

**Georgian Global Utilities LTD**

**Consolidated financial statements**

*for the year ended 31 December 2018  
with independent auditor's report*

## Contents

### Independent auditor's report

### Consolidated financial statements

Consolidated statement of financial position.....	1
Consolidated statement of profit or loss and other comprehensive income.....	2
Consolidated statement of changes in equity .....	3
Consolidated statement of cash flows .....	4

### Notes to the consolidated financial statements

1. Corporate information.....	5
2. Operating environment .....	5
3. Basis of preparation.....	6
4. Summary of significant accounting policies .....	6
5. Significant accounting judgements and estimates .....	17
6. Segment information .....	18
7. Property, plant and equipment .....	21
8. Investment property .....	23
9. Other non-current assets.....	24
10. Trade and other receivables .....	25
11. Equity .....	26
12. Borrowings .....	27
13. Trade and other payables.....	28
14. Contract assets and liabilities .....	28
15. Revenue from water supply .....	29
16. Other revenue.....	29
17. Salaries and other employee benefits .....	29
18. General and administrative expenses .....	30
19. Professional fees .....	30
20. Other income .....	30
21. Other operating expenses .....	30
22. Finance costs .....	30
23. Derivative financial assets and liabilities.....	31
24. Share-based payments .....	31
25. Non-recurring expenses .....	32
26. Commitments and contingencies.....	32
27. Financial instruments.....	33
28. Related parties disclosures .....	35
29. Events after the reporting period .....	36



EY LLC  
Kote Abkhazi Street, 44  
Tbilisi, 0105, Georgia  
Tel: +995 (32) 215 8811  
Fax: +995 (32) 215 8822  
www.ey.com/ge

შპს იუაი  
საქართველო, 0105 თბილისი  
კოტე აფხაზის ქუჩა 44  
ტელ: +995 (32) 215 8811  
ფაქსი: +995 (32) 215 8822

## Independent auditor's report

To the Management and Board of Directors of  
Georgian Global Utilities LTD

### Opinion

We have audited the consolidated financial statements of Georgian Global Utilities LTD and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

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

### Responsibilities of management and the Board of Directors for the consolidated financial statements

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

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

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

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

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

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



**Building a better  
working world**

We communicate with Board of Directors 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.

A handwritten signature in grey ink, appearing to read 'Marchello Gelashvili', with a long horizontal stroke extending to the right.

Marchello Gelashvili

For and on behalf of EY LLC

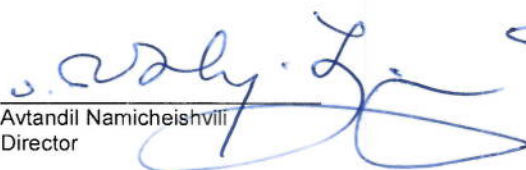
17 April 2019


Tbilisi, Georgia

**Consolidated statement of financial position****As at 31 December 2018***(Amounts expressed in thousands of Georgian Lari)*

	Note	31 December 2018	31 December 2017
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	586,207	441,556
Investment property	8	9,865	11,286
Restructured trade receivables	10	204	133
Other non-current assets	9	2,161	13,298
<b>Total non-current assets</b>		<b>598,437</b>	<b>466,273</b>
<b>Current assets</b>			
Inventories		3,913	3,787
Trade and other receivables	10	19,499	23,738
Current income tax prepayments		–	184
Prepaid taxes other than income tax		1,465	3,875
Prepayments		1,647	1,764
Derivative financial assets	23	–	450
Restricted cash	27	877	7,656
Cash at bank	27	13,772	61,963
<b>Total current assets</b>		<b>41,173</b>	<b>103,417</b>
<b>Total assets</b>		<b>639,610</b>	<b>569,690</b>
<b>Equity</b>			
Charter capital	11	2	2
Additional paid-in capital	11	10,657	2,783
Retained earnings		86,855	89,465
Other reserves	11	(7,545)	(5,238)
Revaluation reserve for property, plant and equipment	11	180,517	180,774
<b>Total equity</b>		<b>270,486</b>	<b>267,786</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	12	300,076	246,015
Deferred revenue	14	18,948	16,023
Other non-current liabilities		22	20
<b>Total non-current liabilities</b>		<b>319,046</b>	<b>262,058</b>
<b>Current liabilities</b>			
Borrowings	12	20,170	1,341
Advances received	14	8,424	8,562
Trade and other payables	13	13,929	24,195
Provisions for liabilities and charges		494	417
Deferred revenue	14	3,921	3,451
Derivative financial liabilities	23	1,777	–
Other taxes payable		1,363	1,880
<b>Total current liabilities</b>		<b>50,078</b>	<b>39,846</b>
<b>Total liabilities</b>		<b>369,124</b>	<b>301,904</b>
<b>Total liabilities and equity</b>		<b>639,610</b>	<b>569,690</b>

Approved for issue and signed on behalf of the Board of Directors on 17 April 2019:


  
Avtandil Namicheishvili  
Director


  
Giorgi Vakhtangishvili  
Director

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

**Consolidated statement of profit or loss and other comprehensive income****For the year ended 31 December 2018***(Amounts expressed in thousands of Georgian Lari)*

	<b>Note</b>	<b>2018</b>	<b>2017</b>
Revenue from water supply	15	131,815	118,905
Revenue from electric power sales		9,052	9,755
Other revenue	16	4,440	4,334
<b>Total revenue</b>		<b>145,307</b>	<b>132,994</b>
Electricity and transmission costs	4	(18,695)	(18,303)
Salaries and other employee benefits	17	(18,617)	(18,919)
Allowance for expected credit losses / Allowance for impairment of trade receivables	10	(5,033)	(1,675)
Taxes other than income tax		(4,471)	(3,915)
General and administrative expenses	18	(3,735)	(3,696)
Professional fees	19	(3,052)	(2,743)
Raw materials, fuel and other consumables		(2,495)	(3,077)
Maintenance expenditure		(2,247)	(3,203)
(Charge for) / reversal of provisions and legal claims related expenses		(231)	2
Other operating expenses	21	(7,148)	(7,044)
Other income	20	3,790	2,153
		<b>(61,934)</b>	<b>(60,420)</b>
<b>EBITDA</b>		<b>83,373</b>	<b>72,574</b>
Interest income		567	1,637
Finance costs	22	(14,913)	(14,045)
Net foreign exchange losses		(4,970)	(482)
Depreciation and amortisation	7, 9	(25,392)	(20,213)
Non-recurring expenses	25	(6,121)	(2,069)
<b>Profit before income tax expense</b>		<b>32,544</b>	<b>37,402</b>
Income tax expense		–	–
<b>Profit for the year</b>		<b>32,544</b>	<b>37,402</b>
Other comprehensive income		–	–
<b>Total comprehensive income for the year, net of tax</b>		<b>32,544</b>	<b>37,402</b>

**Consolidated statement of changes in equity****For the year ended 31 December 2018***(Amounts expressed in thousands of Georgian Lari)*

	<b>Charter capital</b>	<b>Additional paid-in capital</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Revaluation reserve for property, plant and equipment</b>	<b>Total</b>
<b>Balance as at 31 December 2016</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>98,157</b>	<b>180,923</b>	<b>279,082</b>
Effect from early adoption of IFRS 15	–	–	–	(18,243)	–	(18,243)
<b>Balance as at 1 January 2017</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>79,914</b>	<b>180,923</b>	<b>260,839</b>
Profit for the year	–	–	–	37,402	–	37,402
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>37,402</b>	<b>–</b>	<b>37,402</b>
Share-based payments (Note 24)	–	2,783	–	–	–	2,783
Transfers to parent under share-based compensation program (Note 24)	–	–	(5,238)	–	–	(5,238)
Realised revaluation reserve for property, plant and equipment	–	–	–	149	(149)	–
Dividends declared (Note 11)	–	–	–	(28,000)	–	(28,000)
<b>Balance as at 31 December 2017</b>	<b>2</b>	<b>2,783</b>	<b>(5,238)</b>	<b>89,465</b>	<b>180,774</b>	<b>267,786</b>
Effect from adoption of IFRS 9 (Note 4)	–	–	–	(6,571)	–	(6,571)
<b>Balance as at 1 January 2018</b>	<b>2</b>	<b>2,783</b>	<b>(5,238)</b>	<b>82,894</b>	<b>180,774</b>	<b>261,215</b>
Profit for the year	–	–	–	32,544	–	32,544
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>32,544</b>	<b>–</b>	<b>32,544</b>
Share-based payments (Note 24)	–	7,874	–	–	–	7,874
Transfers to parent under share-based compensation program (Note 24)	–	–	(2,307)	–	–	(2,307)
Realised revaluation reserve for property, plant and equipment	–	–	–	257	(257)	–
Dividends declared (Note 11)	–	–	–	(28,840)	–	(28,840)
<b>Balance as at 31 December 2018</b>	<b>2</b>	<b>10,657</b>	<b>(7,545)</b>	<b>86,855</b>	<b>180,517</b>	<b>270,486</b>



**Consolidated statement of cash flows****For the year ended 31 December 2018***(Amounts expressed in thousands of Georgian Lari)*

	<b>Note</b>	<b>2018</b>	<b>2017*</b>
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>32,544</b>	<b>37,402</b>
<i>Adjustments for:</i>			
Depreciation and amortisation	7, 9	25,392	20,213
Allowance for expected credit losses / Allowance for impairment of trade receivables	10	5,033	1,675
Reversal of / (charge for) provisions and legal claims related expenses		231	(2)
Net loss from disposal of property, plant and equipment	21	378	938
Revaluation gain on investment property	8	(268)	(554)
Net foreign exchange losses		4,970	482
Finance income		(567)	(1,637)
Finance costs	22	14,913	14,045
Share-based payment expense	24	6,077	1,391
<i>Operating cash flows from working capital changes</i>			
Change in inventories		(126)	(729)
Change in trade and other receivables		(7,433)	(5,464)
Change in prepaid taxes other than income tax		2,410	(1,066)
Change in prepayments		117	(36)
Change in trade and other payables		458	(2,469)
Change in deferred revenue		3,395	1,231
Change in advances received		(138)	4,744
Change in other tax payables		(517)	(941)
Change in restricted cash		6,540	(2,966)
Interest received		567	1,637
Interest paid	12	(20,584)	(13,694)
Change in current income tax		184	281
<b>Net cash from operating activities</b>		<b>73,576</b>	<b>54,481</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(162,102)	(127,269)
Purchase of investment property		-	(12)
Proceeds from sale of property, plant and equipment		456	16
Proceeds from sale of investment property		1,455	602
<b>Net cash used in investing activities</b>		<b>(160,191)</b>	<b>(126,663)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	12	71,772	291,737
Repayment of borrowings	12	(738)	(156,880)
Dividend paid to the Group's owner	11	(28,840)	(28,000)
Transfers to parent under share-based compensation program		(2,307)	(4,941)
<b>Net cash from financing activities</b>		<b>39,887</b>	<b>101,916</b>
Effect of exchange rate changes on cash and cash equivalents		(1,463)	4,717
<b>Net increase in cash and cash equivalents</b>		<b>(48,191)</b>	<b>34,451</b>
Cash and cash equivalents at the beginning of year	27	61,963	27,512
<b>Cash and cash equivalents at the end of year</b>	27	<b>13,772</b>	<b>61,963</b>

\* Certain amounts of comparative period have been reclassified to comply with the current period presentation.

(Amounts expressed in thousands of Georgian Lari)

## 1. Corporate information

Georgian Global Utilities LTD (formerly known as Multiplex Energy Limited) was incorporated in British Virgin Islands on 16 August 2007 as a private limited liability company (the "Company" or "GGU"). The Company is a holding parent company of the following entities:

	<i>Country of incorporation</i>	<i>Date of incorporation</i>	<i>Date of acquisition</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
Georgian Water and Power LLC ("Management company")	Georgia	25 June 1997	14 May 2008	100%	100%
Rustavi Water LLC	Georgia	31 August 1999	14 May 2008	100%	100%
Mtskheta Water LLC	Georgia	1 September 1999	14 May 2008	100%	100%
Gardabani Sewage Treatment Plant LLC	Georgia	20 December 1999	14 May 2008	100%	100%
Georgian Engineering and Management Company LLC	Georgia	29 March 2011	29 March 2011	100%	100%
Saguramo Energy LLC	Georgia	11 December 2008	19 December 2015	100%	100%

The Company together with its subsidiaries makes up a group of companies (the "Group").

The Group's principal business activities are rendering water supply and wastewater collection services to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. The Group owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection. The Group also owns and operates hydroelectric power stations generating electricity for own use and for sale to electricity open market.

Georgian Water and Power LLC (the "Management company") renders management services to other entities within the Group.

The Company's registered address is at Skelton Bay Lot; Building #10, 1st Floor, P.O. Box 3169 PMB 103 Fish Bay, Tortola VG1110, British Virgin Islands.

As at 31 December 2018, 100% of the Company's shares were owned by JSC Georgia Capital, the ultimate parent of which is Georgia Capital PLC ("GCAP").

As at 31 December 2017, 100% of the Company's shares were owned by JSC BGEO Investments, the ultimate parent of which was BGEO Group PLC ("BGEO"). No individual shareholder owned more than 10% of the BGEO shares as at 31 December 2017.

On 29 May 2018, BGEO Group PLC completed demerger of its business activities into a London-listed banking business, Bank of Georgia Group PLC, and a London-listed investment business, Georgia Capital PLC. As a result, Georgia Capital PLC became the ultimate parent of the Group. No individual shareholder owns more than 8% of the GCAP shares as at 31 December 2018

## 2. Operating environment

The Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets, including the risk that the Georgian Lari is not freely convertible outside the country, there are currency exchange fluctuation risks, debt and equity markets are not well developed. However, over the last years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to enhance banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation, including new Tax Code and procedural laws. In the view of the Management, these steps contribute to mitigation of the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the developed countries.

(Amounts expressed in thousands of Georgian Lari)

### 3. Basis of preparation

These consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued by the International Accounting Standards Board (“IASB”) effective for 2018 reporting.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, property, plant and equipment and derivative financial instruments that have been measured at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, apart for adoption of IFRS 9, *Financial Instruments* (Note 4).

The consolidated financial statements are presented in thousands of Georgian Lari (“GEL”), unless otherwise indicated.

### 4. Summary of significant accounting policies

#### Adoption of new or revised standards and interpretations

The Group adopted IFRS 9, *Financial Instruments*, as at 1 January 2018. The adoption of the new standard had an impact on the consolidated financial statements of the Group due to a change in approach to estimation of the trade receivables allowance. There were no changes in classification of financial instruments resulting from the application of IFRS 9.

The Group adopted the new standard as of the effective date and did not restate comparative information which continues to be reported under IAS 39 *Financial Instruments: Recognition and Measurement*. The below presented accounting policy is applied from 1 January 2018.

#### *IFRS 9 Financial Instruments*

##### *Impairment*

The new impairment model in IFRS 9 is based on providing for expected losses (rather than dealing with losses after they have arisen) and applies to financial assets held at amortised cost and fair value through other comprehensive income (“FVOCI”) (with recycling to income statement). An entity shall apply either general or simplified approach to determine the expected losses.

IFRS 9 extenuates cost and complexity for non-financial institutions through permission of simplified approach for trade and lease receivables. In this case, there is no need to calculate 12 months expected credit losses (“ECLs”) and monitor the increase in credit risk of financial assets. An entity should rather estimate lifetime credit losses. The Group adopted simplified approach for its short-term and long-term trade and other receivables.

##### *Cash and cash equivalents*

Due to the short-term and the highly liquid nature of cash and cash equivalents, the Group has assessed the corresponding ECLs to be immaterial. Therefore, no impairment is being recognized for cash and cash equivalents under IFRS 9.

##### *Trade and other receivables*

Due to the qualitative and quantitative characteristics of the Group’s operations, trade and other receivables is the core area affected by the application of the new standard. The Group’s receivables comprise the following categories based on the respective class of revenue and the counterparty legal status:

<b>Description</b>	<b>Proportional distribution</b>
Trade receivables for water supply services from legal entities	43%
Trade receivables for water supply services from general population	39%
Trade receivables for technical services	14%
Trade receivables for electric power sales	2%
Other trade receivables	1%
Trade receivables for installation of water meters	1%
	<b>100%</b>

(Amounts expressed in thousands of Georgian Lari)

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

##### Adoption of new or revised standards and interpretations (continued)

Allowance was separately determined for each pool presented in the table above as follows:

- ▶ **Individual Assessment:** Individual assessment was applied for certain major debtors in default that were fully or substantially provided for (using collective rates), and the repayment or restructuring agreements were reached.
- ▶ **Collective Assessment:** The remaining debtors were grouped into pools based on credit risk characteristics, such as overdue days and the counterparty active/passive status.

##### *Designator for segregation*

##### *Description*

Overdue days	Less than 1 month
Overdue days	1 month – 2 months
Overdue days	2 months – 3 months
Overdue days	More than 3 months (default pool)
Status	Cancelled/disconnected subscribers

- ▶ The collective default rates were identified within each pool. The Group applied provision matrices based on the historical observed default rates. Past 12 months, the maximum of a practically observable time horizon, were set for the purposes of calculations and cohort (discrete time) method of migration was applied. Subsequent to the estimated default rates based on the historical analysis, the Group assessed the effect of forward-looking information the adjustment for which is immaterial.
- ▶ In order to estimate the final provision rates, default pools were divided into 14 subgroups based on the period of time elapsed after a debtor first met the criteria of default and cure and recovery rates were calculated for each subgroup.

As a result, the pre-tax impact of IFRS 9 adoption as of 1 January 2018 amounted GEL 6,571 increase in allowance and reduction of retained earnings.

##### *Other standards and interpretations*

The following standards/interpretations relevant to the Group's activities that became effective on 1 January 2018 had no impact on the Group's consolidated financial position or results of operations:

- ▶ IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*;
- ▶ Amendments to IAS 40 *Transfers of Investment Property*;
- ▶ IFRS 2 of *Share-based Payment Transactions* – Amendments to IFRS 2.

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

##### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

(Amounts expressed in thousands of Georgian Lari)

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

##### Basis of consolidation (continued)

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

##### Fair value measurement

The Group measures financial instruments, such as derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 27.

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

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

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

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

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

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

Fair value of assets included in Level 3 of the fair value hierarchy may be subject to change once and if observable relevant transactions are available.

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

##### Financial assets

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

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

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

(Amounts expressed in thousands of Georgian Lari)

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

##### Financial assets (continued)

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

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

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

##### Derivative financial instruments

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

##### Impairment of receivables

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

For receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date (Note 4).

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

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

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. In addition, a customer may file an application with the regulator – Georgian National Energy and Water Supply Regulatory Commission (“GNERC”) – for derecognition of a receivable overdue for more than 3 years. If such an application is approved by GNERC, the Group is required to derecognize respective receivable by law. Refer to Note 10 for further details on assessment and judgement applied in respect with impairment and write-off of trade receivables.

##### Renegotiated receivables

Renegotiated (restructured) receivables comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. Only trade receivables for water supply services and from penalties for illegal connections can be restructured. The restructuring is caused by the financial difficulties of the Group’s counterparty, and is treated as a derecognition of the original financial asset and the recognition of a new financial asset, and the difference in the respective carrying amounts is recognised in the profit or loss.

(Amounts expressed in thousands of Georgian Lari)

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

##### Financial assets (continued)

Once the terms have been renegotiated, the receivable is no longer considered past due. Management continuously reviews renegotiated receivables to ensure that all criteria are met and that future payments are likely to occur. The renegotiated receivables continue to be subject to an impairment assessment as other trade receivables as described above.

##### Derecognition of financial instruments

###### Financial assets

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

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

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

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

###### Financial liabilities

All of the Group’s financial liabilities, including borrowings and trade and other payables, are carried at amortised cost except for derivative financial liabilities held at fair value. The Group’s borrowings comprise of debt securities issued and loans from Georgian and international financial institutions.

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

##### Property, plant and equipment

Infrastructure assets comprise a network of systems consisting of raw water aqueducts, mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and initially recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset’s base is charged as an operating cost.

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

The Group’s property, plant and equipment are stated at revalued amount less accumulated depreciation and provision for impairment, where required. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase of the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease of the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for property, plant and equipment in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. Any accumulated depreciation, aggregated with accumulated impairment losses, at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset. When the asset is derecognised the revaluation surplus is transferred directly to retained earnings.

(Amounts expressed in thousands of Georgian Lari)

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

##### Financial assets (continued)

Land plots, real estate, vehicles, fixtures and fittings and infrastructure assets are subject to revaluation on a regular basis. Valuations are performed frequently enough (market value changes are monitored at least once a year) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over estimated useful lives. Existing useful lives applicable for several classes of property, plant and equipment are:

	<u>Useful lives</u>
Real estate	60 years
Infrastructure assets	8-45 years
Fixtures and fittings	5-10 years
Vehicles	10 years

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

##### Investment property

Investment property is represented by land and buildings that are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income, capital appreciation or for future redevelopment before exact details of use are not yet determined.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. The investment property revaluation was conducted by an independent appraiser as at 31 December 2018.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition.

##### Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. If the possibility of outflow becomes probable, the Group recognizes respective Provisions for liabilities and charges to provisions (Note 4). Contingent assets are not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

##### Operating leases

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

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

##### Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets include acquired software licenses and are amortised on a straight-line basis over their estimated useful lives (3-5 years) from the date the asset is available for use.

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



(Amounts expressed in thousands of Georgian Lari)

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

##### Taxation

The annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017. Corporate income tax is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. The companies are able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies is not subject to corporate income tax. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia.

Georgian tax legislation also provides for charging corporate income tax on abnormal water losses. Pursuant to the regulation published by GNERC, normative loss rate has been increased and the Group does not expect to be subject to respective taxes. Therefore, taxation of such transactions is accounted as non-recurring expenses in the consolidated statement of profit or loss and other comprehensive income.

##### Inventories

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

##### Prepayments

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

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

##### Cash at bank

Cash at bank includes deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Cash at bank are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash at bank for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability are included in restricted cash separately.

##### Charter capital

The amount of the Company's authorised charter capital is defined by the Company's Article of Association. The changes in the Company's Article of Association (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's participant. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was paid.

##### Dividends

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

##### Value added tax

Value added tax ("VAT") related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is recognised upon the receipt of a tax invoice from a supplier but is reclaimable against sales VAT only upon a payment of such invoice. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the end of the reporting period is recognised in the consolidated statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

(Amounts expressed in thousands of Georgian Lari)

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

##### **Borrowing costs**

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. The amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred on that borrowing during the period of respective property development phase.

##### **Provisions for liabilities and charges to provisions**

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

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

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

In the normal course of business, the Group is a party to legal actions. As at the reporting date, management is unaware of any actual, pending or threatened claims against the Group that would have a material impact on the Group's financial position.

Management does not consider it feasible to accurately estimate when the provision will be fully utilised, given the number of court hearings and appeal processes that each claim may be subject to. However, it is expected that all cases will be settled within the next three years. In addition, there remains uncertainty as to the merits of each individual claim and the final decision of the court in respect of each claim. After taking appropriate legal advice, management considers that the outcome of these legal claims will not give rise to any significant loss beyond the amounts accrued in these consolidated financial statements.

##### **EBITDA**

The Group separately presents EBITDA on the face of consolidated statement of profit or loss and other comprehensive income. EBITDA is not defined in IFRS and is defined by the Group as earnings before interest, taxes, depreciation and amortisation, and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, finance costs, net foreign exchange losses and non-recurring expenses.

##### **Non-recurring expenses**

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

##### **Offsetting**

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

##### **Functional currencies and foreign currency translation**

The Group's consolidated financial statements are presented in Georgian Lari, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

(Amounts expressed in thousands of Georgian Lari)

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

##### Functional currencies and foreign currency translation (continued)

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Gains and losses resulting from the translation of foreign currency transactions related to borrowings and other foreign currency transactions are recognised in the profit or loss within net foreign exchange losses.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2018 and 2017 were 2.6766 and 2.5922 GEL to 1 US dollar, respectively.

Total amount of foreign exchange losses recognized in profit or loss and other comprehensive income for the year ended 31 December 2018 amounts to GEL 4,970 (2017: GEL 482), which consists of net foreign exchange losses related to borrowings in the amount of GEL 1,463 (2017: GEL 5,535) and net foreign exchange losses related to other financial instruments in the amount of GEL 3,507 (2017: net foreign exchange gains GEL 5,053).

##### Income and expense recognition

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

###### *Revenue from water supply to legal entities*

Revenue from water supply to legal entities includes amounts billed to the commercial customers based on the metered and estimated usage of water and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Group recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.

###### *Revenue from water supply to general population*

Revenue from water supply to general population includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied. For the residential customers having no meters, revenue is recognized based on the number of individual persons registered by the respective city municipality per each residential address by application of the relevant per capita tariff on a monthly basis.

###### *Revenue from installation of water meters*

Revenue from installation of water meters includes amounts billed to residential customers under GNERC rules. The performance obligations under such contracts are satisfied over time and the revenue is recognised during the service period. The estimated service period for the meters is considered to be 10 years. The revenue is deferred over the respective time period.

###### *Revenue from electric power sales*

Revenue from electric power sales is recognised on the basis of metered electric power transferred and by application of the relevant tariff.

###### *Revenue from connection service*

Revenue from connection service includes non-refundable amounts billed upfront for connecting customers to water system and providing them with the access to water supply. Revenue from connection is recognized over the time in line with the satisfaction of performance obligation over the life of water meters.

###### *Penalty income on illegal connections services*

Penalty income on illegal connections services includes fines billed to customers for illegal connections identified by reinforced activities. Amounts billed are defined based on respective tariffs set by GNERC.

(Amounts expressed in thousands of Georgian Lari)

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

##### Income and expense recognition (continued)

###### *Electricity and transmission costs*

Electricity and transmission costs include payments for guaranteed power, for transit and dispatching of electricity and for sustainability of stations.

###### *Interest and similar income and expense*

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

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

##### Employee benefits

Wages, salaries, annual leave and sick leave, bonuses, share-based compensations and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

##### Employee stock ownership plan

###### *Share-based payment transactions*

Senior executives of the Group receive share-based remuneration settled in equity instruments of GCAP, the Group's ultimate parent. Grants are made by GCAP. Grants that the Group does not have a liability to settle are accounted for as equity-settled transactions (even if the Group may subsequently recharge the cost of the award to the settling entity, which is recognized as equity deduction at respective payment date).

###### *Equity-settled transactions*

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value of the shares is determined at the grant date using available market quotations

The cost of equity settled transactions is recognized together with the corresponding increase in additional paid in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Settlements to the parent for the shares granted to the employees of the Group are accounted as decrease in Other reserves.

(Amounts expressed in thousands of Georgian Lari)

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

##### Standards issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. New standards relevant to the Group's activities that may have any impact on the Group, or the impacts of which are currently being assessed, are as follows:

##### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

##### Transition to IFRS 16

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

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

Adoption of IFRS 16 is expected to impact the statement of financial as follows:

	<b>1 January 2019</b>
Property, plant and equipment (right-of-use assets)	223
<b>Total assets</b>	<b>223</b>
Lease liabilities	223
<b>Total liabilities</b>	<b>223</b>

Following the adoption of IFRS 16, the Group's rent expense included to other operating expenses will decrease, while its interest expense and depreciation expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

(Amounts expressed in thousands of Georgian Lari)

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

##### Standards issued but not yet effective (continued)

###### *Annual Improvements to IFRSs 2015-2017 Cycle*

###### *IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. As the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements from this improvement.

#### 5. Significant accounting judgements and estimates

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

##### **Measurement of fair value of investment property**

The fair value of investment properties is determined by independent professionally qualified appraisers on an annual basis. Fair value is determined using a combination of the income approach and the sales comparison method (Note 8).

##### **Measurement of fair value of property, plant and equipment**

Property, plant and equipment are carried at revalued amount. The Group performs valuation of its property, plant and equipment with a 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. For the years ended 31 December 2018 and 2017 the Group performed the analysis applying income approach to ensure that the carrying value of property, plant and equipment does not differ materially from their fair value. Based on analyses performed, no material deficiency was explored indicating on price changes. Besides, macroeconomic fluctuations are considered to be another sign for potential remeasurement of property, plant and equipment. The last valuation of property, plant and equipment were carried at 31 December 2013 (Note 7).

The Group's certain properties are specialized in nature and spread across the different parts of the country. While secondary market in Georgia provides adequate information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

##### **Ownership and recognition of infrastructure assets**

The Group's property, plant and equipment includes certain specific items, including water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatisation transaction. Due to the lack of required documents and timing for registration, the Group was unable to obtain legal ownership title to certain fixed assets, including infrastructure assets, as at the date of these consolidated financial statements. However, based on the provisions of privatization agreement, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Group and could only be used by the Group (as a sole provider of water and water supply services in Tbilisi, Rustavi and Mtskheta) there is high probability that the Group will continue operation of infrastructure assets in the future and will obtain legal ownership title. Based on this judgment and to the extent that there was no litigation against the Group or disputes on ownership, management recognised infrastructure assets as the Group's property, plant and equipment.

(Amounts expressed in thousands of Georgian Lari)

## 5. Significant accounting judgements and estimates (continued)

### Useful lives of property, plant and equipment

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

### Impairment of trade and other receivables

The Group applied the simplified approach for trade receivables since they do not contain a significant financing component and the entity applies the practical expedient for contracts that have a maturity of one year or less. The impairment provision for accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

For the purposes of a collective evaluation of ECLs accounts receivable are grouped on the basis of revenue classes, overdue days and active/passive status per each counterparty. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions, in rare cases. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

## 6. Segment information

Management has decided to organize the Group into the following two operating segments based on products sold and services rendered:

### Electricity generation

The Group owns hydroelectric power stations generating electricity for own consumption and for sale to external customers.

### Water supply and wastewater collection services

The Group provides water supply and wastewater collection services which is core activity of the group.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained below, is measured according to IFRS standards in the same manner as profit or loss in the consolidated financial statements. Management does not monitor total assets, total liabilities and non-current assets separately for each segment, but analyses them on the Group's level.

Transactions between operating segments are on an arm's length basis in a manner as with transactions with third parties.

The Group's operations are concentrated in Georgia. All non-current assets of the Group are located in Georgia.

(Amounts expressed in thousands of Georgian Lari)

**6. Segment information (continued)****Water supply and wastewater collection services (continued)**

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2018 or 2017.

	<i>Sub-note</i>	<i>Electricity generation, 2018</i>	<i>Water supply and wastewater collection services, 2018</i>	<i>Intersegment transactions, 2018</i>	<i>Total, 2018</i>
Revenue from water supply		–	131,815	–	131,815
Revenue from electric power sales		13,051	–	(3,999)	9,052
Other revenue		–	4,440	–	4,440
<b>Total revenue</b>	<b>1</b>	<b>13,051</b>	<b>136,255</b>	<b>(3,999)</b>	<b>145,307</b>
Salaries and other employee benefits	2	(1,882)	(16,735)	–	(18,617)
Electricity and transmission costs	1	(91)	(22,603)	3,999	(18,695)
Raw materials, fuel and other consumables		(61)	(2,434)	–	(2,495)
Maintenance expenditure		(5)	(2,242)	–	(2,247)
General and administrative expenses		(118)	(3,617)	–	(3,735)
Taxes other than income tax		(361)	(4,110)	–	(4,471)
Professional fees		(74)	(2,978)	–	(3,052)
Allowance for expected credit losses		–	(5,033)	–	(5,033)
Charge for provisions and legal claims related expenses		–	(231)	–	(231)
Other income		13	3,777	–	3,790
Other operating expenses		(2,054)	(5,094)	–	(7,148)
<b>EBITDA</b>		<b>8,418</b>	<b>74,955</b>	<b>–</b>	<b>83,373</b>
Finance income	3	39	528	–	567
Finance costs	3	(2,224)	(12,689)	–	(14,913)
Foreign exchange losses		–	(4,970)	–	(4,970)
Depreciation and amortisation		(3,320)	(22,072)	–	(25,392)
Non-recurring expenses	4	(2,581)	(3,540)	–	(6,121)
<b>Profit before income tax expense</b>		<b>332</b>	<b>32,212</b>	<b>–</b>	<b>32,544</b>
Income tax expense		–	–	–	–
<b>Profit and other comprehensive income for the year</b>		<b>332</b>	<b>32,212</b>	<b>–</b>	<b>32,544</b>



(Amounts expressed in thousands of Georgian Lari)

**6. Segment information (continued)****Water supply and wastewater collection services (continued)**

	<i>Sub note</i>	<i>Electricity generation, 2017</i>	<i>Water supply and wastewater collection services, 2017</i>	<i>Intersegment transactions, 2017</i>	<i>Total, 2017</i>
Revenue from water supply		–	118,905	–	118,905
Revenue from electric power sales		14,011	–	(4,256)	9,755
Other revenue		–	4,334	–	4,334
<b>Total revenue</b>	<b>1</b>	<b>14,011</b>	<b>123,239</b>	<b>(4,256)</b>	<b>132,994</b>
Salaries and other employee benefits	2	(757)	(18,162)	–	(18,919)
Electricity and transmission costs	1	(91)	(22,468)	4,256	(18,303)
Raw materials, fuel and other consumables		(103)	(2,974)	–	(3,077)
Maintenance expenditure		(10)	(3,193)	–	(3,203)
General and administrative expenses		(110)	(3,586)	–	(3,696)
Taxes other than income tax		(375)	(3,540)	–	(3,915)
Professional fees		(10)	(2,733)	–	(2,743)
Allowance for impairment of trade receivables		–	(1,675)	–	(1,675)
Reversal of provisions and legal claims related expenses		–	2	–	2
Other income		52	2,101	–	2,153
Other operating expenses		(1,900)	(5,144)	–	(7,044)
<b>EBITDA</b>		<b>10,707</b>	<b>61,867</b>	<b>–</b>	<b>72,574</b>
Finance income	3	1	1,636	–	1,637
Finance costs	3	(1,289)	(12,756)	–	(14,045)
Foreign exchange losses		(320)	(162)	–	(482)
Depreciation and amortisation		(2,748)	(17,465)	–	(20,213)
Non-recurring expenses	4	–	(2,069)	–	(2,069)
<b>Profit before income tax expense</b>		<b>6,351</b>	<b>31,051</b>	<b>–</b>	<b>37,402</b>
Income tax expense		–	–	–	–
<b>Profit and other comprehensive income for the year</b>		<b>6,351</b>	<b>31,051</b>	<b>–</b>	<b>37,402</b>

The majority of revenue and cost elements were directly attributed to the relevant segments. The allocation principles and methods used by the management for revenue and costs elements, which cannot be directly attributed to the relevant operating segments, were:

- Revenue** – in 2018 and 2017 the Group consumed electricity internally generated by Zhinvali HPP and Tetrikhevi HPP. For the purpose of segment disclosure in 2018, the revenue from the internally used electricity was recorded at a regulated tariff set by GNERC (decree No. 50, dated 27 December 2017). For the purpose of the segment disclosure in 2017, the revenue from the internally used electricity was recorded at a regulated tariff set by GNERC (decree No. 33, dated 4 December 2008).
- Salaries and benefits** – the costs of salaries and other benefits except that of administrative staff were attributed directly to the appropriate segments based on actual expenditure. Salaries and benefits of the administrative staff were allocated proportionally based on the number of employees in each operating segment.
- Interest income and finance costs** were allocated according to the amount of borrowings received for each segment.
- Non-recurring expenses** include non-recurring tax expenses and employee share-based compensation. Non-recurring tax expenses are directly attributable to the Water supply and wastewater collection services segment. Employee share-based compensation is allocated equally to each segment.

(Amounts expressed in thousands of Georgian Lari)

**7. Property, plant and equipment**

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

	<i>Land plots</i>	<i>Real estate</i>	<i>Infrastructure assets</i>	<i>Vehicles</i>	<i>Fixtures and fittings</i>	<i>CIP</i>	<i>Total</i>
<b>Revalued amount</b>							
<b>31 December 2017</b>	<b>97,170</b>	<b>20,958</b>	<b>311,855</b>	<b>25,937</b>	<b>5,036</b>	<b>48,689</b>	<b>509,645</b>
Additions	75	22	15,020	79	181	154,343	169,720
Disposals	(70)	(589)	(202)	(7)	(39)	–	(907)
Transfers	383	8,737	141,909	1,491	1,552	(154,072)	–
<b>31 December 2018</b>	<b>97,558</b>	<b>29,128</b>	<b>468,582</b>	<b>27,500</b>	<b>6,730</b>	<b>48,960</b>	<b>678,458</b>
<b>Accumulated depreciation</b>							
<b>31 December 2017</b>	–	<b>2,305</b>	<b>58,669</b>	<b>4,943</b>	<b>2,172</b>	–	<b>68,089</b>
Depreciation charge	–	767	20,337	2,660	706	–	24,470
Disposals	–	(255)	(23)	(4)	(26)	–	(308)
<b>31 December 2018</b>	–	<b>2,817</b>	<b>78,983</b>	<b>7,599</b>	<b>2,852</b>	–	<b>92,251</b>
<b>Net book value</b>							
<b>31 December 2017</b>	<b>97,170</b>	<b>18,653</b>	<b>253,186</b>	<b>20,994</b>	<b>2,864</b>	<b>48,689</b>	<b>441,556</b>
<b>31 December 2018</b>	<b>97,558</b>	<b>26,311</b>	<b>389,599</b>	<b>19,901</b>	<b>3,878</b>	<b>48,960</b>	<b>586,207</b>

The movements in property, plant and equipment during the year ended 31 December 2017 were as follows:

	<i>Land plots</i>	<i>Real estate</i>	<i>Infrastructure assets</i>	<i>Vehicles</i>	<i>Fixtures and fittings</i>	<i>CIP</i>	<i>Total</i>
<b>Revalued amount</b>							
<b>31 December 2016</b>	<b>89,300</b>	<b>18,846</b>	<b>231,098</b>	<b>12,598</b>	<b>3,318</b>	<b>22,986</b>	<b>378,146</b>
Additions	1	24	11,276	357	300	114,601	126,559
Disposals	–	(148)	(972)	(142)	(6)	(1,397)	(2,665)
Transfers	581	1,919	70,453	13,124	1,424	(87,501)	–
Transfer from Investment Property	7,692	317	–	–	–	–	8,009
Transfer to Investment Property	(404)	–	–	–	–	–	(404)
<b>31 December 2017</b>	<b>97,170</b>	<b>20,958</b>	<b>311,855</b>	<b>25,937</b>	<b>5,036</b>	<b>48,689</b>	<b>509,645</b>
<b>Accumulated depreciation</b>							
<b>31 December 2016</b>	–	<b>1,728</b>	<b>42,321</b>	<b>3,328</b>	<b>1,469</b>	–	<b>48,846</b>
Depreciation charge	–	594	16,578	1,673	707	–	19,552
Disposals	–	(17)	(230)	(58)	(4)	–	(309)
<b>31 December 2017</b>	–	<b>2,305</b>	<b>58,669</b>	<b>4,943</b>	<b>2,172</b>	–	<b>68,089</b>
<b>Net book value</b>							
<b>31 December 2016</b>	<b>89,300</b>	<b>17,118</b>	<b>188,777</b>	<b>9,270</b>	<b>1,849</b>	<b>22,986</b>	<b>329,300</b>
<b>31 December 2017</b>	<b>97,170</b>	<b>18,653</b>	<b>253,186</b>	<b>20,994</b>	<b>2,864</b>	<b>48,689</b>	<b>441,556</b>

The Group pledged its land plots and real estate property included to property, plant and equipment as collateral for its borrowings. The carrying amount of the land plots and real estate pledged as at 31 December 2018 was GEL 5,665 (2017: GEL 3,618) (Note 12).

If the property, plant and equipment were measured using the cost model, the carrying amounts of the property, plant and equipment as at 31 December 2018 and 2017 would be as follows:

	<i>Land plots</i>	<i>Real estate</i>	<i>Infrastructure assets</i>	<i>Vehicles</i>	<i>Fixtures and fittings</i>	<i>CIP</i>	<i>Total</i>
<b>Historical cost as at</b>							
<b>31 December 2018</b>	<b>11,328</b>	<b>28,693</b>	<b>547,014</b>	<b>27,352</b>	<b>7,440</b>	<b>48,960</b>	<b>670,787</b>
Accumulated depreciation and impairment	–	(10,514)	(199,581)	(7,452)	(3,765)	–	(221,312)
<b>Net book value as at</b>							
<b>31 December 2018</b>	<b>11,328</b>	<b>18,179</b>	<b>347,433</b>	<b>19,900</b>	<b>3,675</b>	<b>48,960</b>	<b>449,475</b>

(Amounts expressed in thousands of Georgian Lari)

**7. Property, plant and equipment (continued)**

	<i>Land plots</i>	<i>Real estate</i>	<i>Infrastructure assets</i>	<i>Vehicles</i>	<i>Fixtures and fittings</i>	<i>CIP</i>	<i>Total</i>
<b>Historical cost as at 31 December 2017</b>	<b>10,874</b>	<b>19,952</b>	<b>390,373</b>	<b>25,774</b>	<b>5,718</b>	<b>48,689</b>	<b>501,380</b>
Accumulated depreciation and impairment	–	(10,234)	(183,776)	(4,829)	(2,923)	–	(201,762)
<b>Net book value as at 31 December 2017</b>	<b>10,874</b>	<b>9,718</b>	<b>206,597</b>	<b>20,945</b>	<b>2,795</b>	<b>48,689</b>	<b>299,618</b>

All of the Group's property, plant and equipment as at 31 December 2018 and 2017 are included in Level 3 fair value measurement which techniques use unobservable inputs in valuation. The valuation technique and inputs used in the fair value measurement of property, plant and equipment are attributed to Level 3 in the fair value hierarchy. The related sensitivity to reasonably possible changes in inputs are as follows at 31 December 2018 and 2017, respectively:

<i>Class of property, plant and equipment</i>	<i>Fair value as at 31 December 2018</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs used</i>	<i>Value of input</i>	<i>Type</i>	<i>Total area, square meters</i>
Land plots	97,558	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.03%; 3.52%	Land	31,327,577
Real estate	26,311	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.03%; 3.52%	Building	93,482
Infrastructure assets	389,599	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.03%; 3.52%	Pipes and wells, equipment	N/a
Vehicles	19,901	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.03%; 3.52%	Vehicles	N/a
Fixtures and fittings	3,878	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.03%; 3.52%	Fixtures and fittings	N/a
<b>Total property, plant and equipment, excluding CIP and other</b>	<b>537,247</b>					
<i>Class of property, plant and equipment</i>	<i>Fair value as at 31 December 2017</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs used</i>	<i>Value of input</i>	<i>Type</i>	<i>Total area, square meters</i>
Land plots	97,170	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.38%; 3.5%	Land	32,536,165
Real estate	18,653	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.38%; 3.5%	Building	117,854
Infrastructure assets	253,186	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.38%; 3.5%	Pipes and wells, equipment	N/a
Vehicles	20,994	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.38%; 3.5%	Vehicles	N/a
Fixtures and fittings	2,864	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.38%; 3.5%	Fixtures and fittings	N/a
<b>Total property, plant and equipment, excluding CIP and other</b>	<b>392,867</b>					

(Amounts expressed in thousands of Georgian Lari)

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

The increase or decrease in the terminal growth rate would result in increase or decrease, respectively, in fair value of property, plant and equipment. The increase or decrease in WACC would result in decrease or increase, respectively, in fair value of property, plant and equipment.

## 8. Investment property

The table below shows the composition and movements in investment property in 2018 and 2017:

	<i>Land</i>	<i>Buildings</i>	<i>Total</i>
<b>As at 31 December 2016</b>	<b>17,615</b>	<b>1,307</b>	<b>18,922</b>
Additions	12	–	12
Disposals	(564)	(33)	(597)
Transfer to property, plant and equipment	(7,692)	(317)	(8,009)
Transfer from property, plant and equipment	404	–	404
Net gain from fair value remeasurement	478	76	554
<b>As at 31 December 2017</b>	<b>10,253</b>	<b>1,033</b>	<b>11,286</b>
Disposals	(1,689)	–	(1,689)
Net gain from fair value remeasurement	227	41	268
<b>As at 31 December 2018</b>	<b>8,791</b>	<b>1,074</b>	<b>9,865</b>

In 2018, the Group reconsidered the allocation of total investment property amount between Land and Buildings categories for the purpose of more accurate presentation of certain amounts stated in the table above. The presentation of comparative figures has been adjusted to conform to the allocation of the current period amounts.

The investment property pledged as collateral for Group's borrowings as at 31 December 2018 is GEL 2,211 (2017: GEL nil).

### Fair value measurement

Investment properties are stated at fair value. The date of the latest valuation performed by an independent appraiser is 31 December 2018. The valuation models use are in accordance with those recommended by the International Valuation Standards Committee, consistent with IFRS 13, *Fair Value Measurement*, and applied on a consistent basis.

Valuation method used for majority of investment property represents the market approach. Certain properties were appraised applying income approach by independent valuator.

#### Market approach

This method is based on the direct comparison of the subject property to another property object, which has been sold or has been entered to the sale registry. Adjustments to value are determined mainly based on the following considerations: (1) physical condition, (2) location, (3) highest and the best use, and (4) property liens.

The valuation technique and inputs used in the fair value measurement of the investment property attributed to Level 3 in the fair value hierarchy. The related sensitivity to reasonably possible changes in inputs are as follows at 31 December 2018 and 2017, respectively:

<i>Class of investment property</i>	<i>Fair value as at 31 December 2018</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs used</i>	<i>Value of input / range (weighted average)</i>	<i>Type</i>	<i>Total area, square meters</i>
Land plots	8,791	Income approach Market approach	WACC, Price per square meter	12.2%, 0.014-1.56 (0.717)	Land	135,472
Buildings	1,074	Market approach	Price per square meter	0.165-1.63 (0.496)	Building	3,017
<b>Total investment property</b>	<b>9,865</b>					

(Amounts expressed in thousands of Georgian Lari)

## 8. Investment property (continued)

### Fair value measurement (continued)

<i>Class of investment property</i>	<i>Fair value as at 31 December 2017</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs used</i>	<i>Value of input / range (weighted average)</i>	<i>Type</i>	<i>Total area, square meters</i>
Land plots	10,253	Income approach Market approach	Cap. rate, Price per square meter	18%, 0.012-1.53 (0.071)	Land	137,334
Buildings	1,033	Market approach	Price per square meter	0.163-1.49 (0.476)	Building	3,017
<b>Total investment property</b>	<b>11,286</b>					

The increase or decrease in the price per square meter would result in increase or decrease, respectively, of the fair value of investment property.

The increase or decrease in the WACC would result in decrease or increase, respectively, of the fair value of investment property.

## 9. Other non-current assets

	<i>31 December 2018</i>	<i>31 December 2017</i>
Prepayments for non-current assets	862	11,272
Intangible assets	1,299	2,026
<b>Total other non-current assets</b>	<b>2,161</b>	<b>13,298</b>

As at 31 December 2017, prepayments for non-current assets consist of advances paid for the construction of Gardabani wastewater treatment plant and Bodorna HPP, which have been completed by 31 December 2018.

Gross carrying amount of intangible assets and accumulated amortisation as at 31 December 2018 amounted to GEL 4,984 and GEL 3,685, respectively (2017: GEL 4,789 and GEL 2,763).

Amortisation charge during the year on intangible assets, including software licences, was GEL 922 in 2018 (2017: GEL 661).

(Amounts expressed in thousands of Georgian Lari)

**10. Trade and other receivables**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Non-current</b>		
Trade receivables for water supply services from general population	408	373
	<b>408</b>	<b>373</b>
Less allowance for expected credit losses	(204)	(240)
<b>Total restructured trade receivables, net</b>	<b>204</b>	<b>133</b>
<b>Current</b>		
Trade receivables for water supply services from general population	16,184	33,917
Trade receivables for water supply services from legal entities	17,013	18,884
Trade receivables for installation of water meters	100	1,225
Trade receivables for connection service	3,161	2,874
Trade receivables for electric power sales	700	1,202
	<b>37,158</b>	<b>58,102</b>
Less allowance for expected credit losses	(18,938)	(35,365)
<b>Total current trade receivables, net</b>	<b>18,220</b>	<b>22,737</b>
Other receivables <sup>1</sup>	1,426	1,354
Less allowance for expected credit losses	(147)	(353)
<b>Total other receivables, net</b>	<b>1,279</b>	<b>1,001</b>
<b>Total current trade and other receivables, net</b>	<b>19,499</b>	<b>23,738</b>

<sup>1</sup> Other receivables include the receivables from penalties on illegal connections and other trade and other receivables.

The carrying amounts of the Group's trade and other receivables approximate their fair values and are denominated in Georgian Lari.

As at 31 December 2018, the Group has recognised GEL 1,426 of trade and other receivables, which relates to the income that is not in scope of IFRS 15, *Revenue from Contracts with Customers* (2017: GEL 1,354).

Analysis by credit quality of trade and other receivables as at 31 December 2017 is as follows:

	<b>Neither past due nor impaired 31 December 2017</b>	<b>Past due but not individually impaired 31 December 2017</b>	<b>Individually impaired 31 December 2017</b>	<b>Total 31 December 2017</b>
Non-current trade receivables	–	373	–	373
Current trade receivables	16,291	41,227	584	58,102
Other receivables	1,001	353	–	1,354
<b>Total</b>	<b>17,292</b>	<b>41,953</b>	<b>584</b>	<b>59,829</b>

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The Group does not hold collateral as security.

- ▶ Neither past due nor impaired category comprise receivables arisen from revenue, that is neither billed nor provided to the customers in 2017, but recognized as accrual for the last several days of the year.
- ▶ Included in past due but not individually impaired category are receivables that are past due and are not assessed for impairment on individual basis, but treated for impairment on a collective basis.
- ▶ Individually impaired category consists of receivables that are past due and individually assessed for impairment.

(Amounts expressed in thousands of Georgian Lari)

## 10. Trade and other receivables (continued)

Aging analysis of trade and other receivables per classes as at 31 December 2018 is as follows:

<b>31 December 2018</b>	<b>Less than 30 days</b>	<b>30 to 90 days</b>	<b>91 to 180 days</b>	<b>181 to 360 days</b>	<b>Over 360 days</b>	<b>Total</b>
Non-current trade receivables	–	–	–	–	408	<b>408</b>
Current trade receivables	18,204	2,608	3,547	3,984	8,815	<b>37,158</b>
Other receivables	214	358	298	470	86	<b>1,426</b>
<b>Total</b>	<b>18,418</b>	<b>2,966</b>	<b>3,845</b>	<b>4,454</b>	<b>9,309</b>	<b>38,992</b>

Aging analysis of past due but not individually impaired receivables per classes as at 31 December 2017 is as follows:

<b>31 December 2017</b>	<b>Less than 30 days</b>	<b>30 to 90 days</b>	<b>91 to 180 days</b>	<b>181 to 360 days</b>	<b>Over 360 days</b>	<b>Total</b>
Non-current trade receivables	–	–	–	–	373	<b>373</b>
Current trade receivables	2,021	2,103	1,481	3,575	32,047	<b>41,227</b>
Other receivables	–	–	–	–	353	<b>353</b>
<b>Total</b>	<b>2,021</b>	<b>2,103</b>	<b>1,481</b>	<b>3,575</b>	<b>32,773</b>	<b>41,953</b>

The movements in the impairment provision for the trade and other receivables are as follows:

	<b>Non-current trade and other receivables</b>	<b>Current trade and other receivables</b>	<b>Total</b>
<b>31 December 2016</b>	<b>293</b>	<b>35,945</b>	<b>36,238</b>
Charge	3	1,672	<b>1,675</b>
Bad debts written off	(56)	(1,899)	<b>(1,955)</b>
<b>31 December 2017</b>	<b>240</b>	<b>35,718</b>	<b>35,958</b>
IFRS 9 transition effect	–	6,571	<b>6,571</b>
Charge	51	4,982	<b>5,033</b>
Bad debts written off <sup>1</sup>	(87)	(28,186)	<b>(28,273)</b>
<b>31 December 2018</b>	<b>204</b>	<b>19,085</b>	<b>19,289</b>

<sup>1</sup> The Group has written off aged receivables arisen more than three years ago. Considerably large bad debt write-off in 2018 were conditioned by amendments of a decree regarding potable water supply and consumption issued by GNERC, pursuant to which customers were exempted from obligation to pay amounts arisen more than three years ago. Written off receivables were fully provided.

## 11. Equity

### Charter capital

As at 31 December 2018 and 2017, the Group had fully contributed charter capital of GEL 2. As at 31 December 2018 and 2017, authorized common shares comprised 50,000, issued share capital comprised 1,000 ordinary shares, of which 1,000 were fully paid. As at 31 December 2018 and 2017, each share has a nominal value of US dollar 1 (one).

### Dividends

In 2018, dividends in the amount of GEL 28,840 were declared and paid to the shareholder (2017: GEL 28,000).

### Revaluation reserve for property, plant and equipment

The revaluation reserve for property, plant and equipment reflects increases in the fair value of property, plant and equipment and decreases to the extent that such decreases relate to an increase of the same asset previously recognised in equity.

(Amounts expressed in thousands of Georgian Lari)

## 11. Equity (continued)

### Additional paid-in capital

Additional paid-in capital reflects the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration (Note 24).

### Other reserves

Other reserves reflect the transfers of cash to the parent for the shares granted to the employees of the Group (see Note 24).

### Management of capital

The Group's objectives when managing capital are:

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

To achieve these goals the Group performs a detailed analysis of capital structure considering the cost of borrowed funds and level of own capital available. The Group defines capital for capital management purposes as equity recognized in the consolidated financial statements. There are no externally imposed capital requirements to which the Group is subject to.

There were no changes in the objectives, policies or processes for managing capital in 2018 and 2017.

## 12. Borrowings

	31 December 2018		31 December 2017	
	Current liabilities	Non-current liabilities	Current liabilities	Non-current liabilities
Loans from international financial institutions	17,755	220,661	717	212,301
Loans from Georgian financial institutions	2,191	49,659	400	3,992
Debt securities issued	224	29,756	224	29,722
<b>Total borrowings</b>	<b>20,170</b>	<b>300,076</b>	<b>1,341</b>	<b>246,015</b>

As at 31 December 2018 and 2017, borrowings from international financial institutions include GEL denominated loans from Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V ("FMO Entrepreneurial Development Bank") and Deutsche Investitions – Und Entwicklungsgesellschaft MBH ("DEG") (2018: GEL 81,911 and GEL 14,417, 2017: GEL 81,677 and GEL 14,410, respectively); EUR denominated loans from the same lenders (2018: GEL 61,481 and GEL 15,376, 2017: GEL 62,179 and GEL 15,551, respectively); EUR denominated loans from European Investment Bank ("EIB") (2018: GEL 65,231, 2017: GEL 39,201).

As at 31 December 2018 borrowings from Georgian financial institutions include GEL denominated loans from JSC Pasha Bank of GEL 6,344 (2017: GEL 3,997); GEL denominated loan from JSC TBC Bank of GEL 24,981 (2017: GEL nil); EUR denominated loan from JSC Basis Bank of GEL 20,137 (2017: GEL nil).

Debt matures on average in 10 years (2017: 11 years).

At 31 December 2018, the Group has no undrawn borrowing facilities (2017: GEL 30,534).

Certain borrowings provide for financial covenants, such as maintaining different limits for debt to EBITDA ratio, capital investments and others. As at 31 December 2018 and 2017, the Group was in compliance with all covenants.

Certain property, plant and equipment and investment property pledged as collateral for borrowings (Notes 7, 8).

### Material non-cash transactions

In 2018, the Group incurred borrowings costs of GEL 20,921 (2017: GEL 16,145) of which GEL 6,600 has been capitalized to property, plant and equipment (2017: GEL 2,720).



(Amounts expressed in thousands of Georgian Lari)

**12. Borrowings (continued)****Changes in liabilities arising from financial activities**

	<b>Borrowings</b>	<b>Debt securities issued</b>
<b>Carrying amount at 31 December 2016</b>	<b>73,700</b>	<b>32,567</b>
Foreign currency translation	5,535	–
Cash proceeds	251,737	40,000
Cash repayments	(114,297)	(42,583)
Interest accrued	12,024	4,741
Interest paid	(8,959)	(4,735)
Other	(2,330)	(44)
<b>Carrying amount at 31 December 2017</b>	<b>217,410</b>	<b>29,946</b>
Foreign currency translation	1,394	–
Cash proceeds	71,772	–
Cash repayments	(738)	–
Interest accrued	18,325	3,188
Interest paid	(17,396)	(3,188)
Other	(501)	34
<b>Carrying amount at 31 December 2018</b>	<b>290,266</b>	<b>29,980</b>

**13. Trade and other payables**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Payables for non-current assets	5,437	15,561
Trade payables	4,603	5,522
Payables to employees	3,665	2,913
Other payables	224	199
<b>Total trade and other payables</b>	<b>13,929</b>	<b>24,195</b>

As at 31 December 2017, payables for non-current assets consist of payables for the construction of Gardabani wastewater treatment plant and Bodorna HPP, which have been completed as at 31 December 2018.

**14. Contract assets and liabilities**

The Group has recognised GEL 144,630 revenue from contracts with customers in 2018 (2017: GEL 132,359). The disaggregation of revenue from contracts with customers by types are presented in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2018 and in Notes 15, 16.

**Contract balances**

The Group has recognised the following revenue-related contract balances:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Receivables</b>		
Receivables, which are included in Trade and other receivables	17,876	22,737
<b>Total</b>	<b>17,876</b>	<b>22,737</b>
<b>Contract liabilities</b>		
Advances received	8,424	8,562
Deferred revenue	22,869	19,474
<b>Total</b>	<b>31,293</b>	<b>28,036</b>

The Group has recognised GEL 3,451 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in the deferred revenue.

(Amounts expressed in thousands of Georgian Lari)

**14. Contract assets and liabilities (continued)****Transaction price allocated to the remaining performance obligations**

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date and deferred as at 31 December 2018:

	<i>In the year ending 31 December 2019</i>	<i>In the year ending 31 December 2020</i>	<i>In the year ending 31 December 2021</i>	<i>In 3 to 5 years</i>	<i>In 5 to 10 years</i>	<i>Total</i>
Revenue expected to be recognized on active contracts with customers	3,921	3,659	3,505	5,168	6,616	<b>22,869</b>

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date and deferred as at 31 December 2017:

	<i>In the year ending 31 December 2018</i>	<i>In the year ending 31 December 2019</i>	<i>In the year ending 31 December 2020</i>	<i>In 3 to 5 years</i>	<i>In 5 to 10 years</i>	<i>Total</i>
Revenue expected to be recognized on active contracts with customers	3,451	3,277	3,015	6,741	2,990	<b>19,474</b>

The Group applies practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected duration of 1 year or less.

**15. Revenue from water supply**

	<b>2018</b>	<b>2017</b>
Revenue from water supply to legal entities	92,230	85,984
Revenue from water supply to general population	39,585	32,921
<b>Total revenue from water supply</b>	<b>131,815</b>	<b>118,905</b>

**16. Other revenue**

	<b>2018</b>	<b>2017</b>
Revenue from connection service	2,741	2,604
Revenue from installation of water meters	1,022	1,095
Income from rent	631	598
Other revenue	46	37
<b>Total other revenue</b>	<b>4,440</b>	<b>4,334</b>

**17. Salaries and other employee benefits**

	<b>2018</b>	<b>2017</b>
Salaries	15,585	15,417
Bonuses	2,118	2,111
Employee share-based compensation	914	1,391
<b>Total salaries and benefits</b>	<b>18,617</b>	<b>18,919</b>

*(Amounts expressed in thousands of Georgian Lari)***18. General and administrative expenses**

	<u>2018</u>	<u>2017</u>
Security expenses	964	980
Utility expenses	843	670
Office expenses	753	745
Communication expenses	455	377
Advertising expenses	432	543
Business trip expenses	148	118
Representation expenses	140	263
<b>Total general and administrative expenses</b>	<b><u>3,735</u></b>	<b><u>3,696</u></b>

**19. Professional fees**

	<u>2018</u>	<u>2017</u>
Consulting expenses	2,460	2,225
Legal and other professional fees	592	518
<b>Total professional fees</b>	<b><u>3,052</u></b>	<b><u>2,743</u></b>

**20. Other income**

	<u>2018</u>	<u>2017</u>
Penalty income on illegal connection services	1,896	–
Derecognition of unclaimed advances received	360	257
Net gain from revaluation of investment property	269	554
Net income from sale of network and inventories	2	263
Other income	1,263	1,079
<b>Total other income</b>	<b><u>3,790</u></b>	<b><u>2,153</u></b>

**21. Other operating expenses**

	<u>2018</u>	<u>2017</u>
Bill processing expenses	1,710	1,735
Expenses related to sale of electricity	1,425	1,591
Insurance expense	1,305	1,074
Rent expenses	660	787
Fines and penalties	537	241
Net loss from disposal of property, plant and equipment and investment property	378	938
Regulation fee	288	203
Charity expenses	251	28
Cost of wastewater treatment	91	65
Net loss from sale of network and inventories	50	–
Other expenses	453	382
<b>Total other operating expenses</b>	<b><u>7,148</u></b>	<b><u>7,044</u></b>

**22. Finance costs**

	<u>2018</u>	<u>2017</u>
Interest expenses	14,321	13,425
Bank fees and charges	592	620
<b>Total finance costs</b>	<b><u>14,913</u></b>	<b><u>14,045</u></b>

(Amounts expressed in thousands of Georgian Lari)

## 23. Derivative financial assets and liabilities

The Group is exposed to foreign currency risks relating to its ongoing business operations and it uses foreign currency forwards to manage the risk. The fair values of derivative financial assets and liabilities included in Level 2 of fair value hierarchy.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	<i>Notional amount</i>	<i>2018</i>		<i>Notional amount</i>	<i>2017</i>	
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
Forward – domestic	28,579	–	1,777	28,898	450	–
<b>Derivative financial assets/liabilities</b>	<b>28,579</b>	<b>–</b>	<b>1,777</b>	<b>28,898</b>	<b>450</b>	<b>–</b>

## 24. Share-based payments

Prior to the demerger (Note 1), Executive Chairman of the Management company, was compensated with shares of BGEO. Upon demerger, old service contract with BGEO was terminated and new contracts were signed with GCAP. Any share-based payment expense related to BGEO's share plan was accelerated and recognized in the consolidated statement of profit or loss and other comprehensive income as of the termination date of the service agreement as non-recurring expense (Note 25).

In 2018, Georgia Capital PLC introduced GCAP's Executives' Equity Compensation Plan ("EECP"). Under the EECP, shares of GCAP are granted to senior executives of the Group. In July 2018, the executives of the Group signed new six-year fixed contingent share-based compensation agreements with a total of 525,000 ordinary shares of GCAP. The total amount of shares fixed to each executive will be awarded in five equal instalments during the six consecutive years starting January 2019, of which each award will be subject to a six-year vesting period subject to continued employment within the Group during such vesting period. The fair value of the shares is determined at the grant date using available market quotations. The Group considers 12 July 2018 as the grant date for those awards and estimates that the fair value of the shares at that date was GEL 33.4 per share.

The following table illustrates the number and weighted average prices of, and movements in, GCAP shares awards during the year:

	<i>2018</i>
<b>Shares outstanding at 1 January</b>	–
Granted during the year	525,000
Forfeited during the year	–
Vested during the year	–
<b>Shares outstanding at 31 December</b>	<b>525,000</b>

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2018 was 5.4 years. The weighted average fair value of shares granted during the year was GEL 33.4.

The following table illustrates the number and weighted average prices of, and movements in, BGEO shares awards during the years prior to demerger (Note 1):

	<i>2018</i>	<i>2017</i>
<b>Shares outstanding at 1 January</b>	<b>187,500</b>	<b>178,500</b>
Granted during the year	22,500	25,000
Forfeited during the year	–	–
Vested during the year (Note 1)	(210,000)	(16,000)
<b>Shares outstanding at 31 December</b>	<b>–</b>	<b>187,500</b>

The expense recognised for employee services received during the year and the respective increase in equity arising from equity-settled share-based payments is shown in the following table:

	<i>2018</i>	<i>2017</i>
Increase in equity arising from equity-settled share-based payments	7,874	2,783
Expense arising from equity-settled transactions	6,077	1,391

(Amounts expressed in thousands of Georgian Lari)

## 24. Share-based payments (continued)

There were no cancellations or modifications to the awards in 2018 or 2017 except for BGEO share awards described above.

The Group does not have an obligation to settle the above awards but it is expected that the Group will transfer cash to parent to compensate it for the settlement of the Group's awards. In 2018, the amount of such transfer was GEL 2,307 (2017: GEL 5,238).

## 25. Non-recurring expenses

	<u>2018</u>	<u>2017</u>
Employee share-based compensation	5,163	–
Non-operating tax expenses	958	1,819
Charity expenses	–	250
<b>Total non-recurring expenses</b>	<b><u>6,121</u></b>	<b><u>2,069</u></b>

Following the demerger process (Note 1) all outstanding unvested share awards under old service agreement were converted into 1 GCAP share vesting according to original schedule and 1 Bank of Georgia PLC share vesting immediately per each BGEO share. The related share-based payment expense that has not been recognized in the consolidated statement of profit or loss and other comprehensive income as of the termination date (that otherwise would have been recognized for services received over the remainder of the vesting period) was accelerated and immediately expensed.

In 2018 and 2017, non-operating tax expenses mainly comprise of corporate income tax derived from change in abnormal loss rate. The Group had significant water losses related to the subsidiaries' operating activities which were classified as "abnormal" and subject to corporate income tax (Note 4). According to the recent regulation of GNERC, the normative loss rate has been calculated by taking into consideration the Group's actual water losses. No subsequent tax expenditure regarding abnormal losses are expected.

## 26. Commitments and contingencies

### Commitments

The Share Purchase Agreement (the "SPA") was entered into on 14 May 2008 (and amended on 22 December 2009) by the Company, the Government of Georgia, the Ministry of Economic Development of Georgia and the Government of the City of Tbilisi (the "parties to the SPA") on the purchase of 100% shares of Georgian Water and Power LLC, Rustavi Water LLC, Mtskheta Water LLC and Gardabani Sewage Treatment Plant LLC.

According to the SPA, the Company was committed to perform certain technical obligations and invest not less than US dollar 220 million equivalent in GEL in performance of such technical obligations under the SPA. All such technical obligations, including USD 220 million investment obligation, were duly fulfilled by the Company and further confirmed by Tbilisi City Hall and Ministry of Economy and Sustainable Development of Georgia.

The Group is liable towards the performance guarantee issued to the Government of Georgia in order to secure the execution of the commitments as per the SPA. On 14 January 2010, the Group concluded the standby agreement with TBC Bank, which gave irrevocable undertaking regarding payments, if SPA terms are not fulfilled. The performance guarantees and letter of credit as at 31 December 2018 amount to GEL 8,030 (2017: GEL 7,777 (US dollars 3 million)), its fair value approximates zero as at 31 December 2018 and 2017.

As at 31 December 2018, capital expenditure commitment for purchase of property, plant and equipment equals to GEL 430 (2017: GEL 30,302).

As at 31 December 2018 the guarantee and letters of credit issued for the construction in process amounts to GEL 14,530 (2017: GEL 20,833), out of which GEL 11,860 (2017: GEL 11,486) represents the guarantee issued by the Company as the guarantor for the related party. The remaining amount represents the letters of credit issued for the payables related to construction process of the Group and is partly presented in restricted cash balance (Note 27).

### Compliance with covenants

The Group is subject to certain covenants related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including termination of the loan agreement and withdrawal of loan amount or any part thereof (Note 12). The Group was in compliance with covenants as at 31 December 2018 and 2017.

(Amounts expressed in thousands of Georgian Lari)

## 26. Commitments and contingencies (continued)

### Environmental matters

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

## 27. Financial instruments

### Financial instruments overview

#### Restricted cash

Included in restricted cash as at 31 December 2018 and 2017 are funds blocked on the current account in a Georgian bank. The funds are pledged as collateral under the guarantees granted by local banks (Note 26).

#### Cash at bank

Cash at bank as at 31 December 2018 and 2017 includes the funds placed on current accounts in Georgian banks. All cash at bank balances are classified as current and not impaired. As at 31 December 2018 and 2017, the Group did not have any significant financial assets that are past due but not impaired, except for trade and other receivables (Note 10).

### Fair value measurement

All financial instruments for which fair values are disclosed by the Group as at 31 December 2018 and 2017, are measured at fair value using a valuation technique with market observable and unobservable inputs. There were no changes in valuation techniques for Level 3 recurring fair value measurements in 2018 and 2017.

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair values of fixed rate borrowings (Level 2 of fair value hierarchy) approximate the carrying values of the instruments. Management assessed that the fair values of cash at banks, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

### Risk arising from financial instruments

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

#### Currency risk

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

As at 31 December 2018 and 2017, currency risk arises from the EUR denominated borrowings.

<b>Currency</b>	<b>Increase/ decrease in % 2018</b>	<b>Effect on profit 2018</b>
EUR	11.00%	17,950
EUR	-11.00%	(17,950)
<b>Currency</b>	<b>Increase/ decrease in % 2017</b>	<b>Effect on profit 2017</b>
EUR	4.5% <sup>1</sup>	5,305
EUR	-4.5%	(5,305)

<sup>1</sup> Scale of presumable fluctuation is determined based on highest rates stated during the past three years.

(Amounts expressed in thousands of Georgian Lari)

## 27. Financial instruments (continued)

### Fair value measurement (continued)

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on the financial instruments. The Group has floating interest rate borrowings linked to EURIBOR and NBS refinancing rates and is therefore exposed to interest rate risk. The following table demonstrates sensitivity to a reasonable possible change:

<b>Currency</b>	<b>Increase/ decrease in % 2018</b>	<b>Effect on profit 2018</b>
GEL	0.75%	460
GEL	-0.75%	(460)
EUR	0.020%	13
EUR	-0.020%	(13)
<b>Currency</b>	<b>Increase/ decrease in % 2017</b>	<b>Effect on profit 2017</b>
GEL	-0.25%	(75)
GEL	0.25%	75
EUR	-0.003%	(1)
EUR	0.003%	1

#### Credit risk

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

As at 31 December 2018 and 2017, the Group has no other significant financial assets subject to credit risk except for:

- ▶ Cash at bank and restricted cash: as at 31 December 2018 out of total cash at bank and restricted cash of GEL 14,649 (2017: 69,619), GEL 5,957 (2017: 48,188) was kept with banks having ratings of "BB-/bb-" from Standard & Poor's, "B1/NP" (FC) & "Ba3/NP" (LC) from Moody's and "BB-/bb-" from Fitch Ratings;
- ▶ Trade and other receivables (Note 10).

The credit quality of all financial assets that are neither past due nor impaired is appropriate and is constantly monitored in order to identify any potential adverse changes in the credit quality. There are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired. As at 31 December 2018 and 2017, carrying values of financial instruments best represent their maximum exposure to the credit risk.

#### Liquidity risk

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

(Amounts expressed in thousands of Georgian Lari)

## 27. Financial instruments (continued)

### Risk arising from financial instruments (continued)

The table below shows financial liabilities as at 31 December 2018 and 2017 based on contractual undiscounted repayment obligations.

	<i>Less than 1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>Over 5 years</i>	<i>Total</i>
<b>As at 31 December 2018</b>					
Long-term and short-term borrowings	42,363	133,908	90,999	175,425	<b>442,695</b>
Trade and other payables	13,929	–	–	–	<b>13,929</b>
Derivative financial liabilities	1,777	–	–	–	<b>1,777</b>
<b>Total future payments</b>	<b>58,069</b>	<b>133,908</b>	<b>90,999</b>	<b>175,425</b>	<b>458,401</b>
<b>As at 31 December 2017</b>					
Long-term and short-term borrowings	19,463	78,607	106,133	154,414	<b>358,617</b>
Trade and other payables	24,195	–	–	–	<b>24,195</b>
<b>Total future payments</b>	<b>43,658</b>	<b>78,607</b>	<b>106,133</b>	<b>154,414</b>	<b>382,812</b>

## 28. Related parties disclosures

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

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

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

	<b>GCAP Group entities 31 December 2018</b>	<b>BGEO Group entities<sup>1</sup> 31 December 2017</b>
Cash and cash equivalents	–	14,961
Trade and other receivables	181	116
Prepayments	403	347
Advances received	43	311
Derivative financial assets	–	450
<b>Borrowings as at 1 January</b>	<b>–</b>	<b>521</b>
Proceeds from borrowings and interest accrued during the year	–	11,556
Repayment of borrowing including interest during the year	–	(12,077)
<b>Borrowings as at 31 December</b>	<b>–</b>	<b>–</b>
Trade and other payables	206	170
Derivative financial liabilities	1,777	–

<sup>1</sup> Prior year figures comprise balances with BGEO Group companies. Subsequent to demerger (Note 1), Bank of Georgia Group entities are not considered to be related parties.



(Amounts expressed in thousands of Georgian Lari)

## 28. Related parties disclosures (continued)

	<b>GCAP</b>	<b>BGEO</b>	
	<b>Group entities</b>	<b>Group entities<sup>1</sup></b>	
	<b>2018</b>	<b>2018<sup>2</sup></b>	<b>2017</b>
<b>Income and expenses</b>			
Revenue from water supply	1,704	141	1,550
Other revenue	465	–	16
Other income	5	–	1
Finance income	–	4	553
Professional fees	–	–	(11)
Finance cost expenses	–	(1,344)	(1,964)
Other operating expenses	(1,256)	(50)	(1,169)

<sup>1</sup> Prior year figures comprise transactions with BGEO Group companies. Subsequent to demerger (Note 1), Bank of Georgia Group entities are not considered to be related parties.

<sup>2</sup> Included in 2018 under BGEO Group entities are income and expenses generated before demerger (Note 1) by the companies not included in GCAP Group entities.

In 2018, total amount of management share-based compensation prior to capitalization of eligible costs and accelerated expense (Notes 24, 25) equalled to GEL 7,874 (2017: GEL 2,783).

### Directors' compensation

The Group's key management personnel in 2018 included non-executive Directors of the Company, executive Chairman of the Supervisory Board of the Management company and members of executive management board of the Management company. Compensation paid to key executive management personnel (including the executive Chairman of the Supervisory Board and 6 members of executive management board of the Management company) for their services in full time executive management positions is made up of salary, employee share-based compensations, performance bonuses depending on financial performance of the Management company and other compensation in the form of reimbursement of housing, business trips, communication and other expenses. Total compensation paid to key management amounted to GEL 11,432 and GEL 5,967 for the years ended 31 December 2018 and 2017, respectively as follows:

	<b>2018</b>	<b>2017</b>
Salaries and benefits	2,300	1,894
Bonuses	1,258	1,290
Employee share-based compensation	7,874	2,783
<b>Total management compensation</b>	<b>11,432</b>	<b>5,967</b>

## 29. Events after the reporting period

The Company negotiated with the Government of Tbilisi City and Ministry of Economy and Sustainable Development of Georgia completion of the SPA (Note 26) and executed its formal termination agreement on 15 April 2019. The parties to the SPA confirmed the fulfillment of all obligations under the SPA by the Company and its unconditional/ unencumbered title to its shareholdings in privatized subsidiaries. In addition, the parties to the SPA undertook to ensure that the assets that were possessed, but not owned, by the Group (Note 5) are transferred into the Group's ownership.

The performance guarantees issued by TBC Bank on 14 January 2010, securing commitments of the Group under the SPA (Note 26), expired on 2 January 2019.

At the end of March 2019, the Group obtained loan from TBC Bank amounting to GEL 10,000 for capital expenditure purposes. The loan is maturing in 10 years.