Georgian Water and Power LLC

Financial statements

for the year ended 31 December 2019
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 (hereinafter, the Company) which comprise the statement of financial position as at 31 December 2019, 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 2019 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 (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from metered water supply	
The Company recognized revenue from metered water supply of GEL 142,352 thousand in 2019. Recognition of revenue from metered water supply was one of the matters of most significance in our audit due to the significance of the amount of revenue recognized 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. The disclosures related to revenue from metered water supply are included in Notes 4 and 15 to the financial statements.	We assessed the design and tested the effectiveness of controls over the revenue recognition process. 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 to the historical information. We considered the Company's accounting policy in respect of revenue recognition for compliance with the requirements of IFRS 15 *Revenue from Contracts with Customers*. We analysed revenue disclosures in the financial statements.
Existence and measurement of property, plant and equipment	
The carrying amount of the Company's property, plant and equipment as at 31 December 2019 is GEL 432,282 thousand, of which significant share are underground assets that are not readily available for physical observation. In the second half of 2019, the Company changed its accounting policy with respect to property, plant and equipment from revaluation model to cost model and applied such accounting policy change retrospectively as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)*. The Company performed impairment testing of its property, plant and equipment as at 1 January 2018 and performed assessment of indicators of impairment or recovery of previously recorded impairment in 2018 and 2019. No indicators of impairment or recovery of previously recorded impairment was identified as at 31 December 2019 and 2018. This matter was one of the matters of most significance in our audit due to the significant judgment involved in determining whether change in accounting policy is appropriate and complexity of calculation of the transition effect, including impairment model assumptions. Related disclosures are included in Notes 4 and 7 to the financial statements.	We tested, on a sample basis, additions and disposals to the underground infrastructure assets in 2019 and compared the cost of additions and disposals recorded in the Company's financial statements to the supporting documents. We compared the information about underground assets constructed during the period to the information in customer billing systems in respective locations. On a sample basis, we performed physical observation of assets in process of construction. We analysed publicly available financial statements of the peer entities, compared accounting policies used with those of the Company and assessed whether change in the accounting policy provides more relevant and reliable information to the users of the financial statements. We analyzed, with the assistance of our valuation specialists, the impairment testing model as at 1 January 2018. In our analysis, we focused on the key model assumptions, such as discount rate, terminal growth rate and terminal cash flows.

We recalculated the effects of change in accounting policy on the comparative financial information, including effects on disclosures. We analysed the allocation of individual assets subject to the impairment test to the different cash-generating units.

We have considered the management's assessment of indicators of impairment or recovery of previously recorded impairment in 2018 and 2019 performed under IAS 36 *Impairment of Assets* requirements with reference to the external and internal sources of information.

We considered the disclosures made in the financial statements under requirements of IAS 8.

Other information included in the financial statements and auditor's report thereon

Other information consists of the information included in the Company's 2019 Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2019 Management Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and 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.

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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 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.

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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.

The partner in charge of the audit resulting in this independent auditor's report is Alexey Loza.

Alexey Loza
Partner

On behalf of EY LLC

29 April 2020

Tbilisi, Georgia

Statement of financial position

As at 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2019	31 December 2018 (restated)*	1 January 2018 (restated)*
Assets				
Non-current assets				
Property, plant and equipment	7	432,282	370,507	271,969
Investment property	8	5,801	8,644	10,138
Right-of-use assets		606	–	–
Restructured trade receivables	10	196	184	111
Loans issued	29	46,885	45,493	49,531
Other non-current assets	9	2,095	1,725	6,682
Total non-current assets		**487,865**	**426,553**	**338,431**
Current assets				
Inventories		3,069	3,218	3,033
Trade and other receivables	10	22,333	18,972	16,997
Loans issued	29	3,511	1,012	1,221
Current income tax prepayments		–	–	61
Prepaid taxes other than income tax		–	–	2,929
Prepayments		3,413	977	1,289
Derivative financial assets	24	–	–	449
Restricted cash	28	–	877	7,653
Cash at bank	28	22,388	9,363	37,049
Total current assets		**54,714**	**34,419**	**70,681**
Total assets		**542,579**	**460,972**	**409,112**
Equity				
Charter capital	11	69,654	91,719	110,559
Additional paid-in capital	11	16,538	10,657	2,783
Retained earnings		69,548	30,927	348
Other reserves	11	(9,313)	(7,545)	(5,238)
Revaluation reserve for property, plant and equipment	11	4,429	7,853	9,351
Total equity		**150,856**	**133,611**	**117,803**
Liabilities				
Non-current liabilities				
Borrowings	12	311,484	260,219	242,414
Deferred revenue	14	23,491	17,789	14,818
Lease liabilities		459	–	–
Other non-current liabilities		79	–	–
Total non-current liabilities		**335,513**	**278,008**	**257,232**
Current liabilities				
Borrowings	12	24,547	18,566	946
Advances received	14	5,880	7,557	8,310
Trade and other payables	13	16,903	16,375	18,292
Provisions for liabilities and charges		614	494	417
Deferred revenue	14	4,387	3,577	3,137
Lease liabilities		196	–	–
Derivative financial liabilities	24	1,919	1,777	–
Other taxes payable		1,764	1,007	2,975
Total current liabilities		**56,210**	**49,353**	**34,077**
Total liabilities		**391,723**	**327,361**	**291,309**
Total liabilities and equity		**542,579**	**460,972**	**409,112**

* *Certain amounts do not correspond to the 2018 financial statement as they reflect the adjustments made for change in accounting policy as described in Note 4.*

Approved for issue and signed on behalf of the Management on 29 April 2020:

Irakli Babukhadia
General Director

Giorgi Gureshidze
Chief Financial Officer

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	*2019*	*2018 (restated)**
Revenue from water supply and related services	15	124,084	122,118
Revenue from electric power sales	16	19,051	6,061
Other revenue	17	1,759	1,236
Total revenue		**144,894**	**129,415**
Salaries and other employee benefits	18	(18,330)	(17,218)
Electricity and transmission costs	4	(12,104)	(13,226)
Allowance for expected credit losses	10	(5,958)	(4,064)
Taxes other than income tax		(4,482)	(3,753)
General and administrative expenses	19	(3,260)	(3,464)
Raw materials, fuel and other consumables		(2,423)	(2,011)
Professional fees	20	(2,064)	(2,391)
Maintenance expenditure		(1,833)	(2,135)
Charge for provisions and legal claims related expenses		(120)	(231)
Other operating expenses	22	(17,627)	(16,290)
Other income	21	3,632	3,519
		(64,569)	**(61,264)**
EBITDA		**80,325**	**68,151**
Interest income		9,442	8,364
Finance costs	23	(22,663)	(16,293)
Net foreign exchange losses		(5,731)	(3,804)
Depreciation and amortisation	7, 9	(25,715)	(21,303)
Gain from sale of non-core assets	29	2,364	–
Non-recurring expenses, net	26	(2,825)	(6,034)
Profit before income tax expense		**35,197**	**29,081**
Income tax expense		–	–
Profit for the year		**35,197**	**29,081**
Other comprehensive income		–	–
Total comprehensive income for the year, net of tax		**35,197**	**29,081**

* *Certain amounts do not correspond to the 2018 financial statements as they reflect the adjustments made for change in accounting policy and reclassifications as described in Note 4.*

Statement of changes in equity

For the year ended 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Charter capital	*Additional paid-in capital*	*Other reserves*	*Retained earnings*	*Revaluation reserve for property, plant and equipment*	*Total*
Balance as at 31 December 2017	**110,559**	**2,783**	**(5,238)**	**(29,805)**	**171,224**	**249,523**
Effect from adoption of IFRS 9 (Note 4)	–	–	–	(6,065)	–	**(6,065)**
Change in accounting policy (Note 4)	–	–	–	36,218	(161,873)	**(125,655)**
Balance as at 1 January 2018 (restated)	**110,559**	**2,783**	**(5,238)**	**348**	**9,351**	**117,803**
Profit for the year (restated) (Note 4)	–	–	–	29,081	–	**29,081**
Total comprehensive income for the year	**–**	**–**	**–**	**29,081**	**–**	**29,081**
Share-based payments (Note 25)	–	7,874	–	–	–	**7,874**
Transfers to intermediate parent under share-based compensation program (Note 25)	–	–	(2,307)	–	–	**(2,307)**
Realised revaluation reserve for investment property	–	–	–	1,498	(1,498)	**–**
Reduction of the charter capital (Note 11)	(18,840)	–	–	–	–	**(18,840)**
Balance as at 31 December 2018 (restated)	**91,719**	**10,657**	**(7,545)**	**30,927**	**7,853**	**133,611**
Profit for the year	–	–	–	35,197	–	**35,197**
Total comprehensive income for the year	**–**	**–**	**–**	**35,197**	**–**	**35,197**
Share-based payments (Note 25)	–	5,881	–	–	–	**5,881**
Transfers to intermediate parent under share-based compensation program (Note 25)	–	–	(1,768)	–	–	**(1,768)**
Realised revaluation reserve for investment property	–	–	–	3,424	(3,424)	**–**
Reduction of the charter capital (Note 11)	(22,065)	–	–	–	–	**(22,065)**
Balance as at 31 December 2019	**69,654**	**16,538**	**(9,313)**	**69,548**	**4,429**	**150,856**

Statement of cash flows

For the year ended 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	2019	2018 (restated)*
Cash flows from operating activities			
Profit before income tax		35,197	29,081
Adjustments for:			
Depreciation and amortisation	7, 9	25,715	21,303
Allowance for expected credit losses	10	5,958	4,064
Reversal of provisions		120	231
Net gain from disposal of property, plant and equipment, non-core assets and investment property		(2,132)	(127)
Revaluation gain on investment property		(917)	(197)
Net foreign exchange losses		5,731	3,804
Finance income		(9,442)	(8,364)
Finance costs	23	22,663	16,293
Net income from transfer of asset on the exit from the share purchase agreement		(37)	–
Derecognition of unclaimed advances received and trade payables		(845)	(360)
Share-based payment expense		4,187	6,077
Working capital changes			
Change in inventories		(1,151)	(185)
Change in trade and other receivables		(9,297)	(6,109)
Change in prepaid taxes other than income tax		–	2,929
Change in prepayments		38	312
Change in trade and other payables		360	9,084
Change in deferred revenue – current portion		810	440
Change in advances received		(1,355)	(393)
Change in other tax payables		818	(1,968)
Change in restricted cash		897	6,537
Operating cash flows after working capital changes		**77,318**	**82,452**
Change in deferred revenue – non-current portion		5,702	2,971
Interest received		6,499	2,057
Interest paid		(23,337)	(18,989)
Income tax paid		–	61
Net cash from operating activities		**66,182**	**68,552**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(82,136)	(116,746)
Proceeds from sale of property, plant and equipment		3,949	465
Proceeds from sale of investment property and non-core assets		2,742	1,455
Repayment of loans issued		11	5,782
Net cash used in investing activities		**(75,434)**	**(109,044)**
Cash flows from financing activities			
Payment of principal portion of lease liabilities	4	(170)	–
Proceeds from borrowings	12	136,536	34,497
Repayment of borrowings	12	(86,926)	(19)
Reduction of the charter capital	11	(22,065)	(18,840)
Contributions under share-based payment plan	25	(4,492)	(2,307)
Net cash from financing activities		**22,883**	**13,331**
Effect of exchange rate changes on cash and cash equivalents		(606)	(525)
Net change in cash and cash equivalents		**13,025**	**(27,686)**
Cash and cash equivalents at the beginning of year	28	9,363	37,049
Cash and cash equivalents at the end of year	28	**22,388**	**9,363**

* *Certain amounts do not correspond to the 2018 financial statements as they reflect the adjustments made for change in accounting policy and reclassifications as described in Note 4.*

(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 the Tbilisi Municipal Cabinet of 23 May 1997, as a limited liability company in accordance with legislation of Georgia.

In 2008, the Company was privatised and Georgian Global Utilities Ltd (formerly known as Multiplex Energy Limited) acquired 100% ownership from 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 and operates hydroelectric power stations generating electricity for own use and for sale to electricity open market.

The Company's registered address is at 10, Medea (Mzia) Jugheli Street, Tbilisi, 0179, Georgia.

As at 31 December 2019 and 2018, the Company's shares are owned by Georgian Global Utililites LTD (the "Parent"), which is a wholly owned subsidiary of JSC Georgia Capital the ultimate parent of which is Georgia Capital PLC ("GCAP"), domiciled in the United Kingdom.

On 29 May 2018, BGEO Company PLC completed demerger of its business activities into a London-listed banking business, Bank of Georgia Company PLC, and a London-listed investment business, GCAP. As a result, GCAP became the ultimate parent of the Company.

2. Operating environment

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

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the developed countries, such as economic uncertainty caused by the global COVID-19 pandemic (Note 30).

3. Basis of preparation

These financial statements of the Company for the year ended 31 December 2019 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 2019 reporting.

The financial statements have been prepared on a historical cost basis, except for investment properties 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.

4. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

The Company applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

IFRS 16 Leases

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

Transition to IFRS 16

The Company is a lessee in a limited number of real estate leases. The Company's lease arrangements usually do not include any variable component, are concluded for the period from 1 to 5 years and are denominated in GEL or US Dollar ("USD").

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

The effect of adoption IFRS 16 is as follows:

Impact on the statement of financial position as at 1 January 2019:

	1 January 2019
Right-of-use assets	223
Total assets	**223**
Lease liabilities	223
Total liabilities	**223**

The adoption had no impact on the shareholder equity.

The weighted average incremental borrowing rates were 11% and 8% for lease payments in GEL and USD, respectively.

The Company's leases in the scope of IFRS 16 are mostly for real estate. The movements in right-of-use assets were as follows:

	Real estate
Balance as at 31 December 2018	**–**
The effect of adoption of IFRS 16	223
Balance as at 1 January 2019	**223**
Additions	602
Balance as at 31 December 2019	**825**
Depreciation charge for the period	(219)
Right-of-use assets as at 31 December 2019	**606**

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

Set out below are the carrying amounts of lease liabilities and the movements:

At 1 January 2019	**223**
Additions	602
Interest expense on lease liabilities	63
Payment of principal portion of lease liabilities	(170)
Payment of lease interest	(63)
At 31 December 2019	**655**

Impact on the statement of profit or loss and other comprehensive income:

	2019
Depreciation expense of right-of-use assets (Depreciation and amortization)	219
Interest expense on lease liabilities (Finance costs)	63
Rent expenses on short-term leases (Other operating expenses)	164
Net effect recognized in the statement of profit or loss and other comprehensive income	**446**

In 2019, total lease payments, including low-value and short-term leases were GEL 397.

Summary of new accounting policies

Set out below are the new accounting policies of the Company upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

The Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include in-substance fixed payments. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company has certain leases of vehicles and equipment with lease terms of 12 months or less and the actual value of what is considered to be low-value. The Company applies the ‘short-term lease’ and ‘lease of low-value assets’ recognition exemptions for these leases.

Other standards and interpretations

The following standards/interpretations relevant to the Company’s activities that became effective on 1 January 2019 had no impact on the Company’s financial position or results of operations:

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- Annual Improvements to IFRSs 2015-2017 Cycle: IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs*.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

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. 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.

For assets and liabilities that are measured in the financial statements at fair value 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

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

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

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

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

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Derivative financial instruments

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

Impairment of receivables and other financial assets accounted for at amortized cost

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

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

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

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

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. ECLs 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 ECL 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 10 for further details on assessment and judgement applied in respect with ECL and write-off of trade and other receivables.

Expected credit losses on loans issued are assessed individually considering actual or implied credit rating of the borrower, availability of support from borrower's related parties and other relevant information available to the management as at the assessment date, including forward-looking information available without undue cost or effort.

Renegotiated receivables

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

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.

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

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

Financial liabilities

All of the Company's financial liabilities, including borrowings and trade and other payables, are carried at amortised cost except for derivative financial liabilities held at fair value. The 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 owns real estate that mainly consists of administrative buildings and operational premises.

Change in accounting policy

In the second half of 2019, the Company changed its accounting policy with respect to property, plant and equipment. The Company applied the cost model, where assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change in policy, the Company applied the revaluation model, where property, plant and equipment were carried at the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Company believes that cost model provides more reliable and more meaningful presentation for investors as it enhances comparability for the investors as the application of cost model is a market practice across utility industry and it more closely aligns the accounting with the business activities around these asset categories.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The change of accounting policy has been accounted for retrospectively the cost model has been applied by restating each of the affected financial statement line items for the prior periods, as follows:

Statement of financial position

	1 January 2018		
	As previously reported	***Change in accounting policy***	***As restated***
Assets			
Property, plant and equipment	397,332	(125,363)	271,969
Other non-current assets			
Intangible assets	1,809	(292)	1,517
Total non-current assets	**464,086**	**(125,655)**	**338,431**
Total assets	**534,767**	**(125,655)**	**409,112**
Equity			
Retained earnings	(35,870)[1]	36,218	348
Revaluation reserve for property, plant and equipment	171,224	(161,873)	9,351
Total equity	**243,458**	**(125,655)**	**117,803**

	31 December 2018		
	As previously reported	***Change in accounting policy***	***As restated***
Assets			
Property, plant and equipment	494,947	(124,440)	370,507
Other non-current assets			
Intangible assets	1,083	(149)	934
Total non-current assets	**551,142**	**(124,589)**	**426,553**
Total assets	**585,561**	**(124,589)**	**460,972**
Equity			
Retained earnings	(7,855)	38,782	30,927
Revaluation reserve for property, plant and equipment	171,224	(163,371)	7,853
Total equity	**258,200**	**(124,589)**	**133,611**

Statement of profit or loss and other comprehensive income

	2018		
	As previously reported	***Change in accounting policy***	***As restated***
Other operating expenses / other income			
Net (loss)/gain from disposal of property, plant and equipment and investment property	(26)	153	127
EBITDA	**67,998**	**153**	**68,151**
Depreciation and amortization	(22,526)	1,223	(21,303)
Finance cost	(15,983)	(310)	(16,293)
Profit before income tax expense	**28,015**	**1,066**	**29,081**
Profit for the year	**28,015**	**1,066**	**29,081**
Total comprehensive income for the year, net of tax	**28,015**	**1,066**	**29,081**

[1] *Retained earnings balance Includes IFRS 9 adoption effect of GEL 6,065.*

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Statement of cash flows

	2018		
	As previously reported	***Change in accounting policy***	***As restated***
Cash flows from operating activities			
Profit before income tax	28,015	1,066	29,081
Depreciation and amortisation	22,526	(1,223)	21,303
Net loss/(gain) from disposal of property, plant and equipment	26	(153)	(127)
Finance cost	15,983	310	16,293
Net cash from operating activities	**68,552**	**–**	**68,552**

Following change in accounting policy, all categories of property, plant and equipment are accounted for at cost less accumulated depreciation and impairment.

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

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

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

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

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 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.

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. The revaluation reserve for investment property in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. If the possibility of outflow becomes probable, the Company recognizes respective Provisions for liabilities and charges to provisions. Contingent assets are not recognized in the statement of financial position unless reimbursement is virtually certain (which is usually the case with reimbursement from insurance companies) but disclosed when an inflow of economic benefits is probable.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Intangible assets

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

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

Taxation

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

Georgian tax legislation also provides for charging corporate income tax on abnormal water losses. Pursuant to the regulation published by GNERC, normative loss rate has been increased and the Company does not expect to be subject to respective taxes. Therefore, taxation of such transactions is not considered to be in scope of IAS 12 *Income Taxes* and is accounted as non-recurring expenses in the statement of profit or loss and other comprehensive income.

Inventories

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

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the 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 and restricted cash

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

Charter capital

The amount of the 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 participant. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was paid.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

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. ECLs are 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 construction phase. The capitalization rate for borrowing costs was 8.5% in 2019 (2018: 5.5%).

Provisions for liabilities and charges to provisions

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

EBITDA

The Company separately presents EBITDA on the face of statement of profit or loss and other comprehensive income. EBITDA is not defined in IFRS and 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, gains from sale of non-core assets and non-recurring expenses.

Gain from sale of non-core assets

The Company holds certain property, plant and equipment and investment property that are no longer used in the Company's daily business operations. Gain or loss from disposal of such assets is separately presented in the statement of profit and loss and other comprehensive income.

Changes in presentation

In 2019, the Company changed presentation of its statement of profit and loss and other comprehensive income, separately presenting gains from sales of non-core assets (previously presented in other income).

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

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 currencies and foreign currency translation

The Company's 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 recognised in the profit or loss within net foreign exchange losses.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2019 and 2018 were 3.2095 and 3.0701 GEL to 1 Euro, respectively.

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 principles also apply to the Company's major classes of revenues:

Revenue from water supply

Revenue from water supply is recognized over time as a single performance obligation to supply water to customer is satisfied. Amounts billed to customers include billings for water supply as well as charges for connection and installation of water meters, as follows.

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

Charges for installation of water meters include amounts billed to residential customers under GNERC rules. The performance obligations under such contracts are satisfied over time as the Company supplies water to the respective customer and the revenue is recognised during the service period. The estimated service period for the meters is considered to be 10 years. The revenue is recognized over the respective time period.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

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

In 2019, the Company changed presentation of charges for connection and water meters installation and presented these within revenue from water supply and related services, as it considered such presentation to be aligned with the nature of performance obligation under respective contracts. Comparative statement of profit or loss and other comprehensive income was amended to comply with current period classification as follows:

	2018		
	As previously reported	***Change in presentation***	***As reclassified***
Revenue from water supply and related services	118,679	3,439	122,118
Other revenue	4,675	(3,439)	1,236

Revenue from electric power sales

Revenue from electric power sales is recognised on the basis of metered electric power transferred and by application of the fixed price according to the agreement formed with customers. Customers are usually obliged to pay the respective balances by a following month end.

Penalty income on illegal connections services

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

Electricity and transmission costs

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

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the 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, and such asset meets definition of credit-impaired, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Employee benefits

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 GCAP, the Company's ultimate parent. Grants are made by GCAP. Grants that the Company does not have a liability to settle are accounted for as equity-settled transactions (even if the Company may subsequently recharge the cost of the award to the settling entity, which is recognized as deduction from Other reserves in the statement of changes in equity at respective payment date).

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Employee stock ownership plan (continued)

Equity-settled transactions

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

The cost of equity settled transactions is recognized together with the corresponding increase in additional paid in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the 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 decrease in 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. Standards issued but not yet effective are:

- IFRS 17 *Insurance Contracts*;
- Amendments to IFRS 3 *Definition of a Business*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform*;
- Amendment to IAS 1 *Classification of Liabilities*.

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

5. 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 property

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

Measurement of property, plant and equipment

As at 1 January 2018, concurrently with the voluntary change in accounting policy for property, plant and equipment (Note 7), the Company performed an impairment test of its property, plant and equipment. In applying the impairment requirements under the cost model, the Company identified separate water and wastewater collection services and electricity generation and sales cash generating units ("CGUs"). As a result of change in accounting policy to cost model, previously determined fair value surplus in the electricity generation and sales CGUs was no longer eligible for recognition, while the accumulated deficit of value in use of the water and wastewater collection services CGUs below its historical cost resulted in impairment of property and equipment of GEL 46,537 as at 1 January 2018. There was no impairment of electricity generation and sales CGU as of that date.

The Company regularly performs impairment indicators analysis according to IAS 36 *Impairment of Assets*.
The Company analysed impairment or recovery indicators and found no indications of potential impairment of property, plant and equipment nor recovery of previously recognized impairment in 2019 and 2018.

(Amounts expressed in thousands of Georgian Lari)

5. Significant accounting judgements and estimates (continued)

Useful lives of property, plant and equipment

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

Expected credit losses in respect of trade and other receivables

The Company applied the simplified approach for estimation of ELCs on trade receivables. The impairment provision for accounts receivable is based on the Company's assessment of the collectability of specific customer accounts. The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

The amount of ECLs recognized in respect of trade and other receivables amounted to GEL 20,335 as at 31 December 2019 (2018: GEL 15,435) (Note 10).

6. Segment information

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

Electricity generation and sales

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

Water supply and wastewater collection services

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

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained below, is measured according to IFRS standards in the same manner as profit or loss in the financial statements.

Transactions between segments are accounted for at actual transaction prices.

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

(Amounts expressed in thousands of Georgian Lari)

6. Segment information (continued)

Water supply and wastewater collection services (continued)

	Subnote	Electricity generation, 2019	Water supply and wastewater collection services, 2019	Intersegment transactions, 2019	Total, 2019
Revenue from water supply and related services		–	124,084	–	**124,084**
Revenue from electric power sales[1]		22,826	–	(3,775)	**19,051**
Other revenue		–	1,759	–	**1,759**
Total revenue	1	**22,826**	**125,843**	**(3,775)**	**144,894**
Electricity and transmission costs	2	(86)	(15,793)	3,775	**(12,104)**
Salaries and other employee benefits		(1,964)	(16,366)	–	**(18,330)**
Allowance for impairment of trade receivables		–	(5,958)	–	**(5,958)**
Taxes other than income tax		(79)	(4,403)	–	**(4,482)**
General and administrative expenses		(149)	(3,111)	–	**(3,260)**
Professional fees		(36)	(2,028)	–	**(2,064)**
Raw materials, fuel and other consumables		(75)	(2,348)	–	**(2,423)**
Maintenance expenditure		(24)	(1,809)	–	**(1,833)**
Reversal of provisions and legal claims related expenses		–	(120)	–	**(120)**
Other operating expenses		(2,743)	(14,884)	–	**(17,627)**
Other income		10	3,622	–	**3,632**
EBITDA		**17,680**	**62,645**	**–**	**80,325**
Finance income	3	–	9,442	–	**9,442**
Finance costs	3	(2,527)	(20,136)	–	**(22,663)**
Foreign exchange gains/(losses)		(639)	(5,092)	–	**(5,731)**
Depreciation and amortization		(1,633)	(24,082)	–	**(25,715)**
Gain from sale of non-core assets		–	2,364	–	**2,364**
Non-recurring expenses, net	4	(1,431)	(1,394)	–	**(2,825)**
Profit before income tax expense		**11,450**	**23,747**	**–**	**35,197**
Income tax expense		–	–	–	**–**
Profit and other comprehensive income for the year		**11,450**	**23,747**	**–**	**35,197**

[1] *64% of total revenue from electric power sales is generated from one customer.*

(Amounts expressed in thousands of Georgian Lari)

6. Segment information (continued)

	Subnote	Electricity generation, 2018 (restated)*	Water supply and wastewater collection services, 2018 (restated)*	Intersegment transactions, 2018	Total, 2018 (restated)*
Revenue from water supply and related services		–	122,118	–	**122,118**
Revenue from electric power sales		10,060	–	(3,999)	**6,061**
Other revenue		–	1,236	–	**1,236**
Total revenue	1	**10,060**	**123,354**	**(3,999)**	**129,415**
Electricity and transmission costs	1	(90)	(17,135)	3,999	**(13,226)**
Salaries and other employee benefits	2	(1,782)	(15,436)	–	**(17,218)**
Allowance for impairment of trade receivables		–	(4,064)	–	**(4,064)**
Taxes other than income tax		(299)	(3,454)	–	**(3,753)**
General and administrative expenses		(117)	(3,347)	–	**(3,464)**
Professional fees		(20)	(2,371)	–	**(2,391)**
Raw materials, fuel and other consumables		(60)	(1,951)	–	**(2,011)**
Maintenance expenditure		(5)	(2,130)	–	**(2,135)**
Reversal of provisions and legal claims related expenses		–	(231)	–	**(231)**
Other operating expenses[1]	5	(1,981)	(14,309)	–	**(16,290)**
Other income		13	3,506	–	**3,519**
EBITDA		**5,719**	**62,432**	**–**	**68,151**
Finance income	3	–	8,364	–	**8,364**
Finance costs	3	(1,955)	(14,338)	–	**(16,293)**
Foreign exchange gains/(losses)		–	(3,804)	–	**(3,804)**
Depreciation and amortization		(930)	(20,373)	–	**(21,303)**
Non-recurring expenses, net	4	(2,581)	(3,453)	–	**(6,034)**
Profit before income tax expense		**253**	**28,828**	**–**	**29,081**
Income tax expense		–	–	–	**–**
Profit and other comprehensive income for the year		**253**	**28,828**	**–**	**29,081**

* *Other operating expenses, finance costs, depreciation and amortization do not correspond to the 2018 segment report as they reflect the adjustments made for change in accounting policy as described in Note 4.*

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

1. **Revenue** – in 2019 and 2018, the Company consumed electricity internally generated by Zhinvali HPP and Tetrikhevi HPP. For the purpose of segment disclosure in 2019, the revenue from the internally used electricity was recorded at a regulated tariff set by GNERC (decree No. 50, dated 27 December 2017).

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 according to the amount of borrowings received for each segment.

4. **Non-recurring expenses** include non-operating tax expenses and net income from transfer of assets upon exit from the share purchase agreement (Note 27), both are directly attributable to the Water supply and wastewater collection services segment, and employee share-based acceleration expense and termination benefits, both are allocated equally to each segment.

(Amounts expressed in thousands of Georgian Lari)

7. Property, plant and equipment

The movements in property, plant and equipment in 2019 were as follows:

	Land plots	*Real estate*	*Infrastructure assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost							
31 December 2018 (restated)	**1,863**	**21,702**	**465,573**	**24,378**	**6,152**	**50,519**	**570,187**
Additions	–	2	13,429	–	72	74,650	**88,153**
Disposals	(78)	(927)	(38)	(1,368)	(3)	(272)	**(2,686)**
Transfers	1,905	2,594	86,162	4,304	380	(95,345)	**–**
31 December 2019	**3,690**	**23,371**	**565,126**	**27,314**	**6,601**	**29,552**	**655,654**
Accumulated depreciation and impairment							
31 December 2018 (restated)	**173**	**8,551**	**177,431**	**8,944**	**3,461**	**1,120**	**199,680**
Depreciation charge	–	371	21,634	2,124	673	–	**24,802**
Disposals	–	(371)	(4)	(733)	(2)	–	**(1,110)**
Transfers	6	10	266	13	1	(296)	**–**
31 December 2019	**179**	**8,561**	**199,327**	**10,348**	**4,133**	**824**	**223,372**
Net book value							
31 December 2018 (restated)	**1,690**	**13,151**	**288,142**	**15,434**	**2,691**	**49,399**	**370,507**
31 December 2019	**3,511**	**14,810**	**365,799**	**16,966**	**2,468**	**28,728**	**432,282**

The movements in property, plant and equipment in 2018 were as follows:

	Land plots	*Real estate*	*Infrastructure assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost 1 January 2018 (restated)	**1,411**	**18,089**	**368,690**	**23,525**	**4,960**	**34,474**	**451,149**
Additions	74	21	14,641	48	166	104,255	**119,205**
Disposals	(4)	(4)	(156)	–	(3)	–	**(167)**
Transfers	382	3,596	82,398	805	1,029	(88,210)	**–**
31 December 2018 (restated)	**1,863**	**21,702**	**465,573**	**24,378**	**6,152**	**50,519**	**570,187**
Accumulated depreciation and impairment							
1 January 2018 (restated)	**166**	**8,188**	**158,308**	**6,844**	**2,877**	**2,797**	**179,180**
Depreciation charge	–	297	17,605	2,085	565	–	**20,552**
Disposals	–	(2)	(49)	–	(1)	–	**(52)**
Transfers	7	68	1,567	15	20	(1,677)	**–**
31 December 2018 (restated)	**173**	**8,551**	**177,431**	**8,944**	**3,461**	**1,120**	**199,680**
Net book value							
1 January 2018 (restated)	**1,245**	**9,901**	**210,382**	**16,681**	**2,083**	**31,677**	**271,969**
31 December 2018 (restated)	**1,690**	**13,151**	**288,142**	**15,434**	**2,691**	**49,399**	**370,507**

The Company did not have any pledged property, plant and equipment as collateral for its borrowings as at 31 December 2019. The carrying amount of the land plots and real estate pledged as at 31 December 2018 was GEL 5,665 (Note 12).

(Amounts expressed in thousands of Georgian Lari)

8. Investment property

The table below shows the composition and movements in investment property in 2019 and 2018:

	Land	*Buildings*	*Total*
As at 31 December 2017	**9,665**	**473**	**10,138**
Disposals	(1,691)	–	**(1,691)**
Net gain from fair value remeasurement	189	8	**197**
As at 31 December 2018	**8,163**	**481**	**8,644**
Additions	–	82	**82**
Disposals	(3,842)	–	**(3,842)**
Net gain from fair value remeasurement	917	–	**917**
As at 31 December 2019	**5,238**	**563**	**5,801**

The investment property pledged as collateral for the Company's borrowings as at 31 December 2019 was nil (2018: GEL 2,211).

Fair value measurement

Investment properties are stated at fair value. The date of the latest valuation performed by an independent appraiser is 30 September 2019. The valuation methods used are in accordance with those recommended by the International Valuation Standards Committee, consistent with IFRS 13, *Fair Value Measurement*, and applied on a consistent basis.

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

Market approach

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

The valuation technique and inputs used in the fair value measurement of the investment property attributed to Level 3 in the fair value hierarchy. The elated sensitivity to reasonably possible changes in inputs are as follows at 31 December 2019 and 2018, respectively:

Class of investment property	*Fair value as at 31 December 2019*	*Valuation technique*	*Significant unobservable inputs used*	*Value of input / range / weighted average / rent price per square meter*
Land plots	5,238	Income approach Market approach	WACC, Price per square meter, Rent price per square meter	11.5%, 0.015-0.342 (0.04); 0.269;
Buildings	563	Market approach	Price per square meter	0.118-2.269 (0.275)
Total investment property	**5,801**			

Class of investment property	*Fair value as at 31 December 2018*	*Valuation technique*	*Significant unobservable inputs used*	*Value of input / range (weighted average)*
Land plots	8,163	Income approach Market approach	WACC, Price per square meter	12.2% 0.014-1.56 (0.72)
Buildings	481	Market approach	Price per square meter	0.16-1.63 (0.45)
Total investment property	**8,644**			

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

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

(Amounts expressed in thousands of Georgian Lari)

9. Other non-current assets

	31 December 2019	*31 December 2018 (restated)*
Intangible assets	1,529	934
Prepayments for non-current assets	367	791
Other non-current assets	199	–
Total other non-current assets	**2,095**	**1,725**

Historical cost of intangible assets and accumulated amortisation and impairment as at 31 December 2019 amounted to GEL 5,828 and GEL 4,299, respectively (2018: GEL 4,539 and GEL 3,605).

Amortisation charge during the year on intangible assets, including software licenses, was GEL 694 in 2019 (2018: GEL 751).

10. Trade and other receivables

	31 December 2019	*31 December 2018*
Non-current		
Trade receivables for water supply services from general population	242	335
	242	**335**
Less allowance for expected credit losses	(45)	(151)
Total restructured trade receivables, net	**197**	**184**
Current		
Trade receivables for water supply services from general population	16,312	12,299
Trade receivables for water supply services from legal entities	15,414	15,426
Trade receivables for installation of water meters	32	41
Trade receivables for connection service	2,764	3,016
Trade receivables for electric power sales	3,360	486
	37,882	**31,268**
Less allowance for expected credit losses	(19,281)	(15,177)
Total current trade receivables, net	**18,601**	**16,091**
Other receivables	4,741	2,988
Less allowance for expected credit losses	(1,009)	(107)
Total other receivables, net	**3,732**	**2,881**
Total current trade and other receivables, net	**22,333**	**18,972**

Other receivables include the receivables from penalties on illegal connections and other trade and other receivables.

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

As at 31 December 2019, the Company recognised GEL 4,741 of trade and other receivables, which relate to the income that is not in scope of IFRS 15 *Revenue from Contracts with Customers* (2018: GEL 2,988), and mainly comprise penalties on illegal connections.

(Amounts expressed in thousands of Georgian Lari)

10. Trade and other receivables (continued)

The Company has no internal credit grading system to evaluate credit quality of its trade and other receivables and assesses credit risk based on days past due information.

Aging analysis of trade and other receivables per classes as at 31 December 2019 is as follows:

31 December 2019	*Contract assets*	*Current*	*Less than 30 days*	*30 to 60 days*	*61 to 90 days*	*Over 91 days*	*Total*
Expected credit loss rate	0.00%	0.00%	6.28%	26.44%	40.27%	93.91%	**47.44%**
Carrying amount at default	2,838	8,315	9,966	703	443	20,600	**42,865**
Expected credit loss	**–**	**–**	**626**	**186**	**178**	**19,345**	**20,335**

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

31 December 2018	*Contract assets*	*Current*	*Less than 30 days*	*30 to 60 days*	*61 to 90 days*	*Over 91 days*	*Total*
Expected credit loss rate	0.00%	0.00%	1.34%	19.95%	31.64%	91.24%	**44.62%**
Carrying amount at default	2,938	5,245	8,590	685	754	16,379	**34,591**
Expected credit loss	**–**	**–**	**115**	**137**	**239**	**14,944**	**15,435**

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

	Non-current trade and other receivables	*Current trade and other receivables*	*Total*
31 December 2017	**202**	**27,265**	**27,467**
IFRS 9 transition effect	–	6,065	**6,065**
Charge	–	4,064	**4,064**
Bad debts written off	(51)	(22,110)	**(22,161)**
31 December 2018	**151**	**15,284**	**15,435**
Provision/(reversal) for expected credit losses	(106)	6,064	**5,958**
Bad debts written off	–	(1,058)	**(1,058)**
31 December 2019	**45**	**20,290**	**20,335**

In 2019 and 2018, the Company wrote off aged receivables arisen more than three years ago. In 2018, bad debt write-offs were conditioned by amendments of a decree regarding potable water supply and consumption issued by GNERC, pursuant to which customers were exempted from obligation to pay amounts arisen more than three years ago. Written off receivables have been previously fully provided for.

11. Equity

Charter capital

As at 31 December 2019, the Company had fully contributed charter capital of GEL 69,654 (2018: GEL 91,719).

In 2019, the Parent of the Company decided to decrease the charter capital by GEL 22,065 (2018: GEL 18,840).

Dividends

In 2019 and 2018, no dividends were declared and paid to the Parent.

Additional paid-in capital

Additional paid-in capital reflects the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration (Note 25).

Other reserves

Other reserves reflect the transfers of cash to the intermediate parent for the shares granted to the employees of the Company (Note 25).

(Amounts expressed in thousands of Georgian Lari)

11. Equity (continued)

Revaluation reserve

Revaluation reserve reflect amount of revaluation reserve of property, plant and equipment revalued at the point of transfer to investment property.

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 shareholders 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. The Company defines capital for capital management purposes as equity recognized in the financial statements. There are no externally imposed capital requirements to which the Company is subject to.

There were no changes in the objectives, policies or processes for managing capital in 2019 and 2018.

12. Borrowings

	31 December 2019		*31 December 2018*	
	Current liabilities	***Non-current liabilities***	***Current liabilities***	***Non-current liabilities***
Loans from international financial institutions	20,567	189,516	17,755	220,661
Loans from Georgian financial institutions	3,724	91,613	587	9,802
Debt securities issued	256	30,355	224	29,756
Total borrowings	**24,547**	**311,484**	**18,566**	**260,219**

As at 31 December 2019, borrowings from international financial institutions include GEL denominated loans from Nederlandse Financierings-Maatschappij Voor Ontwikkelingsanden N.V ("FMO Enterpreneurial Development Bank") of GEL 86,841 (2018: 96,329); EUR denominated loans from Deutsche Investitions − Und Entwicklungsgesellschaft MBH ("DEG") of GEL 123,242 (2018: GEL 76, 856).

The EUR denominated loan from European Investment Bank ("EIB") of GEL 65,232 was refinanced during 2019.

As at 31 December 2019, borrowings from Georgian financial institutions include GEL denominated loans of GEL 95,337 (2018: GEL 10,389).

As at 31 December 2019, the Company has GEL-denominated debt securities issued of GEL 30,611 (2018: GEL 29,980). The debt securities were issued on 6 December 2016 and are maturing in 2021.

Debt matures on average in 12 years (2018: 10 years).

At 31 December 2019, the Company has GEL 44,933 undrawn borrowing facilities (2018: no undrawn borrowing facilities).

The Company is subject to certain covenants related to its borrowings, such as maintaining different limits for debt to EBITDA ratio, capital investments and others. Non-compliance with such covenants may result in events of default 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 2019 and 2018.

Certain property, plant and equipment and investment property were pledged as collateral for borrowings as at 31 December 2018 (Notes 7, 8). No assets were pledged as at 31 December 2019.

Material non-cash transactions

In 2019, the Company incurred borrowings costs of GEL 24,954 (2018: GEL 19,542) of which GEL 2,450 has been capitalized to property, plant and equipment (2018: GEL 3,571).

(Amounts expressed in thousands of Georgian Lari)

12. Borrowings (continued)

Changes in liabilities arising from financial activities

	Borrowings	*Debt securities issued*	*Lease liabilities*	*Total*
Carrying amount at 31 December 2017	**213,414**	**29,946**	**–**	**243,360**
Foreign currency translation	692	–	–	**692**
Cash proceeds	34,497	–	–	**34,497**
Cash repayments	(19)	–	–	**(19)**
Interest accrued	16,345	3,188	–	**19,533**
Interest paid (classified as operating cash outflows)	(15,801)	(3,188)	–	**(18,989)**
Other	(323)	34	–	**(289)**
Carrying amount at 31 December 2018	**248,805**	**29,980**	**–**	**278,785**
Foreign currency translation	5,644	–	–	**5,644**
Cash proceeds	136,536	–	–	**136,536**
Cash repayments	(86,926)	–	(170)	**(87,096)**
Interest accrued	21,925	3,125	63	**25,113**
Interest paid (classified as operating cash outflows)	(20,181)	(3,093)	(63)	**(23,337)**
Other	(383)	599	825[1]	**1,041**
Carrying amount at 31 December 2019	**305,420**	**30,611**	**655**	**336,686**

[1] *Includes IFRS 16 adoption effect and lease liability additions.*

13. Trade and other payables

	31 December 2019	*31 December 2018*
Trade payables	9,587	9,645
Payables for non-current assets	3,625	3,063
Payables to employees	3,527	3,507
Other payables	164	160
Total trade and other payables	**16,903**	**16,375**

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

14. Contract assets and liabilities

The Company has recognised GEL 144,232 of revenue from contracts with customers in 2019 (2018: GEL 128,787). The disaggregation of revenue from contracts with customers by types are presented in the statement of profit and loss and other comprehensive income for 2019 and in Notes 15, 16.

Contract balances

The Company recognised the following revenue-related contract balances:

	31 December 2019	*31 December 2018*
Receivables		
Receivables, presented in Trade and other receivables	18,798	15,931
Total	**18,798**	**15,931**
Contract liabilities		
Advances received	5,880	7,557
Deferred revenue	27,878	21,366
Total	**33,758**	**28,923**

The Company recognised GEL 3,577 (2018: 3,137) of revenue in 2019 that relates to carried-forward contract liabilities.

(Amounts expressed in thousands of Georgian Lari)

14. Contract assets and liabilities (continued)

Contract balances (continued)

Increase in receivables is conditioned by postponed receipts related to electric power sales.

Change in advances received was mostly caused by completion of services provided in 2019.

In 2019, change in deferred revenue was mostly attributed to conclusion of the new connection contracts of GEL 10,708 (2018: GEL 5,919), as offset by amounts recognized as revenue in profit or loss.

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 2019:

	In the year ending 31 December 2020	*In the year ending 31 December 2021*	*In the year ending 31 December 2022*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on contracts with customers	4,387	4,253	3,876	6,107	9,255	**27,878**

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

	In the year ending 31 December 2019	*In the year ending 31 December 2020*	*In the year ending 31 December 2021*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on contracts with customers	3,577	3,316	3,182	4,934	6,357	**21,366**

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

15. Revenue from water supply and related services

	2019	*2018 (reclassified)*
Revenue from water supply to legal entities	83,046	82,186
Revenue from water supply to general population	36,857	36,493
Total revenue from water supply before charges for related services	**119,903**	**118,679**
Charges for connection services	3,376	2,614
Charges for installation of water meters	805	825
Total revenue from water supply and related services	**124,084**	**122,118**

16. Revenue from electric power sales

	2019	*2018*
Revenue from electric power sales to legal entities	18,191	5,823
Revenue from electric power sales to government related entities	860	238
Total revenue from electric power sales	**19,051**	**6,061**

(Amounts expressed in thousands of Georgian Lari)

17. Other revenue

	2019	*2018 (reclassified)*
Income from rent	662	628
Income from water sales to hydro power plant	179	350
Other revenue	918	258
Total other revenue	**1,759**	**1,236**

18. Salaries and other employee benefits

	2019	*2018*
Salaries	14,737	14,235
Bonuses	2,268	2,069
Employee share-based compensation	1,325	914
Total salaries and benefits	**18,330**	**17,218**

19. General and administrative expenses

	2019	*2018*
Security expenses	1,155	900
Office expenses	772	730
Utility expenses	702	706
Communication expenses	382	408
Advertising expenses	143	432
Business trip expenses	54	148
Representation expenses	52	140
Total general and administrative expenses	**3,260**	**3,464**

20. Professional fees

	2019	*2018*
Consulting expenses	1,418	1,801
Legal and other professional fees	646	590
Total professional fees	**2,064**	**2,391**

Auditor's remuneration

Remuneration of Company's auditor for the years ended 31 December 2019 and 2018 comprises (net of VAT):

	2019	*2018*
Fees for the audit of the Company's annual financial statements for the year ended 31 December	132	134
Expenditures for other assurance services	13	34
Total auditor's remuneration	**145**	**168**

Fees and expenditures payable to other auditors and audit firms in respect of other professional services GEL 307 (2018: GEL 377), net of VAT.

(Amounts expressed in thousands of Georgian Lari)

21. Other income

	2019	*2018 (restated)*
Penalty income on illegal connection services	1,034	1,873
Net gain from revaluation of investment property	917	196
Derecognition of unclaimed advances received	845	360
Net income from disposal of property, plant and equipment and investment property	–	127
Other income	836	963
Total other income	**3,632**	**3,519**

22. Other operating expenses

	2019	*2018 (restated)*
Cost of wastewater treatment	10,382	10,363
Electricity production facilities utilization costs	1,945	1,416
Bill processing expenses	1,653	1,655
Insurance expense	1,263	1,039
Compensation for damage	654	309
Regulation fee	282	254
Net loss from disposal of property, plant and equipment	232	–
Charity expenses	225	240
Fines and penalties	127	319
Rent expenses	118	559
Research & Certification Expenses	99	28
Net loss from sale of network and inventories	18	39
Other expenses	629	69
Total other operating expenses	**17,627**	**16,290**

23. Finance costs

	2019	*2018 (restated)*
Interest expenses on borrowings	22,504	15,971
Bank fees and charges	96	322
Interest expenses on lease liabilities	63	–
Total finance costs	**22,663**	**16,293**

24. Derivative financial liabilities

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

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

	2019		*2018*	
	Notional amount	*Liability*	*Notional amount*	*Liability*
Forward – domestic	22,467	1,919	28,579	1,777
Derivative financial liabilities	**22,467**	**1,919**	**28,579**	**1,777**

(Amounts expressed in thousands of Georgian Lari)

25. Share-based payments

Prior to the demerger (Note 1), Executive Chairman of the Company, was compensated with shares of BGEO. Upon the demerger, previous service contract with BGEO was terminated and new contracts were signed with GCAP. Any share-based payment expense related to BGEO's share plan was accelerated and recognized in the statement of profit or loss and other comprehensive income as of the termination date of the service agreement as non-recurring expense (Note 26).

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

In addition to the EECP, the Company grants shares of GCAP to the employees of the Company.

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

	2019	***2018***
Shares outstanding at 1 January	**525,000**	**–**
Granted during the year	6,400	525,000
Forfeited during the year	(239,000)	–
Vested during the year	(113,400)	–
Shares outstanding at 31 December	**179,000**	**525,000**

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2019 was 4.4 years (5.4 as at 31 December 2018). The weighted average fair value of shares granted during the year was GEL 38 (33.4 for shares granted in 2018). The weighted average fair value of shares forfeited and vested during 2019 was GEL 37.7.

In addition to GCAP's shares, executives are awarded class B shares of the Parent company, of which each award is subject to a five-year vesting period subject to continued employment within the Company or other entities controlled by the Parent company during such vesting period.

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

	2019	***2018***
Increase in equity arising from equity-settled share-based payments	5,881	7,874
Expense arising from equity-settled transactions	4,187	6,077

In 2019, the contributions to GCAP under the share-based payment plan was GEL 4,492 (2018: GEL 2,307).

There were no cancellations or modifications to the awards in 2019 or 2018 except for BGEO share awards described above and termination of Executive Chairman benefits upon resignation (Note 26).

The Company does not have an obligation to settle the above awards but it is expected that the Company will transfer cash to the GCAP to compensate it for the settlement of the Company's awards.

26. Non-recurring expenses

	2019	***2018***
Termination benefits	2,862	–
Demerger-related share-based acceleration expense	–	5,163
Non-operating tax expenses	–	871
Net income from transfer of assets upon exit from the share purchase agreement (Note 27)	(37)	–
Total non-recurring expenses	**2,825**	**6,034**

(Amounts expressed in thousands of Georgian Lari)

26. Non-recurring expenses (continued)

In January 2019, the Executive Chairman of the Company has resigned and remained entitled to previously awarded unvested shares, that will continue to vest according to the original schedule. The related share-based payment expense that has not been recognized in profit or loss as of the termination date (that otherwise would have been recognized for services received over the remainder of the vesting period) was accelerated and immediately expensed.

In 2018, following the demerger process (Note 1) all outstanding unvested share awards under previous service agreement were converted into 1 GCAP share vesting according to original schedule and 1 Bank of Georgia PLC share vesting immediately per each BGEO share. The related share-based payment expense that has not been recognized in the statement of profit or loss and other comprehensive income as of the termination date (that otherwise would have been recognized for services received over the remainder of the vesting period) was accelerated and immediately expensed.

In 2018, non-operating tax expenses mainly comprise of corporate income tax derived from change in abnormal loss rate. The Company had significant water losses related to operating activities which were classified as “abnormal” and subject to corporate income tax (Note 4). According to the regulation of GNERC issued in 2018, 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.

27. Commitments and contingencies

Commitments

As at 31 December 2019, letters of credit of GEL 548 (2018: GEL 2,670) are issued for the payables related to construction in progress of the Company and are partly presented in restricted cash balance (Note 28).

Exit from the share purchase agreement

On 15 April 2019, an agreement on termination of 2008 Privatization Agreement (the “SPA”) was concluded among the Parent Company, Government of Georgia, National Agency of State Property and Government of the Tbilisi City, pursuant whereto the parties confirmed that all privatisation obligations of the Parent under the SPA (including, without limitation, 24 hour water supply of Tbilisi and Mtskheta, water quality in Tbilisi and Mtskheta, elimination of sewage inflow in river Mtkvari in Tbilisi, rehabilitation and modernization of Gardabani Wastewater Treatment Plant and investment of not less that USD 220 million equivalent in GEL in performance of obligations under the SPA) have been fulfilled and the Parent has been discharged off all obligations under the SPA and its ownership title over the shareholdings in privatized subsidiaries (the Company, Mtskheta Water LLC, Rustavi Water LLC and Gardabani Sewage Treatment Plant LLC) and their assets have become unconditional and unencumbered.

As a result of the exit from the SPA, the Parent’s subsidiaries, including the Company, further perfected (registered) their ownership title over all the property, plant and equipment that were possessed without registered title. In addition, the Company acquired certain investment property from the Government for a nominal consideration. At the same time, the Company transferred certain property, plant and equipment, located in the Zhinvali village near Zhinvali HPP, to the Government free of charge. The net effect of these exchange transactions of GEL 37 was included in Non-recurring items in the statement of profit or loss and other comprehensive income (Note 26).

Environmental matters

The enforcement of environmental regulation in Georgia is evolving and the enforcement position 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 2019 and 2018 are funds blocked on the current account in a Georgian bank. The funds were pledged as collateral under the letters of credit granted by local banks (Note 27).

(Amounts expressed in thousands of Georgian Lari)

28. Financial instruments (continued)

Financial instruments overview (continued)

Cash at bank

Cash at bank as at 31 December 2019 and 2018 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 2019 and 2018, The Company did not have any significant financial assets that are past due, except for trade and other receivables (Note 10).

Loans issued

Included in non-current and current loans issued as at 31 December 2019 and 2018 are loans granted to entities under common control of the Parent (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 2019 and 2018 include loans matured on 10 October 2027, 15 June 2032 and without scheduled maturity date. No significant increase in credit risk occurred in respect of the loans issued since initial recognition. The loans are not overdue as at 31 December 2019 and 2018. Expected credit losses were immaterial as at 31 December 2019 and 2018.

Fair value measurement

All financial instruments for which fair values are disclosed by the Company as at 31 December 2019 and 2018, are measured at fair value using a valuation technique with market observable and unobservable inputs. There were no changes in valuation techniques for Level 3 recurring fair value measurements in 2019 and 2018.

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

Risk arising from financial instruments

In the course of its ordinary activity the 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 or a cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The management of the Company monitors open currency positions in each material currency and enters into foreign currency derivatives transactions as necessary.

As at 31 December 2019 and 2018, currency risk arises from the EUR denominated borrowings and derivative financial liabilities.

Currency	***Increase/ decrease in % 2019***	***Effect on profit 2019***
EUR	11.00%	13,682
EUR	-6.00%	(7,463)

Currency	***Increase/ decrease in % 2018***	***Effect on profit 2018***
EUR	11.00%	15,732
EUR	-11.00%	(15,732)

(Amounts expressed in thousands of Georgian Lari)

28. Financial instruments (continued)

Risk arising from financial instruments (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on the financial instruments. The Company has floating interest rate borrowings linked to 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 % 2019***	***Effect on profit 2019***
GEL	-2.00%	(2,485)
GEL	2.00%	2,485

Currency	***Increase/ decrease in % 2018***	***Effect on profit 2018***
GEL	0.75%	300
GEL	-0.75%	(300)
EUR	0.02%	13
EUR	-0.02%	(13)

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 2019 and 2018, the Company has no other significant financial assets subject to credit risk except for:

- Cash at bank and restricted cash: as at 31 December 2019 out of total cash at bank and restricted cash of GEL 22,388 (2018: 10,240), GEL 22,295 (2018: 2,947) was kept with banks having ratings of “BB-/bb-” from Standard & Poor’s, “B1/NP” (FC) & “Ba3/NP” (LC) from Moody’s and “BB-/bb-” from Fitch Ratings;
- Trade and other receivables (Note 10).
- Non-current and current loans issued to entities under common control which are not subject to credit rating evaluation.

The credit quality of all financial assets is constantly monitored in order to identify any potential adverse changes in the credit quality. In respect of trade and other receivables, the management monitors credit quality based on days past due information. As at 31 December 2019 and 2018, 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.

(Amounts expressed in thousands of Georgian Lari)

28. Financial instruments (continued)

Risk arising from financial instruments (continued)

The table below shows financial liabilities as at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations.

	Less than 1 year	*1-3 years*	*3-5 years*	*Over 5 years*	*Total*
As at 31 December 2019					
Long-term and short-term borrowings	53,309	140,456	106,019	187,096	**486,880**
Trade and other payables	16,903	–	–	–	**16,903**
Lease liabilities	196	459	–	–	**655**
Derivative financial liabilities	1,919	–	–	–	**1,919**
Total future payments	**72,327**	**140,915**	**106,019**	**187,096**	**506,357**
As at 31 December 2018					
Long-term and short-term borrowings	37,426	122,584	79,079	137,086	**376,175**
Trade and other payables	16,375	–	–	–	**16,375**
Derivative financial liabilities	1,777	–	–	–	**1,777**
Total future payments	**55,578**	**122,584**	**79,079**	**137,086**	**394,327**

As of 31 December 2019, the Company's current liabilities exceeded its current assets by GEL 1,496.
The management considers that the Company will have sufficient liquid funds to meet the liabilities when they fall due out of proceeds from operating cash inflows, refinancing and roll-over of existing borrowings, attraction of new borrowings and utilization of undrawn loan commitments. As at 31 December 2019, the Company had GEL 44,933 (2018: nil) undrawn borrowing facilities (Note 12).

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 or jointly control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

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

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 2019		*31 December 2018*	
	Entities under common control	*Other related parties*	*Entities under common control*	*Other related parties*
Assets				
Trade and other receivables	4,748	1,819	1,705	179
Prepayments[1]	–	2,847	–	367
Loans outstanding as at 1 January	**46,505**	**–**	**50,752**	**–**
Interest receivable during the year	11,536	–	8,033	–
Loans and interest repayments during the year	(7,645)	–	(12,280)	–
Loans outstanding as at 31 December	**50,396**	**–**	**46,505**	**–**
Liabilities				
Advances received	–	106	–	43
Trade and other payables	7,070	124	6,315	116
Derivative financial liabilities	–	1,919	–	1,777

[1] *Prepayments towards other related parties represents advances made in compensation of settlement of share-based payment awards.*

(Amounts expressed in thousands of Georgian Lari)

29. Related parties disclosures (continued)

	Entities under common control	*Other related parties*	*Entities under common control*	*Other related parties*
	2019	*2019*	*2018*	*2018*[1]
Income and expenses				
Revenue from water supply	153	1,652	178	1722
Revenue from electric power sales	14,677	–	–	–
Revenue from technical support	–	47	–	–
Other revenue	550	7	621	465
Other income	–	497	14	12
Finance income	7,650	–	7,547	–
Gain from sale of non-core assets[2]	–	2,364	–	–
Finance cost	–	–	–	(1,341)
Other operating expenses[3]	(11,080)	(374)	(10,363)	(1,087)

[1] *Included in 2018 under other related parties are income and expenses generated by GCAP Group companies during the year 2018 and Bank of Georgia Group entities before demerger (Note 1).*

[2] *In 2019, the Company sold non-core assets to an entity under common control, classified as investment property and property, plant and equipment in the statement of financial position. Carrying amount of assets disposed amounted to GEL 4,522 and the consideration received was GEL 6,886, of which GEL 861 is outstanding as receivable as at 31 December 2019. The Company presented gain from sale of those assets as gain from sale of non-core assets in the statement of profit and loss and other comprehensive income.*

[3] *Included in 2019 and 2018 under entities under common control in Other operating expenses are the cost of wastewater treatment.*

Directors' compensation

The Company's key management personnel in 2019 and 2018 included non-executive Directors of the Company, executive Chairman of the Supervisory Board and members of executive management board of the Company. Compensation paid to key executive management personnel (including the executive Chairman of the Supervisory Board and 6 members of executive management board) for their services in full time executive management positions is made up of salary, employee share-based compensations, performance bonuses depending on financial performance of the Company. Total compensation paid to key management amounted to GEL 9,244 and GEL 11,432 for the years ended 31 December 2019 and 2018, respectively as follows:

	2019	*2018*
Salaries and benefits	1,936	2,300
Bonuses	1,323	1,258
Employee share-based compensation	3,123	7,874
Termination payments towards executive management personnel (Note 26)	2,862	–
Total management compensation	**9,244**	**11,432**

30. Events after the reporting period

In the beginning of 2020, the Parent implemented a planned de-offshorisation (re-domiciliation) process, pursuant whereto change has been made to the Parent company's shareholding structure. GGU, a British Virgin Islands resident company, has been replaced by a Georgian resident Joint Stock Company Georgia Global Utilities, ultimately owned by GCAP. At the date of authorisation of these financial statements for issue, Georgian Global Utilities LTD (British Virgin Islands) has been liquidated and Georgia Global Utilities JSC became the Parent of the Company.

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

In response to those developments, on 1 April 2020 the government of Georgia announced GEL 2 billion economy support initiative. The initiative package includes, among other measures, coverage of March-May 2020 water supply services payments by the government on behalf of the certain categories of individuals that account for the majority of the Company's individual customer's base.

The management of the Company considers coronavirus (COVID-19) outbreak to be a non-adjusting post balance sheet event, but it is still assessing its impact on the financial position and performance of the Company.