Georgian Water and Power LLC

Financial statements

for the year ended 31 December 2017
with independent auditor's report

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Independent auditor's report

To the Management and the Parent of Georgian Water and Power LLC

Opinion

We have audited the financial statements of Georgian Water and Power LLC (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Company recognized revenue from metered water supply of GEL 107,766 thousand for the year ended 31 December 2017.	We assessed the design and tested the effectiveness of controls over the revenue recognition process.
In addition, effective 1 January 2017 the Company has early adopted IFRS 15 *Revenue from Contracts with Customers* ahead of its mandatory effective date. The Company applied modified retrospective approach to transition and recognized contract liability of GEL 16,607 thousand with a corresponding effect on retained earnings as of 1 January 2017. From 1 January 2017 the Company's revenue from new connection and water meters' installation activities is recognized over the estimated water supply period, rather than at a point when all risks and rewards associated with new connection and water meters' installation are passed to the buyer, as it was done under IAS 18.	We analyzed the patterns of water consumption in order to assess management's estimates, including the estimate made in respect of the volumes delivered but not billed. We compared estimated volumes delivered but not yet billed with historical information. We evaluated the Company's accounting policy in respect of revenue recognition against the requirements of IFRS 15. We analyzed revenue streams and assessed the application of IFRS 15 principles to them. We assessed the assumptions made by the Company on transition to IFRS 15.
Revenue recognition was one of the matters of most significance in our audit due to the significance of the amount of revenue recognised and significant impact of IFRS 15 on the financial statements, as well as due to the number of customers and the level of management judgment involved in estimation of volumes delivered but not yet billed, identification of contracts with customers, performance obligations and determination of the moment when control was transferred to customers.	We analysed the terms and conditions of sale contracts against revenue recognition requirements set out in IFRS 15. We checked mathematical accuracy of the calculation of the amounts recognized as the revenue and contract liabilities.
The disclosures related to revenue and effects of adoption of IFRS 15 are presented in Notes 4, 16, 17 and 18 to the accompanying financial statements.	We analysed the disclosures about revenue and the effects of the adoption of IFRS 15.

Key audit matter	How our audit addressed the key audit matter
Existence and valuation of underground infrastructure assets	
The carrying amount of the Company's infrastructure assets as of 31 December 2017 is GEL 229,905 thousand. The Company's accounting policy in respect of its underground infrastructure assets is revaluation model. This matter was one of most significance in our audit due to the complexity of physical access to the assets and judgmental nature of the valuation process and the assumptions applied by the Company's management to determine the fair value of the assets. Related disclosures are included in Notes 4 and 8 to the financial statements.	We analysed additions and disposals to infrastructure assets occurred during 2017 and compared the cost of additions and disposals recorded in the Company's financial statements to the supporting documents. With the assistance of our valuation specialists, we evaluated management's assumptions made in determination of the fair value of the underground infrastructure assets, in particular those relating to revenue growth, revenue drivers (volumes/tariffs/ wastage), EBITDA margin, growth rate beyond five years and WACC, compared them with the Company's business plans and externally available information. We checked mathematical accuracy of the underlying calculations. In addition, we analysed the sensitivity of the models to changes in main assumptions and assessed the disclosure of information on assumptions used in determination of the fair value of infrastructure underground assets made in the financial statements.

Responsibilities of Management and the Parent for the financial statements

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

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

The Parent is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

We also provide the Parent with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

O.V. Youshenkov
Partner
For and on behalf of EY Georgia LLC

20 April 2018

Tbilisi, Georgia

Statement of financial position

As at 31 December 2017

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2017	31 December 2016 (reclassified*)
Assets			
Non-current assets			
Property, plant and equipment	8	397,332	300,596
Investment property	9	10,138	17,806
Restructured trade receivables	12	111	146
Loans issued	29	49,531	12,690
Restricted cash		–	5,094
Other non-current assets	10	6,974	1,908
Total non-current assets		**464,086**	**338,240**
Current assets			
Inventories	11	3,033	2,572
Trade and other receivables	12	23,062	19,709
Loans issued	29	1,221	581
Current income tax asset		61	–
Prepaid taxes other than income tax		2,929	2,186
Prepayments		1,289	1,713
Derivative financial assets		449	–
Restricted cash	28	7,653	–
Cash at bank	28	37,049	25,472
Total current assets		**76,746**	**52,233**
Total assets		**540,832**	**390,473**
Equity	13		
Charter capital		110,559	138,559
Additional paid-in capital		2,783	–
Accumulated deficit		(29,805)	(47,510)
Revaluation reserve		171,224	171,224
Other reserves		(5,238)	–
Total equity		**249,523**	**262,273**
Liabilities			
Non-current liabilities			
Borrowings	14	242,414	83,941
Deferred revenue	4,16	14,818	–
Total non-current liabilities		**257,232**	**83,941**
Current liabilities			
Borrowings	14	946	19,101
Advances received	16	8,310	3,665
Trade and other payables	15	18,292	18,289
Deferred revenue	4,16	3,137	–
Provisions for liabilities and charges		417	706
Current income tax liability		–	271
Other taxes payable		2,975	2,227
Total current liabilities		**34,077**	**44,259**
Total liabilities		**291,309**	**128,200**
Total liabilities and equity		**540,832**	**390,473**

* *Certain amounts shown here do not correspond to the 2016 financial statements and reflect reclassifications made, refer to Note 5.*

Approved for issue and signed on behalf of Management on 20 April 2018:

Giorgi Tskhadadze
General Director

Giorgi Vakhtangishvili
Chief Financial Officer

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2017

(Amounts expressed in thousands of Georgian Lari)

	Note	*2017*	*2016*
Revenue from water supply	17	107,766	99,631
Revenue from electric power sales		6,423	9,430
Other revenue	18	4,535	5,385
Total revenue		**118,724**	**114,446**
Salaries and other employee benefits	19	(17,460)	(15,163)
Electricity and transmission costs		(12,962)	(12,647)
Raw materials, fuel and other consumables		(2,590)	(2,529)
Maintenance expenditure		(3,116)	(2,772)
General and administrative expenses	20	(3,473)	(2,914)
Taxes other than income tax		(3,339)	(2,930)
Professional fees		(2,279)	(1,825)
Allowance for impairment of trade receivables	12	(656)	(1,495)
Reversal of / (charge for) provisions and legal claims related expenses		2	(755)
Other income	21	1,738	2,122
Other operating expenses	22	(10,892)	(7,400)
		(55,027)	**(48,308)**
EBITDA		**63,697**	**66,138**
Finance income		5,049	2,177
Finance costs	23	(13,793)	(11,291)
Net foreign exchange losses		(695)	(62)
Depreciation and amortisation	8, 10	(17,771)	(15,625)
Non-recurring expenses	26	(1,709)	–
Profit before income tax expense		**34,778**	**41,337**
Income tax expense	24	–	(1,962)
Profit for the year		**34,778**	**39,375**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Effect of changes in tax legislation	24	–	26,150
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**–**	**26,150**
Other comprehensive income for the year, net of tax		**–**	**26,150**
Total comprehensive income for the year, net of tax		**34,778**	**65,525**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2017

(Amounts expressed in thousands of Georgian Lari)

	Charter capital	*Additional paid-in capital*	*Accumu-lated deficit*	*Revaluation reserve*	*Other reserves*	*Total*
Balance as at 31 December 2015	**208,469**	**–**	**(142,458)**	**145,676**	**–**	**211,687**
Profit for the year	–	–	39,375	–	–	**39,375**
Other comprehensive income	–	–	–	26,150	–	**26,150**
Total comprehensive income for the year	**–**	**–**	**39,375**	**26,150**	**–**	**65,525**
Realised revaluation reserve	–	–	602	(602)	–	**–**
Reduction of the charter capital (Note 13)	(69,910)	–	69,910	–	–	**–**
Dividends declared (Note 13)	–	–	(14,939)	–	–	**(14,939)**
Balance as at 31 December 2016	**138,559**	**–**	**(47,510)**	**171,224**	**–**	**262,273**
Effect from early adoption of IFRS 15 (Note 4)	–	–	(16,607)	–	–	**(16,607)**
Balance as at 1 January 2017	**138,559**	**–**	**(64,117)**	**171,224**	**–**	**245,666**
Profit for the year	–	–	34,778	–	–	**34,778**
Total comprehensive income for the year	**–**	**–**	**34,778**	**–**	**–**	**34,778**
Share-based payments (Note 25)	–	2,783	–	–	–	**2,783**
Contributions under share-based compensation program (Note 25)	–	–	–	–	(5,238)	**(5,238)**
Reduction of the charter capital (Note 13)	(28,000)					**(28,000)**
Dividends declared (Note 13)	–	–	(466)	–	–	**(466)**
Balance as at 31 December 2017	**110,559**	**2,783**	**(29,805)**	**171,224**	**(5,238)**	**249,523**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2017

(Amounts expressed in thousands of Georgian Lari)

	Note	2017	2016 (reclassified*)
Cash flows from operating activities			
Profit before income tax		**34,778**	**41,337**
Adjustments for:			
Depreciation and amortisation	8, 10	17,771	15,625
Allowance for impairment of trade receivables	12	656	1,495
Reversal of / (charge for) provisions and legal claims related expenses		(2)	755
Net loss from disposal of property, plant and equipment and investment property	22	657	43
Revaluation gain on investment property	9	(487)	–
Net foreign exchange losses		695	62
Finance income		(5,049)	(2,177)
Finance costs	23	13,793	11,291
Non-recurring tax expense	26	1,459	–
Share-based payment expense	19, 25	1,391	–
Operating cash flows from working capital changes			
Change in inventories		(461)	(193)
Change in trade and other receivables		(3,974)	(5,739)
Change in prepaid taxes other than income tax		(743)	2,440
Change in prepayments		424	(1,368)
Change in trade and other payables		(2,830)	591
Change in deferred revenue		1,348	–
Change in advances received		4,645	(2,699)
Change in other tax payables		748	1,693
Change in restricted cash		(2,963)	(2,549)
Interest received		2,498	368
Interest paid		(15,068)	(10,523)
Income tax paid		(1,791)	(2,153)
Net cash from operating activities		**47,495**	**48,299**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(106,629)	(45,792)
Purchase of investment property		(13)	(24)
Proceeds from sale of property, plant and equipment		5	294
Proceeds from sale investment property		602	925
Issue of loans		(35,592)	(281)
Repayment of loans issued		2,053	132
Net cash used in investing activities		**(139,574)**	**(44,746)**
Cash flows from financing activities			
Proceeds from borrowings	14	287,215	79,380
Repayment of borrowings	14	(153,110)	(49,457)
Reduction of the charter capital	13	(28,000)	–
Dividend paid to the Company's owner	13	(466)	(14,938)
Contributions under share-based compensation program		(4,941)	–
Net cash from financing activities		**100,698**	**14,985**
Effect of exchange rate changes on cash and cash equivalents		2,958	127
Net increase in cash and cash equivalents		**11,577**	**18,665**
Cash and cash equivalents at the beginning of year	28	25,472	6,807
Cash and cash equivalents at the end of year	28	**37,049**	**25,472**

* *Certain amounts shown here do not correspond to the 2016 financial statements and reflect reclassifications made, refer to Note 5.*

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

(Amounts expressed in thousands of Georgian Lari)

1. Corporate information

Georgian Water and Power LLC (the "Company") was incorporated on 25 June 1997 by Tbilisi Mtatsminda District Court, pursuant to the decree of Tbilisi Municipal Cabinet of 23 May 1997 and was set up as a limited liability company in accordance with legislation of Georgia.

In 2008, the Company was privatised and Georgian Global Utilities Ltd BVI (formerly named as Multiplex Energy Limited BVI) acquired the Company's 100% shareholding then owned by the Tbilisi City Municipality.

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

The Company's registered address is at 33, Kostava 1st Lane, Tbilisi, 0179, Georgia.

As at 31 December 2017 and 2016 100% of the Company's shares are owned by Georgian Global Utilities Ltd BVI, the ultimate parent of which is BGEO Group PLC ("BGEO"). BGEO is a premium listed company on London Stock Exchange; no individual shareholder owns more than 10% of the BGEO's shares.

2. Operating environment

The Company's business in concentrated in Tbilisi, 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, and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Management, these steps contribute to mitigate the risks of doing business in Georgia.

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

3. Basis of preparation

These financial statements of the Company for the year ended 31 December 2017 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 2017 reporting.

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

In the preparation of these financial statements, the Company followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the early adoption of IFRS15 *Revenue from Contracts with Customers* as at 1 January 2017 which had substantial impact on the financial position and performance of the Company in the financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and is applicable to all contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. IFRS 15 can be adopted using either a full retrospective or a modified retrospective approach.

The Company early adopted new revenue recognition standard effective from 1 January 2017 using modified retrospective approach. The impact of early adoption was GEL 16,607 decrease to accumulated deficit, with corresponding recognition of deferred revenue of the same amount.

The Company's revenue streams affected by transition to IFRS 15 included new connection and water meters' installation activities. The company concluded that these activities does not represent a performance obligation. Accordingly, the respective fees are deferred and recognized as revenue over estimated service period of 10 years, considering the useful life of new water meters installed and new connection infrastructure.

The details of adjustments to opening accumulated deficit and other accounts:

	31 December 2016	***Effect of IFRS 15 adoption***	***1 January 2017***
Liabilities			
Deferred revenue	–	16,607	16,607
	–	**16,607**	**16,607**
Equity			
Accumulated deficit	(47,510)	(16,607)	(64,117)
	(47,510)	**(16,607)**	**(64,117)**

In accordance with new revenue standard requirements, the disclosure of the impact of adoption on the Company's statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flow for the year ended and as at 31 December 2017 were as follows:

Statement for the year ended 31 December 2017:

	As reported	***Amount without IFRS 15 adoption***	***Effect of change***
Revenue from connection service	2,497	4,737	(2,240)
Revenue from installation of water meters	894	2	892
	3,391	**4,739**	**(1,348)**

Extract from statement of financial position as at 31 December 2017:

	As reported	***Amount without IFRS 15 adoption***	***Effect of change***
Liabilities			
Deferred revenue current	3,137	–	3,137
Deferred revenue non-current	14,818	–	14,818
	17,955	**–**	**17,955**
Equity			
Accumulated deficit	(29,805)	(13,198)	(16,607)
	(29,805)	**(13,198)**	**(16,607)**

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

Extract from statement of cash flow as at 31 December 2017:

	As reported	*Amount without IFRS 15 adoption*	*Effect of change*
Cash from operating activities			
Change in deferred revenue	1,348	–	1,348
	1,348	**–**	**1,348**

Contract liabilities are presented as deferred revenue in these financial statements.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company has provided the information for both the current and the comparative period in Note 14.

Annual improvements 2014-2016 cycle

IFRS 12 Disclosure of Interests in Other Entities – clarification of the scope of the disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

These amendments did not affect the Company's financial statements as at 31 December 2017.

Fair value measurement

The Company measures financial instruments, such as derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are 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.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Fair value measurement (continued)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company 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

All of the Company's financial assets excluding derivative financial asset, fall into loans and receivables measurement category.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. They 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.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

Derivative financial instruments

The Company uses derivative financial instruments, such as forward currency contracts, to economically hedge 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 derivative pricing models that take into accounting observable information about spot and forward exchange rates, interest rates and other relevant factors. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The Company has entered into derivative financial agreement during the year ended 31 December 2017. Gains and losses resulting from these instruments are included in the statement as net foreign exchange losses.

Impairment of loans and receivables

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include:

- Any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- The counterparty considers bankruptcy or a 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.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is 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 present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system that considers credit risk characteristics such as class of receivable, number of overdue days and whether the Company got an ability to cooperate with energy suppliers for the purpose of debt collection or not.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). 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 Company is required to derecognize respective receivable by law. Refer to Note 12 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 for installation of water meters from general population can be restructured.

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 Company 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 Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Derecognition of financial instruments (continued)

Financial liabilities

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

The Company'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 Company'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 accumulated deficit.

Land plots, real estate, vehicles, fixtures and fittings and infrastructure assets are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued.

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. In July 2017, the Company reassessed existing useful lives applicable for property, plant and equipment based on best estimate considerations of management. External expert examined reasonableness and relevance of the revision initiated by the Company and proposed to adjust useful lives for several classes of assets:

	Useful lives before revision	***Revised useful lives***
Real estate	50 years	60 years
Infrastructure assets	10-40 years	8-45 years
Fixtures and fittings	3 years	5-10 years
Vehicles	10 years	10 years

Effective 1 July 2017, the straight-line depreciation rates have been revised accordingly. All other factors remained constant, result of this re-estimation of useful economic lives translated into decrease of annual depreciation expense by GEL 500.

The residual value of an asset is the estimated amount that the Company 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.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Investment property

Investment property is represented by land and buildings that are not occupied substantially for use by, or in the operations of the Company, 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. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The last revaluation of investment property was conducted by independent appraiser as at 31 December 2017.

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 recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Operating leases

Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, 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 Company and which have finite useful lives, are stated at cost less accumulated amortisation. 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.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

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

Taxation

The annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017 (Note 24). 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. 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 recent regulation published by GNERC, normative loss rate has been increased and the Company does not expect to be subject to respective taxes. Therefore, taxation of such transactions is accounted as non-recurring expenses in statement of profit or loss and other comprehensive income.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

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 Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. 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 Company's authorised charter capital is defined by the Company's Charter. The changes in the Company's Charter (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's owners. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owners to the Company.

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 statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from 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.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

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

Management does not consider it feasible to accurately estimate when the provision will be fully utilised, given the varying levels 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 financial statements.

EBITDA

The Company separately presents EBITDA on the face of statement of profit or loss and comprehensive income. EBITDA is not defined in IFRS but is defined by the Company as earnings before interest, taxes, depreciation and amortisation, and is derived as the Company'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 Company 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 Company 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 Company and is caused by uncertain or unpredictable external factors.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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 currency and foreign currency translation

The financial statements are presented in Georgian Lari, which is also the Company's functional currency.

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 recognized in the profit or loss within net foreign exchange losses.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Functional currency and foreign currency translation (continued)

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2017 and 2016 were 2.5922 and 2.6468 Georgian Lari to 1 US Dollar, respectively.

Total amount of net foreign exchange losses recognized in profit or loss and other comprehensive income for the year ended 31 December 2017 amounts to GEL 695 (2016: GEL 62), which consists of net foreign exchange losses related to borrowings in the amount of GEL 5,518 (2016: GEL 62) and net foreign exchange gains related to other financial instruments in the amount of GEL 4,823 (2016:nil).

Income and expense recognition

Revenue is recognized when the Company satisfies a performance obligation at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring the goods and services to a customer. The following specific recognition criteria must also be met before revenue and expense is recognized:

Revenue from water supply to legal entities

Includes amounts billed to the customers based on the metered or estimated usage of water by legal entities and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Company 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 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 or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for general population.

Revenue from installation of water meters

Includes amounts billed to population according to the acting rules of GNERC. The performance obligations under such contracts are satisfied over time and the revenue is therefore recognised during the service period.

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

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.

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 Company 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.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

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 Company.

Employee stock ownership plan

Share-based payment transactions

Senior executives of the Company receive share-based remuneration settled in equity instruments of the Company's ultimate parent, the BGEO. Grants are made by BGEO. Grants that the Company does not have a liability to settle is accounted as equity-settled transactions (even if the Company 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 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 Company'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 Company are accounted as negative Other reserves.

Standards issued but not yet effective

Up to the date of approval of the 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 Company has not early adopted. New standards relevant to the Company's activities that may have any impact on the Company, or the impacts of which are currently being assessed, are as follows:

IFRS 9 Financial Instruments

IFRS *9 Financial Instruments* issued on 24 July 2014 is the IASB's replacement of IAS 39 *Financial Instruments: Recognition and Measurement*. The Standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase. The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted. The Company plans to adopt the new standard on the required effective date and will not restate comparative information.

(a) Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except for equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by fair value through profit or loss ("FVPL"), fair value through other comprehensive income ("FVOCI") (with and without recycling to income statement), and amortised cost categories. IFRS 9 will allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Trade and other receivables continue to be measured at amortised cost.

(b) 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 FVOCI (with recycling to income statement). The financial statements should reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

An entity shall apply one of these two approaches:

- General approach;
- Simplified approach.

Further in accordance with IFRS 9, purchased or originated credit-impaired financial assets require special treatment i.e. lifetime credit losses should be recognized, interest should be accrued on net basis and such assets do not have exit condition from default category. The Company does not have purchased or originated credit-impaired financial assets.

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 and monitor the increase in credit risk of financial assets. Hence, the Company adopts simplified approach for certain of its financial assets: short-term and long-term trade and lease receivables and contract assets.

(i) Cash and cash equivalent

Due to short-term and highly liquid nature of these financial assets, the Company has assessed corresponding expected credit losses to be immaterial. Therefore, no impairment will be recognized for cash and cash equivalents under IFRS 9.

(ii) Loans issued

The Company is in process of assessing financial effect of IFRS 9 adoption on Loans issued.

(iii) Trade and other receivables

The Company operates in utility business and represents leading company on the water supply market of Georgia and South Caucasus. Due to the qualitative and quantitative characteristics of the Company's operations, trade and other receivables are core area affected by the introduction of the new standard. Total receivables towards the Company are divided into several categories by their nature:

Description	***Proportional distribution***
Trade receivables for water supply services from general population	52%
Trade receivables for water supply services from legal entities	35%
Trade receivables for technical services	6%
Other trade receivables	5%
Trade receivables for electric power sales	2%
Trade receivables for installation of water meters	1%

The Company took several steps to calculate impairment pursuant to IFRS 9 requirements:

- Allowance calculation were conducted separately for each group presented on the table above.
- The Company has applied collective assessment for all kind of trade receivables regardless of their size and nature. Individual assessment is intended to apply for major customers (defaulted counterparties with outstanding balance above GEL 50).
- The Company separated each of its debtor portfolios into 5 subgroups. The segregation was conducted based on overdue days along with active/passive status per each counterparty.

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

- Pursuant to IFRS 9 requirements, the Company applied provision matrices based on historical observed default rates. Maximum of practically observable time horizon – past 12 months were set for the purposes of calculations and cohort (discrete time) method of migration were applied.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

- Subsequent to estimated default rates based on historical analysis, the Company assessed the effect of forward-looking information. Based on the regression analysis conducted, management concluded that there is no substantial correlation between publicly available macroeconomic indicators and default rates due to the geographical, economic and social variety of subscribers. Thus no adjustment was made for the effect of forward-looking information.
- In order to estimate the final allowance rates, default pool was divided into 14 subgroups by the period of time elapsed after they first met the criteria of default and cure and recovery rates were calculated for each group.

As a result, the pre-tax impact of IFRS 9 adoption is expected to be GEL 6,065 increase in allowance.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company is assessing the potential effect of the amendments on its financial statements.

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 today's 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 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Company will complete the assessment of the potential effect of IFRS 16 on its financial statements.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This amendment is effective for annual periods beginning on or after 1 January 2018.

The Company is currently assessing the impact of Amendments to IAS 40 on its financial statements.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation is effective for annual periods beginning on or after 1 January 2018.

The Company is currently assessing the impact of IFRIC Interpretation 22 on its financial statements.

Annual improvements to IFRSs 2015-2017 cycle

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

The Company is currently assessing the impact of IAS 12 Income Taxes amendments on its financial statements.

IAS 23 Borrowing Costs – borrowing costs eligible for capitalisation

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. Earlier application is permitted.

The Company is currently assessing the impact of IAS 23 Borrowing Costs amendments on its financial statements.

5. Reclassification of prior year balances

During 2017 the Company reconsidered the presentation of its statement of financial position for the purpose of more accurate presentation of certain accounts stated in the table below. The presentation of comparative figures has been adjusted to conform to the presentation of the current period amounts:

Statement of financial position as at 31 December 2016	***As previously reported***	***Reclassification***	***As reclassified***
Prepayments	274	1,439	1,713
Trade and other receivables	21,148	(1,439)	19,709

Statement of cash flows for the year ended 31 December 2016	***As previously reported***	***Reclassification***	***As reclassified***
Change in trade and other receivables	(7,178)	1,439	(5,739)
Change in prepayments	71	(1,439)	(1,368)

(Amounts expressed in thousands of Georgian Lari)

6. Significant accounting judgements and estimates

The Company makes estimates and assumptions that affect the amounts recognised in the 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 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 properties and property, plant and equipment

The fair value of investment properties and property, plant and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the income approach and the sales comparison method.

The Company performs valuation of its investment properties and 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. Results of this valuation, as well as valuation inputs and techniques are presented in Notes 8 and 9. The Company's certain properties are specialized in nature and spread across the different parts of the country. While secondary market in Georgia provides adequate market 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 Company's property, plant and equipment includes certain specific items, such like water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Company in supply of water and wastewater services and that have been transferred to the Company as a result of the privatisation transaction. Due to the lack of required documents and timing for registration, the Company was not able to obtain legal ownership title on certain fixed assets including infrastructure assets as at the date of these financial statements. However, based on the provisions of privatization agreement referred to in Note 1, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Company and could only be used by the Company (as a sole provider of water and water supply services in Tbilisi) there is high probability that the Company will continue operation of infrastructure assets in future and will obtain legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Company or disputes on ownership, management recognised infrastructure assets as the Company's property, plant and equipment.

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. The Company has reassessed and revisited useful lives for its property, plant and equipment in 2017. Refer to Note 4.

Impairment of trade and other receivables

The impairment provision for accounts receivable is based on the Company's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. 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. Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the Company's historical collection experience for receivables of similar age. Provisions against trade receivables are made based on historical experience of levels of recovery from accounts in a particular ageing category. The value of the impairment provision is sensitive to the specific percentages applied.

Following to adoption of IFRS 9 since 1 January 2018, management has reassessed existing estimates and revised provisioning policy in order to adhere new standard requirements (Note 4).

(Amounts expressed in thousands of Georgian Lari)

7. Segment information

For management purposes, the Company is organised into two operating segments based on products and services as follows:

Electricity generation

The Company owns hydroelectric power stations generating electricity for own consumption and for sale to electricity market.

Water supply and wastewater collection services

The Company provides water supply and wastewater collection to legal entities and general population of Tbilisi City and the nearby villages. It captures production, treatment, transportation, distribution of water and waste water collection. The Company owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection.

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 in the same manner as profit or loss in the financial statements. Management does not monitor total assets, total liabilities and non-current assets separately for each segment, but analyses it on the Company's level.

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

The Company's operations are concentrated in Georgia.

All non-current assets of the Company are located in Georgia.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2017 or 2016.

	Subnote	*Electricity generation, 2017*	*Water supply and wastewater collection services, 2017*	*Intersegment transactions, 2017*	*Total, 2017*
Revenue from water supply		–	107,766	–	**107,766**
Revenue from electric power sales		10,679	–	(4,256)	**6,423**
Other revenue		–	4,535	–	**4,535**
Total revenue	1	**10,679**	**112,301**	**(4,256)**	**118,724**
Salaries and other employee benefits	2	(644)	(16,816)	–	**(17,460)**
Electricity and transmission costs	1	(85)	(17,133)	4,256	**(12,962)**
Raw materials, fuel and other consumables		(103)	(2,487)	–	**(2,590)**
Maintenance expenditure		(10)	(3,106)	–	**(3,116)**
General and administrative expenses		(110)	(3,363)	–	**(3,473)**
Taxes other than income tax		(308)	(3,031)	–	**(3,339)**
Professional fees		(26)	(2,253)	–	**(2,279)**
Allowance for impairment of trade receivables		–	(656)	–	**(656)**
Reversal of provisions and legal claims related expenses		–	2	–	**2**
Other income		41	1,697	–	**1,738**
Other operating expenses		(1,832)	(9,060)	–	**(10,892)**
EBITDA		**7,602**	**56,095**	**–**	**63,697**
Finance income	3	–	5,049	–	**5,049**
Finance costs	3	(749)	(13,044)	–	**(13,793)**
Net foreign exchange losses		(317)	(378)	–	**(695)**
Depreciation and amortisation		(2,169)	(15,602)	–	**(17,771)**
Non-recurring expenses		–	(1,709)	–	**(1,709)**
Profit before income tax expense		**4,367**	**30,411**	**–**	**34,778**
Profit for the year		**4,367**	**30,411**	**–**	**34,778**

(Amounts expressed in thousands of Georgian Lari)

7. Segment information (continued)

Water supply and wastewater collection services (continued)

	Subnote	Electricity generation, 2016	Water supply and wastewater collection services, 2016	Intersegment transactions, 2016	Total, 2016
Revenue from water supply		–	99,631	–	**99,631**
Revenue from electric power sales		14,350	–	(4,920)	**9,430**
Other revenue		–	5,385	–	**5,385**
Total revenue	1	**14,350**	**105,016**	**(4,920)**	**114,446**
Salaries and benefits	2	(598)	(14,565)	–	**(15,163)**
Electricity and transmission costs	1	(110)	(17,457)	4,920	**(12,647)**
Raw materials, fuel and other consumables		(127)	(2,402)	–	**(2,529)**
Maintenance expenditure		(124)	(2,648)	–	**(2,772)**
General and administrative expenses		(94)	(2,820)	–	**(2,914)**
Taxes other than income tax		(54)	(2,876)	–	**(2,930)**
Professional fees		(17)	(1,808)	–	**(1,825)**
Allowance for impairment of trade receivables		–	(1,495)	–	**(1,495)**
Charge for provisions and legal claims related expenses		–	(755)	–	**(755)**
Other income		–	2,122	–	**2,122**
Other operating expenses		(696)	(6,704)	–	**(7,400)**
EBITDA		**12,530**	**53,608**	**–**	**66,138**
Interest income	3	115	2,062	–	**2,177**
Finance costs	3	(3)	(11,288)	–	**(11,291)**
Net foreign exchange losses		(16)	(46)	–	**(62)**
Depreciation and amortisation		(1,906)	(13,719)	–	**(15,625)**
Profit before income tax expense		**10,720**	**30,617**	**–**	**41,337**
Income tax expense	4	(509)	(1,453)	–	**(1,962)**
Profit for the year		**10,211**	**29,164**	**–**	**39,375**

The majority elements of revenue and costs were attributed to the relevant segments based on the actual results in the IFRS accounts. 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 provided below. In particular:

1. **Revenue** – during the year 2017 and 2016 the Company consumed electricity internally generated by Zhinvali HPP and Tetrikhevi HPP. For the purpose of the segment disclosure, the revenue from the internally used electricity was recorded at a regulated tariff stated by GNERC (decree No. 33, dated 4 December 2008). The respective cost of electricity for water supply and wastewater collection services segment is increased by the similar amount.

2. **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.

3. **Interest income and finance costs** were allocated to each segment proportionally based on the total revenue of each of the operating segment.

4. **Income tax expense** – income tax expense was apportioned between the segments proportionally based on the profit before income tax of each of the operating segment in 2016.

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment

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

	Land plots	*Real estate[1]*	*Infra-structure assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Revalued amount							
31 December 2016	**86,897**	**16,042**	**205,073**	**11,855**	**2,692**	**21,503**	**344,062**
Additions	–	5	9,828	318	227	97,973	**108,351**
Disposals	–	–	(703)	(125)	(5)	(1,390)	**(2,223)**
Transfers	564	1,855	67,565	11,541	1,350	(82,875)	**–**
Transfer from investment property (Note 9)	7,692	316	–	–	–	–	**8,008**
Transfer to investment property (Note 9)	(404)	–	–	–	–	–	**(404)**
31 December 2017	**94,749**	**18,218**	**281,763**	**23,589**	**4,264**	**35,211**	**457,794**
Accumulated depreciation							
31 December 2016	**–**	**1,522**	**37,540**	**3,158**	**1,246**	**–**	**43,466**
Depreciation charge	–	508	14,406	1,583	643	–	**17,140**
Disposals	–	–	(88)	(52)	(4)	–	**(144)**
31 December 2017	**–**	**2,030**	**51,858**	**4,689**	**1,885**	**–**	**60,462**
Net book value							**–**
31 December 2016	**86,897**	**14,520**	**167,533**	**8,697**	**1,446**	**21,503**	**300,596**
31 December 2017	**94,749**	**16,188**	**229,905**	**18,900**	**2,379**	**35,211**	**397,332**

[1] *Real estate group mainly consists of administrative buildings and operational premises.*

The movements in property, plant and equipment during the year ended 31 December 2016 were as follows:

	Land plots	*Real estate*	*Infra-structure assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Revalued amount							
31 December 2015	**86,846**	**14,861**	**172,846**	**7,228**	**1,697**	**11,123**	**294,601**
Additions	51	398	5,109	509	315	44,163	**50,545**
Disposals	–	(66)	(691)	(180)	(1)	(146)	**(1,084)**
Transfers	–	849	27,809	4,298	681	(33,637)	**–**
31 December 2016	**86,897**	**16,042**	**205,073**	**11,855**	**2,692**	**21,503**	**344,062**
Accumulated depreciation							
31 December 2015	**–**	**989**	**24,842**	**2,211**	**612**	**–**	**28,654**
Depreciation charge	–	540	12,823	1,102	634	–	**15,099**
Disposals	–	(7)	(125)	(155)	–	–	**(287)**
31 December 2016	**–**	**1,522**	**37,540**	**3,158**	**1,246**	**–**	**43,466**
Net book value							
31 December 2015	**86,846**	**13,872**	**148,004**	**5,017**	**1,085**	**11,123**	**265,947**
31 December 2016	**86,897**	**14,520**	**167,533**	**8,697**	**1,446**	**21,503**	**300,596**

The Company 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 property pledged as at 31 December 2017 was GEL 3,618 (2016: GEL 1,915). Refer to Note 14.

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment (continued)

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 2017 and 2016 would be as follows:

	Land plots	*Real estate*	*Infra-structure assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost as at 31 December 2017	**8,648**	**18,305**	**367,925**	**23,537**	**5,029**	**35,196**	**458,640**
Accumulated depreciation and impairment	–	(10,143)	(180,187)	(4,664)	(2,851)	–	**(197,845)**
Net book value as at 31 December 2017	**8,648**	**8,162**	**187,738**	**18,873**	**2,178**	**35,196**	**260,795**

	Land plots	*Real estate*	*Infra-structure assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost as at 31 December 2016	**797**	**16,129**	**291,472**	**11,783**	**3,390**	**21,503**	**345,074**
Accumulated depreciation and impairment	(24)	(9,924)	(170,399)	(3,200)	(2,076)	–	**(185,623)**
Net book value as at 31 December 2016	**773**	**6,205**	**121,073**	**8,583**	**1,314**	**21,503**	**159,451**

All Company's property, plant and equipment as at 31 December 2017 and 2016 is included in Level 3 fair measurement which techniques use unobservable inputs in valuation.

The valuation technique and inputs used in the fair value measurement for property, plant and equipment attributed to level 3 in the fair value hierarchy and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2017 and 2016 respectively:

Class of property, plant and equipment	*Fair value as at 31 December 2017*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*
Land plots	94,749	Market approach	Price per square meter	0.003	Land	31,548,110
Real estate	16,188	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.38%; 3.5%	Building	90,982
Infrastructure assets	229,905	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.38%; 3.5%	Pipes and wells, equipment	N/A
Vehicles	18,900	Market approach	Prices of comparables	14	Vehicles	N/A
Fixtures and fittings	2,379	Discounted cash flows ("DCF")	WACC; terminal period growth rate	14.38% 3.5%	Fixtures and fittings	N/A
Total property, plant and equipment, excluding CIP and other	**362,121**					

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment (continued)

Class of property, plant and equipment	*Fair value as at 31 December 2016*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*
Land plots	86,897	Market approach	Price per square meter	0.002	Land	31,327,557
Real estate	14,520	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6% 3.5%	Building	92,832
Infrastructure assets	167,533	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6% 3.5%	Pipes and wells, equipment	N/a
Vehicles	8,697	Market approach	Prices of comparables	14	Vehicles	N/a
Fixtures and fittings	1,446	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6% 3.5%	Fixtures and fittings	N/a
Total property, plant and equipment, excluding CIP and other	**279,093**					

The increase / (decrease) in price per square meter, prices of comparables and terminal growth rate would result in increase / (decrease) in fair value of property, plant and equipment. The increase / (decrease) in WACC would result in (decrease) / increase in fair value of property, plant and equipment.

9. Investment property

The table below shows the composition and movements in investment property during 2017 and 2016 years:

	Land	*Buildings*	*Total*
As at 31 December 2015	**16,125**	**2,269**	**18,394**
Additions	–	24	**24**
Disposals	(612)	–	**(612)**
As at 31 December 2016	**15,513**	**2,293**	**17,806**
Additions	13	–	**13**
Disposals	(564)	–	**(564)**
Transfer to property, plant and equipment (Note 8)	(7,692)	(316)	**(8,008)**
Transfer from property, plant and equipment (Note 8)	404	–	**404**
Net gain from fair value remeasurement	477	10	**487**
As at 31 December 2017	**8,151**	**1,987**	**10,138**

The investment property pledged as collateral for Company's borrowings as at 31 December 2017 is GEL nil (2016: GEL 6,364).

Fair value measurement

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest valuation performed by independent appraiser is 31 December 2017. The valuation was performed by an independent valuator who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13.

Valuation method used for vast majority of investment property represents the market approach. Only several properties were appraised applying income approach.

(Amounts expressed in thousands of Georgian Lari)

9. Investment property (continued)

Fair value measurement (continued)

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 on 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; 4) lien on the property.

The valuation technique and inputs used in the fair value measurement for investment property attributed to level 3 in the fair value hierarchy and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2017 and 2016:

Class of investment property	*Fair value as at 31 December 2017*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*
Land plots	8,151	Market approach	Price per square meter	0.063	Land	130,263
Buildings	1,987	Market approach	Price per square meter	0.516	Building	3,850
Total investment property	**10,138**					

Class of investment property	*Fair value as at 31 December 2016*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*
Land plots	15,513	Market approach	Price per square meter	0.054	Land	272,142
Buildings	2,293	Market approach	Price per square meter	0.458	Building	11,808
Total investment property	**17,806**					

The increase / (decrease) in price per square meter would result in increase / (decrease) in fair value of investment property.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2017 and 2016.

10. Other non-current assets

	31 December 2017	*31 December 2016*
Prepayments for non-current assets	5,165	857
Intangible assets	1,809	1,051
Total other non-current assets	**6,974**	**1,908**

As at 31 December 2017 prepayments for non-current assets consist of advances paid to Gugler Water Turbines GMBH, Kamstrup Water metering LLC and Ukrainian-Georgian Investment Group of GEL 1,254, GEL 1,139 and GEL 884 respectivelly. Mentioned prepayments were incurred by the Company for upgrading the outdated water distribution and sewage collection networks in the City of Tbilisi to improve access, minimise leaks and infiltration and save energy.

Gross carrying amount of intangible assets and accumulated amortisation as at 31 December 2017 amounted to GEL 4,373 and GEL 2,564, respectively (2016: GEL 2,984 and GEL 1,933).

Amortisation charge during the year on intangible assets, including software licences, was GEL 631 in 2017 (2016: GEL 526).

(Amounts expressed in thousands of Georgian Lari)

11. Inventories

	31 December 2017	*31 December 2016*
Raw materials	2,170	1,996
Other inventories	863	576
Total inventories	**3,033**	**2,572**

12. Trade and other receivables

	31 December 2017	*31 December 2016*
Non-current		
Trade receivables for water supply services from general population	313	378
	313	**378**
Less impairment loss provision	(202)	(232)
Total restructured trade receivables, net	**111**	**146**
Current		
Trade receivables for water supply services from general population	26,030	22,748
Trade receivables for water supply services from legal entities	17,542	16,381
Trade receivables for technical service	2,871	5,319
Trade receivables for electric power sales	842	820
Trade receivables for installation of water meters	417	536
	47,702	**45,804**
Less impairment loss provision	(27,265)	(28,128)
Total current trade receivables, net	**20,437**	**17,676**
Other receivables	2,625	2,033
Total current trade and other receivables, net	**23,062**	**19,709**

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

As at 31 December 2017, the Company has recognised GEL 2,625 of other receivables, which are not is scope of IFRS 15 (2016: GEL 2,033).

	Neither past due nor impaired 31 December 2017	*Past due but not individually impaired 31 December 2017*	*Individually impaired 31 December 2017*	*Total 31 December 2017*
Non-current trade receivables	–	313	–	**313**
Current trade receivables	15,034	32,286	382	**47,702**
Other receivables	2,272	353	–	**2,625**
Total	**17,306**	**32,952**	**382**	**50,640**

	Neither past due nor impaired 31 December 2016	*Past due but not individually impaired 31 December 2016*	*Individually impaired 31 December 2016*	*Total 31 December 2016*
Non-current trade receivables	–	378	–	**378**
Current trade receivables	10,413	35,391	–	**45,804**
Other receivables	2,033	–	–	**2,033**
Total	**12,446**	**35,769**	**–**	**48,215**

(Amounts expressed in thousands of Georgian Lari)

12. Trade and other receivables (continued)

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 Company does not hold collateral as security.

Included in past due but not individually impaired category are receivables that are past due at least one day and are not assessed for impairment on individual basis, but assessed for impairment on a collective basis.

Aging analysis of past due but not individually impaired loans per class of receivables is as follows:

31 December 2017	*Less than 30 days*	*30 to 90 days*	*91 to 180 days*	*181 to 360 days*	*Over 360 days*	*Total*
Non-current trade receivables	–	–	–	–	313	**313**
Current trade receivables	1,766	1,667	1,145	2,799	24,909	**32,286**
Other receivables	–	–	–	–	353	**353**
Total	**1,766**	**1,667**	**1,145**	**2,799**	**25,575**	**32,952**

31 December 2016	*Less than 30 days*	*30 to 90 days*	*91 to 180 days*	*181 to 360 days*	*Over 360 days*	*Total*
Non-current trade receivables	–	–	–	–	378	**378**
Current trade receivables	1,716	1,595	1,143	2,561	28,376	**35,391**
Total	**1,716**	**1,595**	**1,143**	**2,561**	**28,754**	**35,769**

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

	Non-current trade and other receivables	*Current trade and other receivables*	*Total*
31 December 2015	440	27,615	**28,055**
Charge/(reversal)	–	1,495	**1,495**
Bad debts written off	(208)	(982)	**(1,190)**
31 December 2016	**232**	**28,128**	**28,360**
Charge	–	656	**656**
Bad debts written off	(30)	(1,519)	**(1,549)**
31 December 2017	**202**	**27,265**	**27,467**

13. Equity

Charter capital

As at 31 December 2017 the Company had fully contributed charter capital of GEL 110,559 (2016: GEL 138,559).

During 2017 the sole Parent of the Company decided to decrease the charter capital by GEL 28,000 (2016: GEL 69,910).

Dividends

During 2017 dividends in the amount of GEL 466 were declared and paid to the Parent (2016: GEL 14,939).

Revaluation reserve for property, plant and equipment

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

(Amounts expressed in thousands of Georgian Lari)

13. Equity (continued)

Additional paid-in capital

Additional paid-in capital is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 25 for further details of this plan.

Management of capital

The Company's objectives when managing capital are:

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

To achieve these goals the Company performs a detailed analysis of capital structure considering the cost of borrowed funds and level of own capital available.

There are no externally imposed capital requirements to which the Company is subject to.

The Company defines capital for capital management purposes in the same way as it is presented in the financial statements.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

14. Borrowings

	31 December 2017		*31 December 2016*	
	Current liabilities	***Non-current liabilities***	***Current liabilities***	***Non-current liabilities***
Loans from international financial institutions	717	212,301	–	–
Loans from Georgian financial institutions	5	391	16,148	54,326
Debt securities issued	224	29,722	2,953	29,615
Total borrowings	**946**	**242,414**	**19,101**	**83,941**

As at 31 December 2017 borrowings from international financial institutions include GEL denominated loans from Nederlandse Financierings-Maatschappij Voor Ontwikkelingsanden N.V ("FMO Enterpreneurial Development Bank") and Deutsche Investitions – Und Entwicklungsgesellschaft MBH ("DEG") with fixed rates of 11.83% and 12.25% (GEL 81,677 and GEL 14,410 respectively); EUR denominated loans from the same lenders with fixed rates of 3.39% and 4.38% (GEL 62,179 and GEL 15,551 respectively); EUR denominated loans from European Investment Bank ("EIB") with floating rate of 1.9% + EURIBOR (GEL 39,201).

As at 31 December 2017 borrowings from Georgian financial institutions includes GEL denominated loan from the Ministry of Finance of Georgia ("MOF") with fixed rate of 0.75% (GEL 396). As at 31 December 2016 borrowings included GEL denominated loans from Georgian financial institutions with fixed and floating rates of 19%, NBG + 4% and NBG + 8% respectively. In 2017, borrowings from local lenders were refinanced by facilities drawn from international financial institutions.

Loans are maturing on average in 4,445 days (2016: 1,035 days).

In 2017, the Company issued 6-month local bonds of GEL 40,000. The bonds were issued at par carrying floating coupon rate of NBG + 4% per annum, paid at maturity. The bonds were refinanced at the end of August 2017.

In 2016, the Company issued 5-year local bonds of GEL 30,000, out of which GEL 6,000 were used to refinance existing debt. The bonds were issued at par carrying floating coupon rate of NBG + 3.5% per annum, paid at maturity.

At 31 December 2017, the Company has available GEL 27,573 of undrawn borrowing facilities (2016: GEL nil).

Some loans are received upon certain financial covenants, such as maintaining different limits for debt to EBITDA ratio, capital investments and others. As at 31 December 2017 and 2016 the Company complied with all these lender covenants.

Refer to Note 8 and Note 9 for the carrying amount of property, plant and equipment and investment property pledged as collateral for borrowings.

(Amounts expressed in thousands of Georgian Lari)

14. Borrowings (continued)

Material non-cash transactions

In 2017 year the Company incurred borrowings costs with total amount of GEL 16,059 (2016: GEL 11,071) of which GEL 2,601 has been capitalized as a part of property, plant and equipment (2016: nil).

Changes in liabilities arising from financial activities

	Borrowings	*Debt securities issued*
Carrying amount at 31 December 2015	**63,572**	**8,688**
Cash proceeds	49,380	30,000
Cash repayments	(43,082)	(6,375)
Other	604	255
Carrying amount at 31 December 2016	**70,474**	**32,568**
Foreign currency translation	5,518	–
Cash proceeds	247,315	39,900
Cash repayments	(110,510)	(42,600)
Other	617	78
Carrying amount at 31 December 2017	**213,414**	**29,946**

15. Trade and other payables

	31 December 2017	*31 December 2016*
Payables for non-current assets	9,489	6,531
Trade payables	5,874	9,921
Payables to employees	2,766	1,659
Other payables	163	178
Total trade and other payables	**18,292**	**18,289**

As at 31 December 2017 the Company has outstanding payables for non-current assets towards Tegeta Construction LLC, FIRAT Plastik Kaucuk Sanayi ve Ticaret A.S and JSC Energoservice amounting GEL 3,651, GEL1,114 and GEL 1,019, respectively. Refer to Note 10 for details regarding the Company's capital operations.

16. Contract assets and liabilities

The Company has recognised GEL 118,724 revenue from contracts with customers. The disaggregation of revenue from contracts with customers by types are presented in the statement of profit and loss and other comprehensive income for the year ended 31 December 2017 and in Notes 17 and 18.

Contract assets and liabilities

The Company has recognised the following revenue-related contract assets and liabilities:

	31 December 2017	*1 January 2017*
Contract assets		
Trade and other receivables	20,548	17,822
Total	**20,548**	**17,822**
Contract liabilities		
Advances received	8,310	3,665
Deferred revenue	17,955	16,607
Total	**26,265**	**20,272**

The Company has recognised GEL 3,391 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)

16. 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 2017:

	In the year ending 31 December 2018	*In the year ending 31 December 2019*	*In the year ending 31 December 2020*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on active contracts with customers	3,137	2,964	2,703	4,762	4,389	**17,955**

The Company elected not to disclose information about remaining performance obligations that have original expected duration of 1 year or less.

17. Revenue from water supply

	2017	*2016*
Revenue from water supply to legal entities	77,977	71,274
Revenue from water supply to general population	29,789	28,357
Total revenue from water supply	**107,766**	**99,631**

18. Other revenue

	2017	*2016*
Revenue from connection service	2,497	4,334
Revenue from installation of water meters	894	5
Income from rent	605	701
Income from water sales to hydro power plant	280	–
Management fee	259	345
Total other revenue	**4,535**	**5,385**

19. Salaries and other employee benefits

	2017	*2016*
Salaries	14,003	14,141
Bonuses	2,066	1,022
Employee share-based compensation	1,391	–
Total salaries and benefits	**17,460**	**15,163**

In 2017 total amount of management share-based compensation prior to capitalization of eligible costs equalled to GEL 2,783 (2016: GEL nil).

20. General and administrative expenses

	2017	*2016*
Security expenses	915	922
Office expenses	725	524
Utility expenses	590	577
Advertising expenses	527	248
Communication expenses	336	283
Representation expenses	262	216
Business trip expenses	118	144
Total general and administrative expenses	**3,473**	**2,914**

(Amounts expressed in thousands of Georgian Lari)

21. Other income

	2017	*2016*
Derecognition of unclaimed advances received	497	1,667
Net gain from revaluation of investment property	487	–
Net income from sale of network and inventories	273	–
Other income	481	455
Total other income	**1,738**	**2,122**

22. Other operating expenses

	2017	*2016*
Cost of wastewater treatment	4,592	1,455
Bill processing expenses	1,682	1,736
Expenses related to sale and consumption of electricity	1,591	1,772
Insurance expense	917	710
Rent expenses	659	538
Net loss from disposal of property, plant and equipment and investment property	657	43
Fines and penalties	241	91
Regulation fee	192	223
Charity expenses	28	119
Net loss from sale of inventories	–	55
Other expenses	333	658
Total other operating expenses	**10,892**	**7,400**

23. Finance costs

	2017	*2016*
Interest expenses	13,458	11,071
Bank fees and charges	335	220
Total finance costs	**13,793**	**11,291**

24. Income taxes

	2017	*2016*
Current tax	–	3,384
Deferred tax benefit	–	(1,422)
Income tax expense	**–**	**1,962**

Statutory income tax rate applicable to the Company's income in 2017 and 2016 is 15%.

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date is 1 January 2019. Under the new regulation, corporate income tax is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of net 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.

(Amounts expressed in thousands of Georgian Lari)

24. Income taxes (continued)

Following the enactment of the amendments, as at 31 December 2016 the Company reversed in full its deferred tax assets and liabilities based on IAS 12 *Income Taxes* requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017.

In 2016 the Company recognized income tax benefit resulting from reversal of deferred tax assets and liabilities in amount of GEL 1,422 in profit or loss, and benefit of GEL 26,150 in other comprehensive income (to the extent that it related to revaluation of property, plant and equipment and investment property previously recognised in other comprehensive income).

25. Share-based payments

In February 2017 the BGEO Remuneration Committee resolved to award 25,000 ordinary shares of BGEO to the Executive Chairman of the Management company, Georgian Water and Power LLC. The Company considers 28 February 2017 as the grant date. The Company estimates that the fair value of the shares awarded was GEL 90.0 per share. Shares awarded are subject to two-year vesting with continuous employment being the only vesting condition for the award. The Company does not have an obligation to settle this award but it is expected that BGEO will recharge the cost of the BGEO shares to be purchased for its settlement to the Company.

In February 2013 and August 2015, the Executive Chairman of the Management company, who was at that time employed by subsidiaries of BGEO, signed three-year fixed share-based compensation agreements with the totals of 105,000 and 87,500 of ordinary shares of BGEO Group PLC, respectively. The shares under those agreements are awarded in three equal instalments during three consecutive years starting from January 2015 and January 2017, respectively, of which each award is subject to a four-year vesting period, with continuous employment being the only vesting condition for the awards. The Company considers 18 February 2013 and 24 August 2015 as the grant dates for those awards and estimates that the fair values of the shares at those dates were GEL 35.40 and GEL 59.17 per share, respectively.

Fair values of awards at each grant date were determined with reference to market quotations of BGEO shares.

The Company recognized share-based expense related to the above Executive Chairman of the Management company's awards from 9 July 2017 which was his employment start date with the Company.

The Company's equity settled share-based payment charge for the year ended 31 December 2017 comprised GEL 2,783 of which GEL 1,391 was recognized as Salaries and other employee benefits in the statement of profit or loss and other comprehensive income.

The Company does not have an obligation to settle the above awards but it is expected that the Company will distribute BGEO shares or cash to BGEO to compensate it for the settlement of the Company's awards. In 2017, the amount of such distribution was GEL 5,238.

26. Non-recurring expenses

	2017	*2016*
Non-operating tax expenses	1,459	–
Charity expenses	250	–
Total non-recurring expenses	**1,709**	**–**

Non-operating tax expenses mainly comprise corporate income tax for the abnormal losses during the financial year ended 31 December 2017. The Company has certain water losses related to the operating activities which were classified as "abnormal" and subject to corporate income tax.

According to the recent regulation of GNERC, the normative loss rate has been calculated by taking into consideration the Company's actual water losses. No subsequent tax expenditure regarding abnormal losses are expected.

(Amounts expressed in thousands of Georgian Lari)

27. Commitments and contingencies

Commitments

In accordance with the standby agreement dated 14 January 2010 with TBC Bank, the Company is liable to all the liabilities on behalf of its parent Georgian Global Utilities Ltd BVI towards the performance guarantee issued to the Government of Georgia in order to secure the execution of the commitments as per the Agreement. The performance guarantees and standby letters of credit as at 31 December 2017 amounts to GEL 17,084 (2016: GEL 7,940 (US Dollars 3 million)).

As at 31 December 2017, capital expenditure commitment for purchase of property, plant and equipment equals to GEL 3,061 (2016: nil).

Compliance with covenants

The Company is subject to certain covenants related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Company including termination of the loan agreement and withdrawal of loan amount or any part thereof. The Company was in compliance with covenants as at 31 December 2017 and 2016.

Environmental matters

The enforcement of environmental regulation in Georgia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company 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.

28. Financial instruments

Financial instruments overview

Restricted cash

Included in restricted cash as at 31 December 2017 and 2016 are funds blocked on the current account in Georgian banks. The funds are pledged as collateral under the guarantees granted by local banks.

Cash at bank

Cash at bank as at 31 December 2017 and 2016 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 2017 and 2016 the Company did not have any significant financial assets that are past due but not impaired, except for trade and other receivables. Refer to Note 12.

Loans issued

Included in non-current and current loans issued as at 31 December 2017 and 2016 are loans granted to entities under common control. Refer to Note 29. Respective loans represent GEL denominated loans with interest rate from 16.94% to 18.95% and EUR denominated loan with interest rate of 13.88%. Non-current loans issued as at 31 December 2017 includes loans matured on 10 October 2027, 15 June 2032 and without scheduled maturity date.

Fair value measurement

All financial instruments other than loans issued, for which fair values are disclosed by the Company as at 31 December 2017 and 31 December 2016, are measured at fair value using a valuation technique with quoted prices in active markets and market observable inputs.

Loans issued by the Company as at 31 December 2017 and 31 December 2016 are attributed to level 3 in the fair value hierarchy.

(Amounts expressed in thousands of Georgian Lari)

28. Financial instruments (continued)

Fair value measurement (continued)

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2017 and 2016.

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) and loans issued (Level 3 of fair value hierarchy) approximate the carrying values of the instruments.

The 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 Company is exposed to interest rate, currency, credit and liquidity risks. The Company'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 2017 currency risk arises from the EUR denominated borrowings.

Currency	***Increase / decrease in currency rate in % 2017***	***Effect on profit 2017***
EUR	4.50%[1]	5,305
EUR	-4.50%	(5,305)

[1] *Scale of presumable fluctuation is determined based on highest rates stated during the past three years.*

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 Company has floating interest rate borrowings linked to EURIBOR and NBG refinancing rates and is therefore exposed to interest rate risk. The following table demonstrates sensitivity to a reasonable possible change

Currency	***Increase/ decrease in % 2017***	***Effect on profit 2017***
GEL	-0.75%	(225)
GEL	0.75%	225
EUR	-0.051%	(20)
EUR	0.051%	20

Currency	***Increase/ decrease in % 2016***	***Effect on profit 2016***
GEL	-0.25%	(149)
	+0.25%	149

(Amounts expressed in thousands of Georgian Lari)

28. Financial instruments (continued)

Risk arising from financial instruments (continued)

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company 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 2017 and 2016 the Company has no other significant financial assets subject to credit risk except for:

- Cash at bank and restricted cash: as at 31 December 2017 out of total cash at bank and restricted cash of GEL 44,702 (2016: 30,566), GEL 41,940 (2016: 25,472) 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.
- Non-current and current loans issued to entities under common control which are not subject to credit rating evaluation.
- Trade and other receivables (refer to Note 12).

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 2017 and 2016 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 Company’s cash flows on a monthly basis. The Company seeks to maintain a stable funding base primarily consisting of borrowings and trade and other payables.

The table below shows financial liabilities as at 31 December 2017 and 2016 based on contractual undiscounted repayment obligations.

	Less than 1 year	*1-3 years*	*3-5 years*	*Over 5 years*	*Total*
As at 31 December 2017					
Long-term and short-term borrowings	18,628	76,937	104,463	152,744	**352,772**
Trade and other payables	18,292	–	–	–	**18,292**
Total future payments	**36,920**	**76,937**	**104,463**	**152,744**	**371,064**
As at 31 December 2016					
Long-term and short-term borrowings	25,134	63,958	33,000	–	**122,092**
Trade and other payables	18,289	–	–	–	**18,289**
Total future payments	**43,423**	**63,958**	**33,000**	**–**	**140,381**

29. 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.

(Amounts expressed in thousands of Georgian Lari)

29. Related parties disclosures (continued)

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.

Entities under common control compose of sister entities of the Company which are controlled by the immediate parent.

Other related parties are represented by the members of BGEO, other than those included in Entities under common control.

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

	31 December 2017		*31 December 2016*	
	Entities under common control	***Other related parties***	***Entities under common control***	***Other related parties***
Cash and cash equivalents	–	14,006	–	17,467
Derivative financial assets	–	449	–	–
Trade and other receivables	1,401	397	1,831	352
Loans outstanding as at 1 January	**13,288**	**–**	**10,918**	**–**
Loans issued during the year	36,800	–	281	–
Interest receivable during the year	3,742	–	1,970	–
Loans repayments during the year	(3,323)	–	(397)	–
Restructure of trade receivables	245	–	516	–
Loans outstanding as at 31 December (Note 28)	**50,752**	**–**	**13,288**	**–**
Borrowings as at 1 January	**10,367**	**17,140**	**7,567**	**22,229**
Debt securities issued	–	–	–	17,100
Proceeds from borrowings and interest accrued during the year	1,315	11,599	3,050	40
Repayment of borrowing including interest during the year	(11,682)	(12,120)	(250)	(22,229)
Borrowings as at 31 December	**–**	**16,619**	**10,367**	**17,140**
Trade and other payables	2,180	441	2,624	19

	31 December 2017		*31 December 2016*	
	Entities under common control	***Other related parties***	***Entities under common control***	***Other related parties***
Income and expenses				
Revenue from water supply	204	1,538	239	605
Other revenue	566	13	480	8
Other income	13	2	229	1
Interest income	3,607	528	2,073	–
Professional fees	–	–	–	(6)
Production expenses	(4,592)	–	(1,455)	–
Interest expenses	(1,221)	(1,954)	(1,830)	(643)
Rent expenses	–	(70)	(3)	–
Other expenses	(12)	(952)	–	(421)

(Amounts expressed in thousands of Georgian Lari)

29. Related parties disclosures (continued)

Directors' compensation

The Company's key management personnel include Executive Chairman and other non-executive members of the Supervisory Board and members of management board of the Company. Compensation paid to key executive management personnel (includes the Executive Chairman of the Supervisory Board and 6 members of the Company's management board) for their services in full time executive management positions is made up of salary, employee share-based compensations, performance bonus depending on financial performance of the Company and other compensation in form of reimbursement of housing, business trips, communication and other costs. Total compensation paid to key management amounted to GEL 5,967 and GEL 2,465 for the years ended 31 December 2017 and 2016, respectively.