation expenses		(191)	(200)
Loss on revaluation of property, plant and equipment	9	(12,950)	–
Other operating expenses		(782)	(620)
Operating loss		**(16,410)**	**(1,746)**
Finance costs		(41)	(1)
Finance income	7	1,285	1,731
(Loss)/gain on remeasurement of loans receivable	11	(284)	450
(Loss)/profit before income tax		**(15,450)**	**434**
Income tax (charge)/reversal	8	(1,941)	1,138
Net (loss)/profit for the year		**(17,391)**	**1,572**
Other comprehensive income			
Items that will not be reclassified to profit and loss in subsequent periods			
Revaluation of property, plant and equipment	9	17,902	–
Total comprehensive income for the year		**511**	**1,572**

These financial statements were approved by management on 2 February 2024 and were signed on its behalf by:

Devi Kandelaki
General Director

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

Elena Mchedlidze
Financial Director

The accompanying notes on pages 8–24 are an integral part of these financial statements.

JSC Khramhesi I

Statement of financial position

for the year ended 31 December 2023

in thousands of Georgian Lari

	Note	31 December 2023	31 December 2022
Assets			
Non−current assets			
Property, plant and equipment	9	51,014	47,306
Right−of−use assets		77	96
Intangible assets		12	21
Prepayments for non−current assets		199	176
Loans receivable	11	−	6,033
Total non−current assets		**51,302**	**53,632**
Current assets			
Inventories		508	595
Tax assets, net		−	372
Trade receivables	10	637	493
Loans receivable	11	−	183
Prepayments		244	227
Cash and cash equivalents	12	1,500	9,021
Total current assets		**2,889**	**10,891**
Total assets		**54,191**	**64,523**
Equity and liabilities			
Equity	13		
Issued capital		3,447	3,447
Revaluation reserve		27,068	10,135
Retained earnings		18,549	45,971
Total equity		**49,064**	**59,553**
Current liabilities			
Trade and other payables	14	5,034	4,875
Tax liabilities, net		13	−
Short−term portion of lease liabilities		16	14
Total current liabilities		**5,063**	**4,889**
Non−current liabilities			
Long−term lease liabilities		64	81
Total non−current liabilities		**64**	**81**
Total liabilities		**5,127**	**4,970**
Total equity and liabilities		**54,191**	**64,523**

The accompanying notes on pages 8−24 are an integral part of these financial statements.

JSC Khramhesi I

Statement of changes in equity

for the year ended 31 December 2023

in thousands of Georgian Lari

	Issued capital	Revaluation reserve for property, plant and equipment	Retained earnings	Total
Balance at 31 December 2021	**3,447**	**10,865**	**37,219**	**51,531**
Net profit for the year	–	–	1,572	**1,572**
Depreciation of revaluation reserve	–	(730)	730	**–**
Dividends declared (Note 13)	–	–	(350)	**(350)**
Reversal of dividends (Note 13)	–	–	6,800	**6,800**
Balance at 31 December 2022	**3,447**	**10,135**	**45,971**	**59,553**
Net (loss) for the year	–	–	(17,391)	**(17,391)**
Other comprehensive income for the year	–	17,902	–	**17,902**
Total comprehensive income for the year	**3,447**	**28,037**	**28,580**	**60,064**
Depreciation of revaluation reserve	–	(969)	969	**–**
Dividends declared (Note 13)	–	–	(11,000)	**(11,000)**
Balance at 31 December 2023	**3,447**	**27,068**	**18,549**	**49,064**

The accompanying notes on pages 8−24 are an integral part of these financial statements.

JSC Khramhesi I

Statement of cash flows

for the year ended 31 December 2023

in thousands of Georgian Lari

	Note	2023	2022
Operating activities			
(Loss)/income before income tax		(15,450)	434
Non−cash adjustments to reconcile income before tax to net cash flows			
Depreciation		2,907	2,584
Amortization		9	14
Gain on sale of property, plant and equipment		−	(34)
Loss on revaluation of property, plant and equipment	9	12,950	−
Loss/(gain) on remeasurement of loans receivable	11	284	(450)
Net foreign exchange loss on investing and financing activities		29	122
Finance costs		12	1
Interest income	7	(1,285)	(1,190)
		(544)	**1,481**
Working capital adjustments			
Change in inventories		87	32
Change in trade receivables		(144)	2,487
Change in prepayments		(17)	17
Change in tax assets/liabilities, net		385	141
Change in trade and other payables		159	(703)
		(74)	**3,455**
Income tax paid	8	(1,941)	(62)
Net cash flows (used in)/from operating activities		**(2,015)**	**3,393**
Investing activities			
Payments for property, plant and equipment		(1,667)	(4,417)
Proceeds from sale of property, plant and equipment		−	34
Proceeds from loans receivable		5,832	2,650
Interest received		1,385	1,787
Net cash flows from investing activities		**5,550**	**54**
Financing activities			
Dividends paid	13	(11,000)	(350)
Repayment of lease liability		(27)	(26)
Net cash flows used in financing activities		**(11,027)**	**(376)**
Net change in cash and cash equivalents		**(7,492)**	**3,071**
Cash and cash equivalents at the beginning of the period	12	9,021	6,072
Net foreign exchange difference on cash and cash equivalents		(29)	(122)
Cash and cash equivalents at the end of the period	12	**1,500**	**9,021**

There were no significant non−cash transactions in 2023 (2022: GEL 6,800 waiving of dividends declared and GEL 1,138 reversal of income tax payable accrued on dividends).

The accompanying notes on pages 8−24 are an integral part of these financial statements.

1. Corporate information

JSC Khramhesi I (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 I). Generated electric power is sold in Georgia. The Company's main customer is Tbilisi Electricity Retail Company LLC, entity under common control.

The Company has an active license for the generation of electric power from HPP Khrami I until 24 December 2024. During 2024, the Company will submit an application to the regulator – the Georgian National Energy and Water Supply Regulatory Commission ("GNERC") for issuing a new license in accordance with GNERC Resolution No. 22 dated 27 May 2020. The new license will be with indefinite useful life.

As at 31 December 2023 and 2022, 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 disclosed in Note 17, 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 at fair value under 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 material accounting policies

Material 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.

3. Summary of material accounting policies (continued)

(b) Financial instruments

(i) Financial assets

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.

(ii) 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.

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.

(c) 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 material accounting policies (continued)

(c) 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.

The estimated useful lives for the current period are as follows:

Buildings and facilities	Up to 40 years
Plant and equipment	2−34 years
Vehicles	2−10 years
Other	2−7 years

3. Summary of material accounting policies (continued)

(d) 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.

(e) 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.

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 to GEL 0.023 per MW/hr starting from 1 January 2022 and this tariff will be applied until 31 December 2025.

(f) 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 8). 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 profit or loss.

3. Summary of material accounting policies (continued)

(g) New and amended standards and interpretations

Several amendments and interpretations apply for the first time in 2023, but did not have an impact on the financial statements of the Company:

- IFRS 17 Insurance Contracts − provides a comprehensive accounting model for insurance contracts;
- Definition of Accounting Estimates − Amendments to IAS 8 – clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. Also clarify how entities use measurement techniques and inputs to develop accounting estimates;
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 – aim to narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities;
- International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12 – introduced in response to the OECD's BEPS Pillar Two rules and include a mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date;

The amendment below had an impact on the Company's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Company's financial statements.

- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 – aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

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.

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

(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 revaluation policy for accounting of its property, plant and equipment. IAS 16 *Property, plant and equipment* requires reporting entity 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 2023 and is reflected in the carrying value of the property, plant and equipment as at 31 December 2023 (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.

(ii) Revaluation of property, plant and equipment

On 30 September 2023 an independent appraiser, BDO Consulting LLC, 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 for every fixed asset. Consequently, the fair value of property, plant and equipment was primarily determined using a depreciated replacement cost basis for valuation except for small portion of land and other items of property, plant and equipment which were 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 value in use and reasonableness of values calculated by depreciated replacement cost approach. The value based on the cash flow testing was higher than the one determined using depreciated replacement cost approach and accordingly the fair value of property, plant and equipment was determined by the depreciated replacement cost model. However, key assumptions used in both methods are described below, including sensitivity to changes in assumptions used in value in use model, that could lead value in use value to be lower than depreciated replacement cost.

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

(b) Estimates and assumptions (continued)

Key assumptions used in depreciated replacement cost calculation

The key assumption used in determination of the depreciated replacement cost was the cost of replacement of 1mWT of hydro−electric power plant. The depreciated replacement cost is calculated to be GEL 416 per 1mWT.

Sensitivity to changes in assumptions

An increase of 1% in the depreciated replacement cost of 1mWT of hydro−electric plant would cause 1% increase in the fair value of the property, plant and equipment.

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 216,000 MW/hr is projected for 2024−2027 years respectively. This is an average actual generation for the past 15 years.
- Electricity selling price for 2023−2025, 2026 and 2027 years was projected as GEL 0.023, GEL 0.143 and GEL 0.147 per kwt/hr respectively. Starting from October 2023 until end of 2025 the selling price was determined based on the GNERC decree dated 31 October 2017 (Note 3). Considering that from 2027 the HPP tariff will be deregulated, open market tariff was assessed from 2027. The tariff for 2026 was approximated using general tariff−setting methodology of GNERC.
- Discount rate of 16.21% was applied in determining the recoverable amount of property, plant and equipment. The discount rate was estimated based on an industry weighted average cost of capital.
- Terminal value of expected cash flows after 4.25 years (forecasted period) was estimated by discounting for perpetuity. The long−term growth rate assumed in calculation of the terminal value is 3%. The values assigned to the key assumptions represented in the valuator'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;
- Discount factor;
- Selling prices.

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

(b) Estimates and assumptions (continued)

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.

Discount factor in terminal value

Discount factor is a decimal number multiplied by a cash flow value to discount it back to its present value. The discount factor is derived based on calculation weighted average cost of capital (WACC) and respective number of cash flow period. Terminal value discount factor used by the appraiser represent 0.57. Model and economic obsolescence result sensitivity on this assumption is provided below.

Selling prices

Selling price represents the price charged by the Company for the sale of each kwt/hr of electric power. The selling prices for period 2023−2025 are based on latest enacted tariffs for the period. Selling price for 2026 is determined based on the general tariff−setting methodology of the GNERC. Selling price for 2027 is based on the expectation that tariff will be deregulated and the Company will be selling on open market at market prices.

Sensitivity to changes in assumptions

The above estimates are particularly sensitive in the following area:

- Decrease in terminal value discount factor by 7% would have decreased recoverable amount of property, plant and equipment by 6.8% (GEL 5,517).
- A decrease of 1% in the discount rate used would have increased recoverable amount of property, plant and equipment by 11.3% (GEL 9,206).
- An increase of 1% in the discount rate used would have decreased recoverable amount of property, plant and equipment by 9.6% (GEL 7,839).
- A decrease of 5% in 2027 selling price estimate would have decreased recoverable amount of property, plant and equipment by 8.0% (GEL 6,517).
- An increase of 5% in 2027 selling price estimate would have increased recoverable amount of property, plant and equipment by 8.0% (GEL 6,517).
- Decrease of 2027 selling price by 23% would result in depreciated replacement cost of property, plant and equipment to be equal to value in use.

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 listed below. The Company does not expect material impact on its financial statements from applying those standards and amendments:

- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback − (effective from on or after 1 January 2024)
- Amendments to IAS 1: Classification of Liabilities as Current or Non−current − (effective from 1 January 2024)
- Supplier Finance Arrangements − Amendments to IAS 7 and IFRS 7 − (effective from on or after 1 January 2024)

6. Revenue from contracts with customers

The majority 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:

	2023	2022
Revenue from sales to entities under common control (Note 17)	3,434	4,634
Revenue from sales to third parties	1,219	492
Other revenue	−	117
Total revenue from contracts with customers	**4,653**	**5,243**

There were no contract liabilities as at 31 December 2023 and 2022. Information about assets from contracts with customers is disclosed in Note 10.

7. Finance income

	2023	2022
Interest income on loans to entity under common control (Notes 11, 17)	356	857
Net foreign exchange gain	−	541
Interest income on bank deposits and current accounts (Note 12)	929	333
Total finance income at effective interest rate	**1,285**	**1,731**

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 2023 the Company recognized GEL 1,941 as income tax charge on distributed profits (Note 13), applying statutory income tax rate of 15/85 to the declared dividend amount.

In 2022 the income tax reversal of 1,138 was an effect of GEL 1,200 reversal (GEL 6,800 of dividends declared were waived) and GEL 62 charge (GEL 350 dividends were declared and paid).

9. Property, plant and equipment

Movements of property, plant and equipment were as follows:

	Land	Buildings and facilities	Plant and equipment	Vehicles	Construc–tion in progress	Other	Total
Cost or revalued amount							
At 31 December 2021	**586**	**18,784**	**21,855**	**819**	**4,574**	**331**	**46,949**
Additions	–	–	66	110	5,566	64	**5,806**
Disposals/write−off	–	–	(5)	(111)	–	(1)	**(117)**
Transfers	–	–	3,538	–	(3,538)	–	**–**
At 31 December 2022	**586**	**18,784**	**25,454**	**818**	**6,602**	**394**	**52,638**
Additions	–	–	288	–	1,352	4	**1,644**
Disposals/write−off	–	–		–	–	1	**1**
Transfers	–	–	6,587	–	(6,587)	–	**–**
Revaluation increase recognized in OCI	2,248	15,803	4,909	257	1	21	**23,239**
Revaluation decrease recognized in OCI	(10)	(2,691)	(2,618)	–	–	(18)	**(5,337)**
Revaluation increase recognized in income statement	–	511	3,199	–	–	–	**3,710**
Revaluation decrease recognized in income statement	–	(4,499)	(12,142)	–	–	(19)	**(16,660)**
Elimination of accumulated depreciation at revaluation	–	(2,187)	(4,728)	(342)	–	(155)	**(7,412)**
At 31 December 2023	**2,824**	**25,721**	**20,949**	**733**	**1,368**	**228**	**51,823**
Accumulated depreciation and impairment							
At 31 December 2021	**–**	**(912)**	**(1,628)**	**(281)**	**–**	**(63)**	**(2,884)**
Disposals/write−off	–	–	5	111	–	1	**117**
Depreciation for the year	–	(729)	(1,682)	(101)	–	(53)	**(2,565)**
At 31 December 2022	**–**	**(1,641)**	**(3,305)**	**(271)**	**–**	**(115)**	**(5,332)**
Disposals/write−off	–	–	–	–	–	1	**1**
Elimination of accumulated depreciation at revaluation	–	2,187	4,728	342	–	155	**7,412**
Depreciation for the year	–	(802)	(1,934)	(98)	–	(56)	**(2,890)**
At 31 December 2023	**–**	**(256)**	**(511)**	**(27)**	**–**	**(15)**	**(809)**
Net book value							
At 31 December 2021	**586**	**17,872**	**20,227**	**538**	**4,574**	**268**	**44,065**
At 31 December 2022	**586**	**17,143**	**22,149**	**547**	**6,602**	**279**	**47,306**
At 31 December 2023	**2,824**	**25,465**	**20,438**	**706**	**1,368**	**213**	**51,014**

10. Trade receivables

	31 December 2023	31 December 2022
Trade receivables due from an entity under common control (Note 17)	636	491
Trade receivables due from other customers	1	2
	637	**493**

Trade receivables are non−interest bearing and are generally on 30−day terms. As at 31 December 2023 there are no overdue trade receivables and existing balance fully relates to the sales of December. The Company uses the forward−looking expected credit loss (ECL) to estimate allowance for the trade receivables. Under the method expected credit losses for the year 2023 is immaterial and no allowance has been recognized.

11. Loans receivable

	31 December 2023	31 December 2022
Loans receivable as of 1 January	**6,216**	**9,013**
Principal received	(5,832)	(2,650)
Interest received	(456)	(1,454)
Finance income (Note 7)	356	857
(Loss)/gain on remeasurement of loans receivable	(284)	450
Loans receivable as of 31 December	**−**	**6,216**
Current	−	183
Non−current	−	6,033

On 1 March 2021, GEL 6,331 of trade receivables due from an entity under common control were converted into an interest−bearing loan denominated in GEL and maturing in 2024, with an interest rate of 10% per annum. During 2022 the interest rate was amended to 14% and as a result remeasurement gain on modification of loan in amount of GEL 450 was recognized. During 2023 loan receivable was fully repaid in advance of the schedule and as a result remeasurement loss in amount of GEL 284 was recognized.

The forward−looking expected credit loss approach had 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 had been recognized for the loans receivable from an entity under common control in 2022.

12. Cash and cash equivalents

	31 December 2023	31 December 2022
Cash at bank	1,500	9,021

Interest earned on cash and cash equivalents in 2023 amounted to GEL 929 (2022: GEL 333).

Cash at banks earn the annual interest based on agreed bank deposit rates.

13. Equity

(a) Issued capital

As at 31 December 2023 and 2022, 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 2023 and 2022.

(b) Dividends

In accordance with Georgian legislation, a company can declare dividends from its net profits. During 2023 the Company declared dividends of GEL 11,000 and paid them in full. During 2022 GEL 6,800 of the dividends declared before 2022 were waived and dividends of GEL 350 were declared and paid.

14. Trade and other payables

	31 December 2023	31 December 2022
Management fee payable to a related party (Note 17)	3,504	3,521
Technical fee payable to a related party (Note 17)	1,003	1,007
Trade payables to suppliers	143	33
Other payables	384	314
	5,034	**4,875**

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 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.

As at 31 December 2023, the Company has trade receivable from entity under common control − LLC Tbilisi Electricity Retail Company in amount of GEL 636 (31 December 2022: GEL 491). Trade receivable from LLC Tbilisi Electricity Retail Company relates to the sales of December and is not past due. As at 31 December 2023 the loans receivable from JSC Telasi were fully repaid (31 December 2022: GEL 6,216 of loans receivable was not past due).

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 LLC Tbilisi Electricity Retail Company is 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 it.

All cash and cash equivalents are held with the four largest Georgian banks with international credit ratings of BB−/B−/B+. None of cash and cash equivalents are impaired or past due.

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

	31 December 2023	**31 December 2022**
Trade receivables (Note 10)	637	493
Cash and cash equivalents (Note 12)	1,500	9,021
Loans receivable (Note 11)	−	6,216
	2,137	**15,730**

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. Current liabilities exceed its current assets as at the reporting date by GEL 2,174. This negative liquidity gap was caused mainly by the GEL 11,000 dividends declared and paid in 2023. However, it is noteworthy that the Company has GEL 4,507 of payables towards the Ultimate Parent (Note 17), that has not been paid for many years and the Company does not expect the Ultimate Parent to request these amounts in the nearest future if it will harm its financial stability.

15. Financial instruments and risk management (continued)

(b) Liquidity risk

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

31 December 2023	Carrying value	Contractual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years
Financial liabilities						
Lease liabilities	80	110	–	–	16	94
Trade and other payables (Note 14)	5,034	5,034	4,507	527	–	–
	5,114	**5,144**	**4,507**	**527**	**16**	**94**

31 December 2022	Carrying value	Contractual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years
Financial liabilities						
Lease liabilities	95	108	–	–	14	94
Trade and other payables (Note 14)	4,875	4,875	4,528	347	–	–
	4,970	**4,983**	**4,528**	**347**	**14**	**94**

(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 receivable and current accounts in banks.

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 2023	31 December 2022
Trade and other payables	(4,507)	(4,528)
Cash and cash equivalents	–	840
Net exposure	**(4,507)**	**(3,688)**

A strengthening/weakening of the GEL, as indicated below, against the USD at 31 December 2023, 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 remain constant.

15. Financial instruments and risk management (continued)

(c) Market risk (continued)

	Strengthening	Weakening
31 December 2023		
USD (18.84% movement)	849	(849)
31 December 2022		
USD (20% movement)	738	(738)

(d) Fair values

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

		31 December 2023		31 December 2022	
	Level	Carrying value	Fair Value	Carrying value	Fair value
Financial assets					
Trade receivables (Note 10)	Level 3	637	637	493	493
Cash and cash equivalents (Note 12)	Level 1	1,500	1,500	9,021	9,021
Loans receivable (Note 11)	Level 3	–	–	6,216	5,803
Financial liabilities					
Lease liabilities	Level 3	80	80	95	90
Trade and other payables (Note 14)	Level 3	5,034	5,034	4,875	4,875

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.

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base (determined based on the amount of equity presented in Company's IFRS financial statements) for meeting the Company's operational and strategic needs.

16. 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.

16. Contingencies (continued)

Taxation contingencies in Georgia (continued)

At each reporting date, management makes assessment of its tax positions and considers those transactions which may be challenged by Georgian Tax Authorities. When it is probable that additional tax liability as the result of such challenge will arise, the Company recognized a provision in its statement of financial position.

Conflict in Ukraine

As a result of the conflict 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 conflict, there has been a significant depreciation 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.

The Ultimate Parent of the Company is controlled by the Russian Federation. As of the date of these financial statements neither the Company nor the Ultimate Parent were sanctioned by EU, US or UK. The Company is not sanctioned in Georgia. The Company does not have trade operations with its Ultimate Parent and the only balance toward the Ultimate Payable relates to the payable of management and technical fees in amount of GEL 4,507 (Notes 14, 17). Furthermore, the Company does not have any operations in Russia, Ukraine, UK, US or EU and conducts most of its business activities within Georgia.

Dividends paid during 2023 were distributed to Parent which is not sanctioned by EU, US or UK.

Considering all above we believe that there is no clear and present threat related to the Company's business activities, however as the conflict is still waging, it is impossible to reliably assess the impact this may have on the Company's business as there is uncertainty over the magnitude of the impact on the economy in general.

17. Related party transactions

(i) Transactions with management

Key management personnel of the Company received GEL 315 as remuneration during 2023 (2022: GEL 218), which is included in wages and bonuses and other employee benefits.

(ii) Revenue

	Sales to related parties 2023	Sales to related parties 2022	Amounts owed by related parties 31 December 2023	Amounts owed by related parties 31 December 2022
Sale of electric power				
Entities under common control (Notes 6 and 10)	3,434	4,634	636	491

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

17. Related party transactions (continued)

(iii) Trade and other payables

	Amounts owed to related parties 31 December 2023	Amounts owed to related parties 31 December 2022
To the Ultimate Parent		
Management fees (Note 14)	3,504	3,521
Technical fees (Note 14)	1,003	1,007
	4,507	**4,528**

(iv) Loan issued

The total loans receivable balance as at 31 December 2023 is GEL nil (31 December 2022: GEL 6,216). The interest income for 2023 comprised GEL 356 (2022: GEL 857). The remeasurement loss in amount of GEL 284 (2022: gain of GEL 450) is also related to the loans receivable from an entity under common control (Note 11).