Georgia Global Utilities JSC

Consolidated financial statements

for the year ended 31 December 2022
with independent auditor's report

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Independent auditor's report

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Independent auditor's report

To the Shareholders and Supervisory Board of Georgia Global Utilities JSC

Opinion

We have audited the consolidated financial statements of Georgia Global Utilities JSC and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as of 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other information included in the Group's 2022 Management report

Other information consists of the information included in the Group's 2022 Management report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2022 Management report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ruslan Khoroshvili

On behalf of EY LLC

Tbilisi, Georgia

10 July 2023

Consolidated statement of financial position

As at 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

	Note	*31 December 2022*	*31 December 2021* (reclassified)*			*1 January 2020* (reclassified)*		
		Water	*Water*	*Energy*	*Total*	*Water*	*Energy*	*Total*
Assets								
Non–current assets								
Property, plant and equipment	9	679,587	611,037	300,621	**911,658**	562,704	364,350	**927,054**
Investment property	10	7,368	7,382	–	**7,382**	9,754	–	**9,754**
Right-of-use assets		332	337	1,254	**1,591**	328	1,279	**1,607**
Restructured trade receivables	12	90	83	–	**83**	53	–	**53**
Other non-current assets	11	7,661	4,324	1,712	**6,036**	6,715	987	**7,702**
Total non-current assets		**695,038**	**623,163**	**303,587**	**926,750**	**579,554**	**366,616**	**946,170**
Current assets								
Inventories		5,776	5,065	406	**5,471**	4,626	365	**4,991**
Trade and other receivables	12	21,449	23,559	2,366	**25,925**	12,282	1,762	**14,044**
Loans issued		–	–	14	**14**	–	164	**164**
Prepaid taxes other than income tax		18	244	1,262	**1,506**	201	1,440	**1,641**
Reimbursement assets		–	–	2,318	**2,318**	–	2,808	**2,808**
Prepayments		1,539	1,365	367	**1,732**	712	284	**996**
Financial assets held for trading		–	–	8,122	**8,122**	–	–	**–**
Other current assets		–	2,594	–	**2,594**	268	–	**268**
Cash at bank	28	36,909	59,894	36,948	**96,842**	55,577	63,262	**118,839**
Total current assets		**65,691**	**92,721**	**51,803**	**144,524**	**73,666**	**70,085**	**143,751**
Total assets		**760,729**	**715,884**	**355,390**	**1,071,274**	**653,220**	**436,701**	**1,089,921**
Equity								
Share capital	13	84,666	2	84,664	**84,666**	2	104,664	**104,666**
Treasury shares	13	(15,875)	–	–	**–**	–	–	**–**
Additional paid-in capital and other reserves	13	15,021	8,076	18,305	**26,381**	4,307	22,435	**26,742**
Revaluation reserve for property, plant and equipment	13	4,385	4,385	–	**4,385**	4,813	–	**4,813**
Retained earnings		152,380	102,750	(58,359)	**44,391**	69,780	(14,619)	**55,161**
Total equity		**240,577**	**115,213**	**44,610**	**159,823**	**78,902**	**112,480**	**191,382**
Liabilities								
Non-current liabilities								
Borrowings and bonds issued	14	446,180	510,119	297,648	**807,767**	498,555	308,549	**807,104**
Deferred revenue	15	29,797	26,874	–	**26,874**	25,341	–	**25,341**
Lease liabilities		176	167	1,191	**1,358**	216	1,140	**1,356**
Other non-current liabilities		89	25	550	**575**	1,656	1,472	**3,128**
Total non-current liabilities		**476,242**	**537,185**	**299,389**	**836,574**	**525,768**	**311,161**	**836,929**
Current liabilities								
Borrowings and bonds issued	14	3,030	15,509	9,680	**25,189**	16,361	10,098	**26,459**
Advances received	15	16,275	16,005	–	**16,005**	12,801	–	**12,801**
Trade and other payables	16	14,627	15,412	974	**16,386**	11,211	1,816	**13,027**
Provisions for liabilities and charges		1,855	1,401	–	**1,401**	1,081	–	**1,081**
Deferred revenue	15	5,495	5,545	–	**5,545**	5,201	–	**5,201**
Lease liabilities		168	197	118	**315**	188	98	**286**
Other taxes payable		2,460	3,838	619	**4,457**	1,439	1,048	**2,487**
Other current liabilities		–	5,579	–	**5,579**	268	–	**268**
Total current liabilities		**43,910**	**63,486**	**11,391**	**74,877**	**48,550**	**13,060**	**61,610**
Total liabilities		**520,152**	**600,671**	**310,780**	**911,451**	**574,318**	**324,221**	**898,539**
Total liabilities and equity		**760,729**	**715,884**	**355,390**	**1,071,274**	**653,220**	**436,701**	**1,089,921**

* *As of 31 December 2022 and 2021, the Group combined additional paid-in capital of GEL 21,230 and other reserves of GEL 5,151 into a single line representing the aggregate amount of GEL 26,381.*

Approved for issue and signed on behalf of Georgia Global Utilities JSC on 10 July 2023:

José Miguel Santos Gonzalez
Chief Executive Officer

Giorgi Gureshidze
Chief Financial Officer

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

Consolidated statement of financial position

As at 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2022	31 December 2021* (reclassified)			1 January 2020* (reclassified)		
		Water	Water	Energy	Total	Water	Energy	Total
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Total current liabilities		**43,910**	**63,486**	**11,391**	**74,877**	**48,550**	**13,060**	**61,610**
Total liabilities		**520,152**	**600,671**	**310,780**	**911,451**	**574,318**	**324,221**	**898,539**
Total liabilities and equity		**760,729**	**715,884**	**355,390**	**1,071,274**	**653,220**	**436,701**	**1,089,921**

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José Miguel Santos Gonzalez
Chief Executive Officer

Giorgi Gureshidze
Chief Financial Officer

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

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

		2022				*2021* (reclassified)*			
	Note	***Water***	***Energy***	***Elimination***	***Total***	***Water***	***Energy***	***Elimination***	***Total***
Revenue from water supply and related services	17	184,870	–	–	184,870	172,322	–	–	172,322
Revenue from electric power sales	18	23,891	–	–	23,891	26,665	–	–	26,665
Business interruption reimbursement		–	–	–	–	–	–	–	–
Other revenue		1,254	–	–	1,254	2,443	–	–	2,443
Total revenue, income and gains		**210,015**	**–**	**–**	**210,015**	**201,430**	**–**	**–**	**201,430**
Electricity and transmission costs	4	(24,081)	–	–	(24,081)	(23,722)	–	931	(22,791)
Cost of electric power sales		(1,285)	–	1,285	–	(6,408)	–	6,408	–
Salaries and other employee benefits	19	(21,029)	–	–	(21,029)	(21,836)	–	–	(21,836)
Allowance for expected credit losses	12	(6,716)	–	–	(6,716)	(6,089)	–	–	(6,089)
Taxes other than income tax		(7,169)	–	–	(7,169)	(6,494)	–	–	(6,494)
General and administrative expenses	20	(4,206)	–	–	(4,206)	(3,294)	–	–	(3,294)
Professional fees	21	(2,969)	–	–	(2,969)	(1,845)	–	–	(1,845)
Raw materials, fuel and other consumables		(3,656)	–	–	(3,656)	(2,940)	–	–	(2,940)
Maintenance expenditure		(2,095)	–	–	(2,095)	(1,819)	–	–	(1,819)
Charge for provisions and legal claims related expenses		(737)	–	–	(737)	(388)	–	–	(388)
Other operating expenses	23	(6,515)	–	–	(6,515)	(5,794)	–	–	(5,794)
Gain from sale of non-core assets		–	–	–	–	4,151	–	–	4,151
Other income	22	1,357	–	–	1,357	3,197	–	–	3,197
		(79,101)	**–**	**1,285**	**(77,816)**	**(73,281)**	**–**	**7,339**	**(65,942)**
EBITDA		**130,914**	**–**	**1,285**	**132,199**	**128,149**	**–**	**7,339**	**135,488**
Finance income		4,491	–	–	4,491	3,144	–	–	3,144
Finance costs	24	(38,138)	–	–	(38,138)	(38,870)	–	–	(38,870)
Net foreign exchange gain		57,873	–	–	57,873	25,583	–	–	25,553
Depreciation and amortisation		(37,749)	–	–	(37,749)	(36,601)	–	–	(36,601)
Impairment of property, plant and equipment		–	–	–	–	–	–	–	–
Reassessment of estimates related to Eurobonds' refinancing	14	–	–	–	–	(33,139)	–	–	(33,139)
Non-recurring income/(expenses), net	26	1,009	–	–	1,009	(15,725)	–	–	(15,725)
Profit before income tax expense from continuing operations		**118,400**	**–**	**1,285**	**119,685**	**32,541**	**–**	**7,339**	**39,880**
Income tax expense		–	–	–	–	–	–	–	–
Profit for the year from continuing operations		**118,400**	**–**	**1,285**	**119,685**	**32,541**	**–**	**7,339**	**39,880**
Discontinued operations:									
Loss after tax for the year from discontinued operations	5	–	(708)	(1,285)	(1,993)	–	(43,739)	(7,339)	(51,078)
Profit/(loss) for the year		**118,400**	**(708)**	**–**	**117,692**	**32,541**	**(43,739)**	**–**	**(11,198)**
Other comprehensive income									
Other comprehensive income not to be reclassified to profit or loss in subsequent periods									
Gain from currency translation differences		7,632	–	–	7,632	2,143	–	–	2,143
Other comprehensive income for the year from continuing operations		7,632	–	–	7,632	2,143	–	–	2,143
Other comprehensive loss for the year from discontinued operations – loss from currency translation differences	5		(2,980)	–	(2,980)	–	(4,129)	–	(4,129)
Total comprehensive income (loss) for the year		**126,032**	**(3,688)**	**–**	**122,344**	**34,684**	**(47,868)**	**–**	**(13,184)**

* *Certain amounts do not correspond to the 2021 consolidated financial statements reflecting the adjustments made for presentation of discontinued operations as detailed in Note 5.*

Consolidated statement of changes in equity

For the year ended 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

	Share capital	*Treasury shares*	*Additional paid-in capital and other reserves*	*Retained earnings*	*Revaluation reserve for property, plant and equipment*	*Total*	*out of which Water*	*out of which Energy*
Balance as at 31 December 2020	**104,666**	–	**26,742**	**55,161**	**4,813**	**191,382**	78,901	112,481
−out of which Water	*2*	–	*4,308*	*69,778*	*4,813*	*78,901*	*78,901*	–
−out of which Energy	*104,664*	–	*22,434*	*(14,617)*	–	*112,481*	–	*112,481*
Loss/(Profit) for the year	–	–	–	(11,198)	–	**(11,198)**	32,542	(43,740)
Other comprehensive loss	–	–	(1,986)	–	–	**(1,986)**	2,143	(4,129)
Total comprehensive income for the period	**–**	–	**(1,986)**	**(11,198)**	**–**	**(13,184)**	34,685	(47,869)
Share−based payments (Note 25)	–	–	2,039	–	–	**2,039**	2,039	–
Reduction of share capital	(20,000)	–	–	–	–	**(20,000)**	–	(20,000)
Revaluation reserve realized upon disposal	–	–	–	428	(428)	**–**	–	–
Transfers to parent under share-based compensation program (Note 25)	–	–	(414)	–	–	**(414)**	(414)	–
Balance as at 31 December 2021	**84,666**	–	**26,381**	**44,391**	**4,385**	**159,823**	**115,213**	**44,610**
−out of which Water	*2*	–	*8,076*	*102,750*	*4,385*	*115,213*	*115,213*	–
−out of which Energy	*84,664*	–	*18,305*	*(58,359)*	–	*44,610*	–	*44,610*
Profit/(Loss) for the year	–	–	–	117,692	–	**117,692**	118,400	(708)
Foreign currency translation reserve	–	–	4,651	–	–	**4,651**	7,649	(2,998)
Total comprehensive income for the year	**–**	–	**4,651**	**117,692**	**–**	**122,343**	**126,049**	**(3,706)**
Transfers to parent under share−based compensation program (Note 25)	–	–	(685)	–	–	**(685)**	(685)	–
Distribution of Energy business to the shareholders (Note 5)	–	(15,875)	(15,326)	(9,703)	–	**(40,904)**	–	(40,904)
Balance as at 31 December 2022	**84,666**	(15,875)	**15,021**	**152,380**	**4,385**	**240,577**	**240,577**	**–**
−out of which Water	*84,666*	*(15,875)*	*15,021*	*152,380*	*4,385*	*240,577*	*240,577*	–
−out of which Energy	–	–	–	–	–	–	–	–

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

Consolidated statement of cash flows

For the year ended 31 December 2022

(Amounts expressed in thousands of Georgian Lari)

	Note	2022			2021		
		Water	Energy	Total	Water	Energy	Total
Cash flows from operating activities							
Profit/(loss) before income tax expense		**119,685**	**(1,993)**	**117,692**	**32,541**	**(43,739)**	**(11,198)**
Adjustments for:							
Depreciation and amortisation	9, 11	37,749	8,070	**45,819**	36,601	12,580	**49,181**
Allowance for expected credit losses	12	6,716	–	**6,716**	6,089	–	**6,089**
Charge for provisions and legal claims related expenses		737	–	**737**	388	–	**388**
Net gain from disposal of property, plant and equipment, non−core assets and investment property		293	1,554	**1,847**	(3,973)	–	**(3,973)**
Revaluation gain on investment property	10	14	–	**14**	(1,258)	–	**(1,258)**
Net foreign exchange (gains) losses		(57,873)	(177)	**(58,050)**	(25,583)	25	**(25,558)**
Finance income		(4,491)	(860)	**(5,351)**	(3,144)	(1,293)	**(4,437)**
Finance costs	24	38,138	17,707	**55,845**	38,870	24,873	**63,743**
Termination bonus payment	14	–	(1,306)	**(1,306)**	–	–	**–**
Derecognition of unclaimed advances received and trade payables		(342)	–	**(342)**	(539)	–	**(539)**
Business interruption reimbursement gain		–	–	**–**	–	(587)	**(587)**
Other income related to cash settled share−based payments	25	–	–	**–**	(346)	–	**(346)**
Impairment of property plant and equipment	9	–	–	**–**	–	36,595	**36,595**
Non−recurring expenses, net	26	(1,009)	1,801	**792**	1,530	1,670	**3,200**
Share−based payment expense	25	28	–	**28**	2,759	–	**2,759**
Reassessment of estimates related to Eurobonds refinancing	14	–	–	**–**	33,139	2,765	**35,904**
Working capital changes							
Change in inventories		(711)	47	**(664)**	(439)	(41)	**(480)**
Change in trade and other receivables		(6,152)	(1,187)	**(7,339)**	(17,552)	(604)	**(18,156)**
Change in prepaid taxes other than income tax		226	(3,122)	**(2,896)**	(41)	176	**135**
Change in prepayments		(174)	(243)	**(417)**	(651)	(85)	**(736)**
Change in trade and other payables		(3,837)	224	**(3,613)**	987	(836)	**151**
Change in deferred revenue – current portion		(50)	–	**(50)**	344	–	**344**
Change in advances received		612	–	**612**	3,592	–	**3,592**
Change in reimbursement asset		–	–	**–**	–	650	**650**
Change in other tax payables		(1,378)	2,478	**1,100**	2,394	(424)	**1,970**
Operating cash flows after working capital changes		**128,181**	**22,993**	**151,174**	**105,708**	**31,725**	**137,433**
Change in deferred revenue – non-current portion		2,923	–	**2,923**	1,533	–	**1,533**
Net investments in securities		**–**	**6,808**	**6,808**	**–**	**–**	**–**
Net cash flows from operating activities		**131,104**	**29,801**	**160,905**	**107,241**	**31,725**	**138,966**
Cash flows from investing activities							
Purchase of property, plant and equipment and intangible assets		(107,512)	(2,190)	**(109,702)**	(78,793)	(6,945)	**(85,738)**
Proceeds from sale of property, plant and equipment and investment property		1,624	1,325	**2,949**	8,010	–	**8,010**
Purchase of other non−current assets		–	–	**–**	–	(568)	**(568)**
Proceeds from loan issued		–	(10,485)	**(10,485)**	–	146	**146**
Interest received		4,420	668	**5,088**	3,144	903	**4,047**
Purchase of the Parent's bonds		–				(8,308)	**(8,308)**
Distribution of Energy business to the shareholders	5	–	(15,144)	**(15,144)**	–	–	**–**
Net cash used in investing activities		**(101,468)**	**(25,826)**	**(127,294)**	**(67,639)**	**(14,772)**	**(82,411)**
Cash flows from financing activities							
Payment of principal portion of lease liabilities		(230)	(51)	**(281)**	(223)	(231)	**(454)**
Proceeds from borrowings	14	476,628	262,188	**738,816**	4,920	2,525	**7,445**
Repayment of borrowings	14	(449,421)	(277,372)	**(726,793)**	(23)	–	**(23)**
Interest paid	14	(46,841)	(23,701)	**(70,542)**	(38,328)	(23,790)	**(62,118)**
Commission for prepayment of loans		(27,461)	–	**(27,461)**	–	–	**–**
Reduction of the share capital	13	–	–	**–**	–	(20,000)	**(20,000)**
Transfers to parent under share−based compensation program	25	(3,563)	–	**(3,563)**	(414)	–	**(414)**
Net cash used in financing activities		**(50,888)**	**(38,936)**	**(89,824)**	**(34,068)**	**(41,496)**	**(75,564)**
Effect of exchange rate changes on cash and cash equivalents		(1,733)	(1,987)	**(3,720)**	(1,218)	(1,770)	**(2,988)**
Net change in cash and cash equivalents		**(22,985)**	**(36,948)**	**(59,933)**	**4,316**	**(26,313)**	**(21,997)**
Cash and cash equivalents at the beginning of year	28	59,894	36,948	**96,842**	55,578	63,261	**118,839**
Cash and cash equivalents at the end of year	28	**36,909**	**–**	**36,909**	**59,894**	**36,948**	**96,842**

In 2022 following non−cash items were included in purchase of property, plant and equipment and intangible assets: GEL 4,165 (2021: GEL 863) and GEL 365 (2021: GEL 253) of change in prepayments and payables for non−current assets respectively, capitalised accrued bonuses and employee share−based compensation amounting to GEL 2,629 and nil (2021: GEL 3,549 and GEL 1,504) respectively, and capitalised borrowing costs of GEL 286 (2021: GEL 1,328).

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

(Amounts expressed in thousands of Georgian Lari)

1. Corporate information

Georgian Global Utilities LTD, formerly known as Multiplex Energy Limited, was incorporated in British Virgin Islands on 16 August 2007 as a private limited liability company.

In the beginning of 2020, Georgian Global Utilities LTD implemented a planned de−offshorisation (re−domiciliation), pursuant whereto, change has been made to the Georgian Global Utilities LTD's shareholding structure. Georgian Global Utilities LTD has been replaced by Georgia Global Utilities JSC, identification number 404591599 ("GGU" or "the Company"), a Georgian resident entity, incorporated on 22 January 2020 in accordance with regulation of the National Agency of Public Registry, as a 100% owned subsidiary of Georgia Capital JSC.

In March 2020, Georgian Global Utilities LTD was liquidated.

GGU is considered as a continuation of Georgian Global Utilities LTD for the purpose of preparation of these consolidated financial statements.

Further, on 6 July 2020, in connection with GGU's Eurobonds offering (Note 14), Georgia Capital JSC contributed its 100% shareholdings in Svaneti Hydro JSC, Georgia Energy Holding LLC (the parent of Hydrolea LLC), Georgia Wind Company LLC (the parent of Qartli Wind Farm LLC) and Georgian Energy Trading Company LLC to GGU, which represented a business combination under common control. Subsequent to the contribution, Georgia Wind Company LLC and Georgia Energy Holding LLC were merged with the Company, and the Company became a 100% direct holder of controlling interests in Qartli Wind Farm LLC and Hydrolea LLC.

Change in controlling shareholder

On 31 December 2021, Georgia Capital JSC ("GCAP") concluded a share purchase agreement to sell 80% of its equity interest in the water utility business of GGU to FCC Aqualia ("Aqualia"), by way of a two−stage transaction.

On 3 February 2022, with the receipt of full sales proceeds by GCAP and transfer of 65% of ordinary shares of GGU to Aqualia the first stage of the water utility business sale transaction has been completed. Accordingly, Aqualia became the new controlling shareholder of GGU's water business.

The second stage of the transaction followed the planned redemption in third quarter 2022 of USD 250 million Eurobond issued by GGU, which is financed pro−rata to their interests in GGU by Aqualia and GCAP by way of a shareholder loan (Note 14). Following the bond redemption and subsequent demerger of the operational renewable energy assets via a spin−off described below, GCAP recovered full ownership of the Group's renewable energy assets, and Aqualia's ownership in the water utility business increased to 80%.

In June 2022, GGU established a 100% owned subsidiary Georgian Renewable Power Operations ("GRPO") and in October 2022 transferred GGU's Energy Segment subsidiaries (Svaneti Hydro JSC ("SH"), Hydrolea LLC ("HYDL") and Qartli Wind Farm LLC ("QWF")) to GRPO in exchange for GRPO issuing its equity instruments. GRPO was then divested to GCAP in exchange of redemption of the Company's shares. The effect of the renewable energy business distribution on these consolidated financial statements is disclosed in Note 5.

GGU is a holding parent company of the following entities (referred together as "the Group"):

	Country of incorporation	***Date of incorporation***	***Date of acquisition***	***31 December 2022***	***31 December 2021***
Georgian Water and Power LLC ("GWP")	Georgia	25−Jun−1997	14−May−2008	100%	100%
Rustavi Water LLC ("RWC")	Georgia	31−Aug−1999	14−May−2008	100%	100%
Gardabani Sewage Treatment Plant LLC	Georgia	20−Dec−1999	14−May−2008	100%	100%
Georgian Engineering and Management Company LLC	Georgia	29−Mar−2011	29−Mar−2011	100%	100%
Saguramo Energy LLC	Georgia	11−Dec−2008	19−Dec−2015	100%	100%
Georgian Energy Trading Company LLC ("GETC")	Georgia	23−Apr−2019	15−Dec−2019	100%	100%
Svaneti Hydro JSC ("SH")	Georgia	6−Dec−2013	20−Apr−2017	0%	100%
Hydrolea LLC ("HYDL")	Georgia	6−Jul−2012	28−Oct−2019	0%	100%
Qartli Wind Farm LLC ("QWF")	Georgia	10−Sep−2012	30−Dec−2019	0%	100%

Throughout 2021 and majority of 2022, GGU had two main segments of business activities: a) water supply and wastewater collection services and b) electric power generation and sales (divested in 2022). GGU is rendering water supply and wastewater collection services to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. GGU owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection. As at 31 December 2021. GGU also owned and operated hydroelectric and wind power stations generating electric power for own use and for sale. The Group also engages in electric power trading.

The GGU's registered address is 10 Medea (Mzia) Jugheli Str., 0179, Tbilisi, Georgia.

(Amounts expressed in thousands of Georgian Lari)

2. Operating environment

In March 2020, the World Health Organization confirmed the novel coronavirus ("COVID−19") as a global pandemic.

The Government of Georgia took significant steps at the early stage of the COVID−19 outbreak, imposing a range of restrictions like elsewhere around the world including economy support initiative related to the utility sector. The initiative package includes, among other measures, coverage of water supply services payments on behalf of the certain categories of individuals. Since February 2021, the economy has been fully reopened for the better part of the year. The water utility business enjoyed a modest increase in the volume of water sales to commercial customers, which demonstrated fast recovery from the COVID−19 pandemic, and following the rebound in economic activities, the demand on water sales increased throughout the year, getting close to pre−pandemic levels by the end of 2021. There was no substantial impact of COVID−19 on the Group's renewable energy business.

In 2022 the Georgian economy continued to demonstrate positive dynamics in recovery from the pandemic. This trend was also supported by the global economic recovery and higher prices on global commodity markets. The Group currently assesses residual impacts of COVID−19 on its business as insignificant.

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian Ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Georgia. It is expected that the war will have a significant impact on the Georgian economy; in 2022, foreign currency remittances from Russian and Ukrainian citizens relocated to Georgia contributed to significant appreciation of Georgian Lari against USD and Euro. As the war is still waging, it is impossible to reliably assess the impact this may have on the Group's business as there is uncertainty over the magnitude of the impact on the economy in general. The Group management is monitoring the economic situation in the current environment.

The Group is constantly monitoring impact of the war in Ukraine on its business. To the extent information is available, effects of the war are reflected in these consolidated financial statements.

3. Basis of preparation

These consolidated financial statements of the Group for the year ended 31 December 2022 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 2022 reporting.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties that have been measured at fair value.

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

Change in presentation

In 2022, in connection with the divestment of GRPO to Georgia Capital JSC (Note 1), the Group amended presentation of its consolidated financial statements to present separately contribution of Water and Energy businesses to the total Group's balances, results of operations and cash flows. Comparative information and explanatory notes have been amended accordingly.

4. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 1 First−time Adoption of International Financial Reporting Standards – Subsidiary as a first−time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- IFRS 17 *Insurance Contracts* – effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.
- Amendments to IAS 1: *Classification of Liabilities as Current or Non−current* – effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.
- Amendments to IAS 8: *Definition of Accounting Estimates* – effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting estimates that occur on or after the start of that period.
- Amendments to IAS 1 and IFRS Practice Statement 2: *Disclosure of Accounting Policies* – effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted.
- Amendments to IAS 12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* – should be applied to transactions that occur on or after the beginning of earliest comparative period presented.

The Group is assessing the impact of the revised standards and amendments.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

Business combinations under common control

The business combinations under common control are accounted for using pooling of interest method with restatement of periods prior to the combination under common control.

The assets and liabilities acquired are recognised at carrying amounts to reflect the combination as if it had occurred from the beginning of the earliest period presented and no adjustments are made to reflect fair values at the date of combination. The difference between consideration transferred and net assets acquired is recorded as an adjustment to the equity. No goodwill is recognised as a result of business combination under common control.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Fair value measurement

The Group measures financial instruments, such as derivatives and non−financial assets such as investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non−financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

Financial assets

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

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

For purposes of subsequent measurement, financial assets of the Group are classified as financial assets at amortised cost, which include trade and other receivables, restricted cash and cash at bank. The Group does not have any financial assets measured at either FVOCI or FVPL, except for derivative financial instruments. The Group'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 Group measures financial assets at amortised cost if both of the following conditions are met:

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss includes financial assets held for trading.

The Group classifies a financial asset as held for trading if acquired or originated principally for the purpose of generating a profit from short−term fluctuations in price or dealer's margin or if it is part of a portfolio of identified instruments that are managed together and for which there is evidence of a recent actual pattern of short−term profit−taking.

Financial assets held for trading include debt securities acquired by the entity with the intention of making a short−term profit from price or dealer's margin. Gains or losses on liabilities held for trading are recognised in the profit or loss.

Impairment of receivables

The Group 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 Group expects to receive, discounted at an approximation of the original effective interest rate.

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

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

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

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

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

Uncollectible assets are written off against the related ECL allowance 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, GNERC, for derecognition of a receivable overdue for more than 3 years. If such an application is approved by GNERC, the Group is required to derecognize respective receivable by law.

Note 12 provides further details on assessment and judgement applied in respect with ECL and write−off of trade and other receivables.

Renegotiated receivables

Renegotiated (restructured) receivables comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. Only trade receivables for water supply services and from penalties for illegal connections can be restructured. The restructuring is caused by the financial difficulties of the Group's counterparty, and is treated as a 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 ECL assessment as other trade receivables as described above.

(Amounts expressed in thousands of Georgian Lari)

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

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

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

Financial liabilities

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

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

Property, plant and equipment

Water 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. Energy infrastructure assets (related to the divested renewable energy business) mainly comprise of turbine−generators, intakes and reservoirs as well as measurement masts required for wind projects and water−flow measurement stations. 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. As well as the purchase price, cost of property, plant and equipment, including assets under construction, includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. Directly attributable costs include professional services provided by technical, environmental and other relevant experts. Additionally, directly attributable costs consider pre−permission expenditures, which include studies and services provided during the project assessment period, such as measurement studies, design expenditure, technical and environmental expertise, geological surveys. Contributions to the local governing bodies incurred for obtaining building permissions of power plants are also part of directly attributable costs. The liability for dismantling and removing items is recognised within provisions.

The Group owns real estate that mainly consists of administrative buildings and operational premises. All categories of property, plant and equipment are accounted for at cost less accumulated depreciation and impairment.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation of depreciable amount (defined as cost less residual value) 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
Water infrastructure assets	5−45 years
Energy infrastructure assets	10−50 years
Fixtures and fittings	5−10 years
Vehicles	5−10 years

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

Investment property

Investment property is represented by land and buildings that are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income, capital appreciation or both. Investment property also includes land held for undetermined future use.

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

Intangible assets

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

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

Taxation

The annual profit earned by entities other than banks, insurance companies and microfinance organizations are 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.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Taxation (continued)

Georgian tax legislation also provides for charging corporate income tax on abnormal water losses. Pursuant to the regulation published by GNERC, normative loss rate has been increased and the Group does not expect to be subject to respective taxes. 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 consolidated statement of profit or loss and other comprehensive income.

Inventories

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

Prepayments

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

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

Cash at bank 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 Group are included in restricted cash separately.

Share capital

The amount of the Company’s authorized share 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 shareholder. The authorized capital is recognised as share capital in the equity of the Company to the extent that it was paid.

Dividends

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

Value added tax

Value added tax (“VAT”, charged at 18% in Georgia) related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is recognised upon the receipt of a tax invoice from a supplier but is reclaimable against sales VAT only upon a payment of such invoice. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the end of the reporting period is recognised in the consolidated statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from borrowings in foreign currency 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 8.28% in 2021 and 2022.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Provisions for liabilities and charges to provisions

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

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

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

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

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

EBITDA

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

Gain from sale of non−core assets

As the Group sells its property, plant and equipment regularly, gains from these transactions operations are considered to be part of the Group’s operating income and are presented in Gain from sale of non−core assets in the consolidated statement of profit or loss and other comprehensive income.

Non−recurring income and expenses

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

Offsetting

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

Functional currencies and foreign currency translation

The Group’s consolidated financial statements are presented in Georgian Lari. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. For the Company and entities of electric power generation and sales (which were in Group before demerger in October 2022), US Dollar, and for other entities of the Group, Georgian Lari was determined to be the functional currency.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Functional currencies and foreign currency translation (continued)

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

Gains and losses resulting from the translation of foreign currency transactions related to borrowings and other foreign currency transactions are recognized in the profit or loss and other comprehensive income 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 2022 and 2021 were 2.8844 and 3.5040 GEL to 1 Euro, respectively. The official NBG exchange rates as at 31 December 2022 and 2021 were 2.7020 and 3.0976 GEL to 1 USD, respectively.

Until 1 October 2022, the functional currency of the Company was US dollars. Following distribution of the renewable energy subsidiaries to the shareholder (Note 5), the functional currency of the Company was reassessed and determined to be Georgian Lari.

In making that assessment, the management considered that the Company represents an extension of its remaining water business subsidiaries (for which the functional currency is GEL) rather than a separate operation. Significant judgment was applied by the management in determination of appropriate functional currency and assessment of whether change in the underlying transactions, events and conditions warrant a change in the functional currency.

Change in functional currency was applied prospectively starting from 1 October 2022. At the date of change, the Company translated all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non−monetary items are treated as their historical cost.

Items in the consolidated financial statements are translated to presentation currency based on following principles: assets and liabilities are translated into GEL at the rate of exchange ruling at the reporting date, income and expenses are translated at the exchange rates at the dates of the transactions (or at the average rate for the period when this is a reasonable approximation) and equity components are maintained at the rate of exchange ruling at the date of change in functional currency. The exchange differences arising on the translation are taken to other comprehensive income.

Included in Effect of exchange rate changes on cash and cash equivalents in consolidated statement of cash flow are net foreign exchange gain/loss on cash and cash equivalents and effect of foreign currency translation made in order to prepare consolidated statement of cash flows in GEL.

Income and expense recognition

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

Revenue from water supply and related services

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 Group recognises revenue for unbilled amounts based on estimated usage of water based on the last billing through to the end of the financial year.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

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 includes amounts billed to residential customers under GNERC rules. The performance obligations under such contracts are satisfied over time as the Group supplies water to 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.

Charges for connection service includes 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 respective customer over the life of water meters.

Revenue from electric power sales (including those presented within discontinued operations)

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. Penalty income on illegal connections services is included in other income in the consolidated statement of profit or loss and other comprehensive income (Note 22).

Electricity and transmission costs

Electricity and transmission costs include payments for guaranteed power, for transit and dispatching of electric power and for maintenance of stations.

Interest and similar income and expense

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, 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

The Group recognises the expected cost of profit-sharing and bonus payments when, and only when:

(a) The entity has a present legal or constructive obligation to make such payments as a result of past events; and

(b) A reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

Wages, salaries, annual leave and sick leave, bonuses, share−based compensations and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group or when legal or constructive obligation to make the payment arises.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Employee stock ownership plan

Share−based payment transactions

Until share in the controlling shareholder (Note 1), Senior executives of the Group received share−based remuneration settled in equity instruments of GCAP and of the Group. Grants were made by GCAP and by the Group. Grants that the Group did not have a liability to settle (or those which the Group had liability to settle but those made in the instruments of the Group itself) were accounted for as equity−settled transactions (even if the Group may had been subsequently recharged the cost of the award to the settling entity, which was recognized as deduction from Other reserves in the consolidated statement of changes in equity at respective payment date). Grants that the Group had the liability to settle in cash or in equity instruments of GCAP were accounted for as cash−settled transactions.

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 market quotations available at the stock exchange.

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

Cash−settled transactions

In respect of cash−settled transactions, the Group recognized a liability in respect of earned but not settled equity instruments at their fair value as at the reporting date, presented in other current and non−current liabilities in consolidated statement of financial position. Changes in the fair value of the cash−settled liabilities arising from either change in the fair value of the equity instruments or number of shares earned were recognized in cost of assets or expenses to salaries and other employee benefits in the consolidated statement of profit or loss and other comprehensive income.

5. Discontinued operations

Following change in the controlling shareholder of the Group (Note 1) and redemption of the Eurobonds (Note 14), in October 2022 GGU transferred its Energy Segment subsidiaries (Svaneti Hydro JSC, Hydrolea LLC and Qartli Wind Farm LLC) to Georgia Capital JSC in exchange of redemption of the Company's shares (Note 13).

The management of the Group determined that divestment of the renewable energy business meets the definition of a discontinued operation under IFRS 5, as the renewable energy represented a separate major line of the Group's business. Further, the management exercised significant judgment and concluded that the renewable energy business, being a distribution of non−cash assets to shareholder, does not fall in scope of IFRIC 17 Distributions of Non−cash Assets to Owners, as the renewable energy business was ultimately controlled by Georgia Capital JSC before and after distribution via rights arising from class of shares hold by Georgia Capital JSC and the terms of shareholders agreement between Georgia Capital and Aqualia. Accordingly, distribution of the renewable energy business was accounted for as a reduction of the Group's equity in amount equal to book value of the divested assets.

(Amounts expressed in thousands of Georgian Lari)

5. Discontinued operations (continued)

The Group presented the aggregate results of operations of the renewable energy business in a single line in consolidated statement of profit or loss and other comprehensive income for the current and comparative period. Accordingly, consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 was amended as follows:

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021	***As previously reported***	***Discontinued operations***	***As reclassified***
Revenue from water supply and related services	172,322	−	172,322
Revenue from electric power sales	62,635	(35,970)	26,665
Business interruption reimbursement gain	587	(587)	−
Other revenue	2,498	(55)	2,443
Total revenue, income and gains	**238,042**	**(36,612)**	**201,430**
Electricity and transmission costs	(23,315)	524	(22,791)
Salaries and other employee benefits	(22,765)	929	(21,836)
Allowance for expected credit losses	(6,089)	−	(6,089)
Taxes other than income tax	(8,974)	2,480	(6,494)
General and administrative expenses	(3,623)	329	(3,294)
Professional fees	(2,577)	732	(1,845)
Raw materials, fuel and other consumables	(3,225)	285	(2,940)
Maintenance expenditure	(4,450)	2,631	(1,819)
Charge for provisions and legal claims related expenses	(388)	−	(388)
Other operating expenses	(7,733)	1,939	(5,794)
Gain from sale of non−core assets	4,151	−	4,151
Other income	3,197	−	3,197
	(75,791)	**9,849**	**(65,942)**
EBITDA	**162,251**	**(26,763)**	**135,488**
Finance income	4,437	(1,293)	3,144
Finance costs	(63,743)	24,873	(38,870)
Net foreign exchange gain	25,558	25	25,583
Depreciation and amortization	(49,181)	12,580	(36,601)
Impairment of property plant and equipment	(36,595)	36,595	−
Reassessment of estimates related to Eurobonds' refinancing	(35,904)	2,765	(33,139)
Non−recurring income/(expenses), net	(18,021)	2,296	(15,725)
Profit/(loss) before income tax expense	**(11,198)**	**51,078**	**39,880**
Income tax expense	−	−	−
Profit for the year from continuing operations	−	−	**39,880**
Loss for the year from discontinued operations	−	**51,078**	**(51,078)**
(Loss) / profit for the year	**(11,198)**	**51,078**	**(11,198)**

(Amounts expressed in thousands of Georgian Lari)

5. Discontinued operations (continued)

The major classes of assets and liabilities of Energy Business at disposal date were as follows:

	At disposal date
Assets	
Non−current assets	
Property, plant and equipment	267,239
Right−of−use assets	1,373
Loans issued	9,705
Other non−current assets	864
Total non−current assets	**279,181**
Current assets	
Inventories	359
Trade and other receivables	4,838
Loans Issued	255
Prepaid taxes other than income tax	4,384
Reimbursement assets	2,122
Prepayments	610
Cash at bank	15,144
Total current assets	**27,712**
Total assets	**306,893**
Liabilities	
Non−current liabilities	
Long term borrowings	259,372
Lease liabilities	1,229
Other non−current liabilities	503
Total non−current liabilities	**261,104**
Current liabilities	
Current borrowings	392
Trade and other payables	1,196
Lease liabilities	112
Other taxes payable	3,097
Other current liabilities	88
Total current liabilities	**4,885**
Total liabilities	**265,989**
Total liabilities and equity	**306,893**
Net assets directly associated with disposal of Energy Business	**40,904**

(Amounts expressed in thousands of Georgian Lari)

5. Discontinued operations (continued)

Results of operations of the Energy Business for 2022 prior to disposal date are presented below:

	Up to the date of disposal
Revenue from electric power sales	33,043
Total revenue	**33,043**
Electricity and transmission costs	(433)
Salaries and other employee benefits	(869)
Taxes other than income tax	(1,639)
General and administrative expenses	(263)
Professional fees	(400)
Raw materials, fuel and other consumables	(246)
Maintenance expenditure	(1,767)
Other operating expenses	(1,307)
Operating expenses	**(6,924)**
EBITDA	**26,119**
Finance income	860
Finance costs	(17,707)
Foreign exchange gains/(losses)	117
Depreciation and amortization	(8,070)
Non−recurring expenses	(1,801)
Loss on disposal of PPE	(1,571)
Loss before income tax expense	**(1,993)**
Income tax expense	–
Loss for the year from discontinued operations	**(1,993)**

6. Related party disclosure

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.

Change in controlling shareholder (Note 1) resulted in change in the composition of related parties of the Group. As at 31 December 2022 and for the period from 3 February 2022, the Group's immediate parent is Aqualia LLC and its ultimate controlling parent is Aqualia FCC S.A. As at 31 December 2021 and for the year then ended, and for the period from 1 January 2022 to 3 February 2022 the Group's parent was Georgia Capital JSC and its ultimate controlling parent was Georgia Capital PLC. Following change in controlling shareholder, transactions with Georgia Capital JSC are presented in the table below as transactions with other shareholders.

(Amounts expressed in thousands of Georgian Lari)

6. Related party disclosure (continued)

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 2022			*31 December 2021*	
	The Parent	***Other shareholders***	***Entities under common control***	***The Parent***	***Entities under common control***
Assets					
Trade and other receivables	–	–	–	–	2,282
Prepayments	–	–	–	–	654
Reimbursement asset	–	–	–	–	2,318
Financial assets held for trading (a)	–	–	–	8,122	–
Other current assets	–	–	–	2,594	–
Borrowings as at 1 January	**–**		**2,245**	**–**	**–**
Proceeds from borrowings and interest accrued during the year	487,926	262,727	415	–	2,245
Repayment of borrowing including interest during the year	(8,188)	–	–	–	–
Foreign exchange differences on borrowings	(33,459)	–	(44)	–	–
Currency translation differences on borrowings	–	(6,366)	–	–	–
Disposal of Energy Business	–	(256,361)	(2,616)	–	
Borrowings as at 31 December	**446,280**	–	–	–	**2,245**
Liabilities					
Advances received	–	–	–	–	527
Trade and other payables	–	–	–	–	187

(a) In March 2021, the Group purchased 2,493 notes worth USD 2,500 thousand issued by the Parent as a tap issue to the original notes issued in 2018 on Irish Stock Exchange. The notes accrue annual 6.125% and mature in 2024. The financial assets are at fair value through profit or loss as held for trading. During 2021 the Group recognized GEL 390 of finance income on the notes.

	2022			*2021*	
	The Parent	***Other shareholders***	***Entities under common control***	***The Parent***	***Entities under common control***
Income and expenses					
Revenue from water supply	–	–	1,627	–	2,291
Other revenue	–	–	236	–	1,767
Business interruption reimburesement[1*]	–	–	–	–	587
Other income	–	–	–	–	15
Loss from insurance reimbursement[2*]	–	–	–	–	(2,464)
Finance cost capitalized	–	–	–	–	(134)
Professional fees	(873)	–	–	–	–
Finance cost	(11,365)	(1,403)[4]	–	–	–
Finance income	–	260[4]	–	–	390
Maintenance expenditure	–	–	–	–	(59)
Other operating expenses[3]	–	–	(2,619)[4]	–	(2,110)

1 Business interruption reimbursement income in 2021 represents the insurance claim for the business interruption caused by the insurance event.

2 In 2021 insurance reimbursement comprises GEL 2,158 of remeasurement of previously recognized reimbursement asset, GEL 1,731 of reimbursement income related to Kasleti flood and respective write−off of property, plant and equipment of GEL 2,037.

3 Other operating expenses mostly comprises of insurance expense.

4 Finance income, finance costs and GEL 765 of other operating expenses in 2022 are related to discontinued operations and included in profit/(loss) after tax for the year from discontinued operations in the consolidated statement of profit and loss and other comprehensive income.

(Amounts expressed in thousands of Georgian Lari)

6. Related party disclosure (continued)

Directors' compensation

The Group's key management personnel in 2022 and 2021 included non−executive Directors of GGU, executive Chairman of the Supervisory Board of GWP and members of executive management board of GWP. Compensation paid to key executive management personnel (including the executive Chairman of the Supervisory Board and 6 members of executive management board of GWP) for their services in full time executive management positions is made up of salary, employee share−based compensations and performance bonuses depending on financial performance of GWP. Total compensation paid to key management for the years ended 31 December 2022 and 2021 is as follows:

	2022	*2021*
Salaries and benefits	2,787	2,461
Bonuses	2,380	3,443
Employee share−based compensation	1,306	4,344
Termination−related cash−based employee compensation (Note 25)	−	1,530
Total management compensation	**6,473**	**11,778**

7. Significant accounting judgements and estimates

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (other than those related to determination of functional currency (Note 3) and presentation of the renewable business results as discontinued operation (Note 5)) and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Fair value of investment property

The Group measures fair value of its investment properties at the end of each reporting period with involvement of external valuation expert. Real estate market in Georgia is relatively illiquid and valuations therefore require judgments about significant unobservable valuation inputs to be exercised. As at 31 December 2022, fair values of investment properties amounted to GEL 7,368 (2021: GEL 7,382) (Note 9).

Impairment of property, plant and equipment

The management of the Group considered facts and circumstances existing as at 31 December 2022 in assessment of whether impairment (or reversal of previously recognized impairment) of water supply and wastewater collection services segment assets was required as at 31 December 2022 and concluded that no impairment indicators existed. The key consideration and assumption of the management in making that assessment was that water supply tariff model in Georgia is designed in a way to provide the investor with predetermined return on regulatory asset base and operating expenditures, and is, as such, not sensitive, in the long term, to the fluctuations in water supply volumes and operating costs. According to the regulatory tariff−setting methodology, fluctuations in the water sales volumes and allowed operating and capital expenditures budgeted by the regulator in the current tariff period (being 2021−2023), will be incorporated to the tariff in the next, 2024−2026 period together with respective time value of money component. Regulatory rate of return is also adjusted following change in market interest rates, therefore mitigating the impact of the significant increase in market interest rates observed over 2022. Accordingly, the management concluded that no impairment or recovery indicators existed as at 31 December 2022.

In assessment of recoverable amount of water supply and wastewater collection services cash generating unit assets, and in subsequent assessment of whether indicators of impairment or recovery of previously recognized impairment exist, significant judgment is required in determination of appropriate discount rate and assessment of its subsequent changes, developing expectations in relation to water supply tariffs to be applied in subsequent periods (including assumptions about particular capital and operating expenditures eligible for incorporation to the tariff base, and regulatory weighted average cost of capital), expected water supply volumes and forecasted operating expenditures and maintenance capital expenditures, and other relevant impairment or recovery indicators (Note 2, Note 9).

(Amounts expressed in thousands of Georgian Lari)

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

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

At each reporting date, the historical observed default rates are updated and changes in the forward−looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and, in rare cases, of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future (Note 2, Note 12).

The amount of ECLs recognized in respect of trade and other receivables amounted to GEL 40,464 as of 31 December 2022 (2021: GEL 35,183) (Note 12).

8. Segment information

Following divestment of Energy Business (Note 5), management organized the Group into the following two operating segments based on products sold and services rendered:

Electric power generation and sales

The segment owns hydroelectric and wind power stations that generate electric power for own consumption and for sale to external customers.

Water supply and wastewater collection services

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

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained below, is measured according to IFRS standards in the same manner as profit or loss in the consolidated financial statements, except in relation to discontinued operations which are excluded from segment performance measurement for 2022 and 2021.

Transactions between segments are accounted for at actual transaction prices.

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

(Amounts expressed in thousands of Georgian Lari)

8. Segment information (continued)

The following table present financial results of the Group's operating segments for the year ended 31 December 2022:

	GGU Water			GGU Energy		
	Electric power generation and sales	***Water supply and wastewater collection services***	***Intersegment transactions***	***Electric power generation and sales***	***Eliminations***	***Total***
Revenue from water supply and related services	–	184,870	–	–	–	**184,870**
Revenue from electric power sales[1]	28,726	–	(4,835)	–	–	**23,891**
Other revenue	–	1,254	–	–	–	**1,254**
Total revenue	**28,726**	**186,124**	**(4,835)**	**–**	**–**	**210,015**
Electricity and transmission costs	(107)	(28,809)	4,835	–	–	**(24,081)**
Cost of electric power sales	(1,285)	–	–	–	1,285	**(0)**
Salaries and other employee benefits	(1,494)	(19,535)	–	–	–	**(21,029)**
Allowance for expected credit losses	–	(6,716)	–	–	–	**(6,716)**
Taxes other than income tax	(269)	(6,900)	–	–	–	**(7,169)**
General and administrative expenses	(305)	(3,901)	–	–	–	**(4,206)**
Professional fees	(257)	(2,712)	–	–	–	**(2,969)**
Raw materials, fuel and other consumables	(140)	(3,516)	–	–	–	**(3,656)**
Maintenance expenditure	(11)	(2,084)	–	–	–	**(2,095)**
Charge for provisions and legal claims related expenses	(57)	(680)	–	–	–	**(737)**
Other operating expenses	(4,484)	(2,031)	–	–	–	**(6,515)**
Other income	11	1,346	–	–	–	**1,357**
EBITDA	**20,328**	**110,586**	**–**	**–**	**1,285**	**132,199**
Finance income	434	4,057	–	–	–	**4,491**
Finance costs	(1,470)	(36,668)	–	–	–	**(38,138)**
Net foreign exchange gains/(losses)	2,403	55,470	–	–	–	**57,873**
Depreciation and amortization	(2,072)	(35,677)	–	–	–	**(37,749)**
Non−recurring income/(expenses), net	–	1,009	–	–	–	**1,009**
Profit before income tax expense	**19,623**	**98,777**	**–**	**–**	**1,285**	**119,685**
Income tax expense	–	–	–	–	–	**–**
Profit for the period	**19,623**	**98,777**	**–**	**–**	**1,285**	**119,685**
Profit/(loss) after tax for the year from discontinued operations	–	–	–	(1,993)	–	(1,993)
Profit/(loss) for the year	**19,623**	**98,777**	**–**	**(1,993)**	**1,285**	**117,692**

[1] 46% of total revenue from electric power sales is generated from one customer.

(Amounts expressed in thousands of Georgian Lari)

8. Segment information (continued)

The following table present financial results of the Group's operating segments for the year ended 31 December 2021:

	GGU Water			GGU Energy		
	Electric power generation and sales	*Water supply and wastewater collection services*	*Intersegment transactions*	*Electric power generation and sales*	*Eliminations*	*Total*
Revenue from water supply and related services	–	172,322	–	–	–	**172,322**
Revenue from electric power sales[1]	31,570	–	(4,905)	–	–	**26,665**
Business interruption reimbursement	–	–	–	–	–	**–**
Other revenue	–	2,443	–	–	–	**2,443**
Total revenue	**31,570**	**174,765**	**(4,905)**	**–**	**–**	**201,430**
Electricity and transmission costs	(125)	(28,502)	4,905	–	931	**(22,791)**
Cost of electric power sales	(6,408)	0	–	–	6,408	**–**
Salaries and other employee benefits	(2,186)	(19,650)	–	–	–	**(21,836)**
Allowance for expected credit losses	–	(6,089)	–	–	–	**(6,089)**
Taxes other than income tax	(287)	(6,207)	–	–	–	**(6,494)**
General and administrative expenses	(254)	(3,040)	–	–	–	**(3,294)**
Professional fees	(98)	(1,747)	–	–	–	**(1,845)**
Raw materials, fuel and other consumables	(94)	(2,846)	–	–	–	**(2,940)**
Maintenance expenditure	(10)	(1,809)	–	–	–	**(1,819)**
Charge for provisions and legal claims related expenses	–	(388)	–	–	–	**(388)**
Other operating expenses	(1,621)	(4,173)	–	–	–	**(5,794)**
Gain from sale of non−core assets	–	4,151	–	–	–	**4,151**
Other income	20	3,177	–	–	–	**3,197**
EBITDA	**20,507**	**107,642**	**–**	**–**	**7,339**	**135,488**
Finance income	395	2,749	–	–	–	**3,144**
Finance costs	(2,931)	(35,939)	–	–	–	**(38,870)**
Net foreign exchange gains/(losses)	1,792	23,791	–	–	–	**25,553**
Depreciation and amortization	(2,782)	(33,819)	–	–	–	**(36,601)**
Impairment of Property Plant and Equipment	–	–	–	–	–	**–**
Reassessment of estimates related to Eurobonds refinancing	–	(33,139)	–	–	–	**(33,139)**
Non−recurring income/(expenses), net)	(232)	(15,493)	–	–	–	**(15,725)**
Profit before income tax expense	**16,749**	**15,792**	**–**	**–**	**7,339**	**39,880**
Income tax expense	–	–	–	–	–	**–**
Profit for the period	**16,749**	**15,792**	**–**	**–**	**7,339**	**39,880**
Profit/(loss) after tax for the year from discontinued operations	–	–	–	(51,078)	–	(51,078)
Profit/(loss) for the year	**16,749**	**15,792**	**–**	**(51,078)**	**7,339**	**(11,198)**

2 52% of total revenue from electric power sales is generated from one customer.

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

- **Revenue** – for the purposes of segment disclosure, revenue from the internally consumed electricity (generated by Zhinvali HPP and Tetrikhevi HPP) was recorded at a regulated tariff set by the GNERC (Decree No. 82, dated 29 December 2020) which was applicable for 2022 and 2021.
- **Salaries and benefits** – The costs of salaries and other benefits except that of administrative staff were attributed directly to the appropriate segments based on actual expenditure. Salaries and benefits of the administrative staff were allocated proportionally based on the number of employees in each operating segment.
- **Interest income and finance costs** were allocated according to the amount of borrowings received by each segment.

(Amounts expressed in thousands of Georgian Lari)

9. Property, plant and equipment

The movements in property, plant and equipment in 2022 were as follows:

	Land plots	*Real estate*	*Water Infrastructure assets*	*Energy Infrastructure assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*	*Out of which Water*	*Out of which Energy*
Gross carrying amount 31 December 2021	**7,826**	**40,419**	**775,848**	**404,975**	**33,711**	**11,684**	**27,461**	**1,301,924**	**937,210**	**364,714**
−out of which Water	6,571	40,419	775,848	48,185	32,888	10,303	22,996	**937,210**	937,210	–
−out of which Energy	1,255	–	–	356,790	823	1,381	4,465	**364,714**	–	364,714
Additions	–	10	18,418	60	230	94	88,344	**107,156**	105,148	2,008
−out of which Water	–	–	18,418	14	111	82	86,523	**105,148**	105,148	–
−out of which Energy	–	10	–	46	119	12	1,821	**2,008**	–	2,008
Disposals	–	(81)	(230)	(39,007)	(1,496)	(19)	(86)	**(40,919)**	(1,899)	(39,020)
−out of which Water	–	(81)	(230)	(41)	(1,471)	(19)	(57)	**(1,899)**	(1,899)	–
−out of which Energy	–	–	–	(38,966)	(25)	–	(29)	**(39,020)**	–	(39,020)
Transfers	462	948	66,935	1,600	4,053	669	(74,667)	**–**	–	–
Currency translation	(106)	(6,332)	–	(22,448)	(75)	(117)	(461)	**(29,539)**	–	(29,539)
Distribution of energy business to the shareholders	(1,149)	6,323	–	(295,379)	(842)	(1,277)	(5,858)	**(298,182)**	–	(298,182)
31 December 2022	**7,033**	**41,287**	**860,971**	**49,801**	**35,581**	**11,034**	**34,733**	**1,040,440**	**1,040,440**	**–**
−out of which Water	7,033	41,287	860,971	49,801	35,581	11,034	34,733	**1,040,440**	1,040,440	–
−out of which Energy	–	–	–	–	–	–	–	**–**	–	–
Accumulated depreciation and impairment										
31 December 2021	**352**	**10,390**	**275,544**	**80,702**	**15,782**	**6,582**	**914**	**390,266**	**326,173**	**64,093**
−out of which Water	352	10,390	275,544	17,475	15,721	6,469	222	**326,173**	326,173	–
−out of which Energy	–	–	–	63,227	61	113	692	**64,093**	–	64,093
Depreciation charge	–	2,380	29,013	8,572	2,969	1,035	–	**43,969**	35,899	8,070
−out of which Water	–	681	29,075	2,189	2,950	1,004	–	**35,899**	35,899	–
−out of which Energy	–	1,699	(62)	6,383	19	31	–	**8,070**	–	8,070
Disposals	–	(48)	(198)	(23)	(936)	(13)	–	**(1,218)**	(1,218)	–
−out of which Water	–	(48)	(198)	(23)	(936)	(13)	–	**(1,218)**	(1,218)	–
−out of which Energy	–	–	–	–	–	–	–	**–**	–	–
Impairment	–	–	–	(36,305)	–	–	–	**(36,305)**	–	(36,305)
Transfers	–	31	192	–	–	–	(223)	**–**	–	–
Currency translation	–	(622)	–	(4,293)	–	–	–	**(4,916)**	–	(4,916)
Distribution of energy business to the shareholders	–	(1,077)	60	(29,012)	(80)	(144)	(691)	**(30,943)**	–	(30,943)
31 December 2022	**352**	**11,054**	**304,611**	**19,641**	**17,735**	**7,460**	**–**	**360,853**	360,853	–
−out of which Water	352	11,054	304,611	19,641	17,735	7,460	–	**360,853**	360,853	–
−out of which Energy	–	–	–	–	–	–	–	**–**	–	–
Net book value										
31 December 2021	**7,474**	**30,029**	**500,304**	**324,273**	**17,929**	**5,102**	**26,547**	**911,658**	**611,037**	**300,621**
−out of which Water	6,219	30,029	500,304	30,710	17,167	3,834	22,774	**611,037**	611,037	–
−out of which Energy	1,255	–	–	293,563	762	1,268	3,773	**300,621**	–	300,621
31 December 2022	**6,681**	**30,233**	**556,360**	**30,160**	**17,846**	**3,574**	**34,733**	**679,587**	**679,587**	**–**
−out of which Water	6,681	30,233	556,360	30,160	17,846	3,574	34,733	**679,587**	679,587	–
−out of which Energy	–	–	–	–	–	–	–	**–**	–	–

(Amounts expressed in thousands of Georgian Lari)

9. Property, plant and equipment (continued)

The movements in property, plant and equipment in 2021 were as follows:

	Land plots	*Real estate*	*Water Infrastructure assets*	*Energy Infrastructure assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*	*Out of which Water*	*Out of which Energy*
Gross carrying amount 31 December 2020	**7,003**	**35,896**	**697,937**	**423,157**	**32,411**	**10,840**	**28,032**	**1,235,276**	**854,534**	**380,742**
−out of which Water	5,664	35,896	697,937	47,117	31,572	9,424	26,924	**854,534**	854,534	−
−out of which Energy	1,339	−	−	376,040	839	1,416	1,108	**380,742**	−	380,742
Additions	−	−	16,013	3,428	135	90	71,650	**91,316**	84,279	7,037
−out of which Water	−	−	16,013	3	88	90	68,085	**84,279**	84,279	−
−out of which Energy	−	−	−	3,425	47	−	3,565	**7,037**	−	7,037
Disposals	(19)	(414)	(479)	(2,043)	(613)	(25)	(84)	**(3,677)**	(1,639)	(2,038)
−out of which Water	(19)	(414)	(479)	(5)	(613)	(25)	(84)	**(1,639)**	(1,639)	−
−out of which Energy	−	−	−	(2,038)	−	−	−	**(2,038)**	−	(2,038)
Transfers	926	4,937	62,377	1,022	1,823	820	(71,905)	**−**	−	−
Currency translation	(84)	−	−	(20,589)	(45)	(41)	(232)	**(20,991)**	−	(20,991)
31 December 2021	**7,826**	**40,419**	**775,848**	**404,975**	**33,711**	**11,684**	**27,461**	**1,301,924**	**937,210**	**364,714**
−out of which Water	6,571	40,419	775,848	48,185	32,888	10,303	22,996	**937,210**	937,210	−
−out of which Energy	1,255	−	−	356,790	823	1,381	4,465	**364,714**	−	364,714
Accumulated depreciation and impairment										
31 December 2020	**378**	**9,982**	**246,407**	**30,851**	**13,409**	**5,623**	**1,572**	**308,222**	**291,844**	**16,378**
−out of which Water	378	9,982	246,407	15,360	13,371	5,523	823	**291,844**	291,844	−
−out of which Energy	−	−	−	15,491	38	100	749	**16,378**	−	16,378
Depreciation charge	−	639	28,646	14,595	2,794	1,018	−	**47,692**	35,144	12,548
−out of which Water	−	639	28,646	2,117	2,762	980	−	**35,144**	35,144	−
−out of which Energy	−	−	−	12,478	32	38	−	**12,548**	−	12,548
Disposals	(1)	(170)	(298)	4	(351)	(18)	−	**(834)**	(834)	−
−out of which Water	(1)	(170)	(298)	(2)	(345)	(18)	−	**(834)**	(834)	−
−out of which Energy	−	−	−	6	(6)	−	−	**−**	−	−
Impairment	−	−	−	36,595	−	−	−	**36,595**	−	36,595
Transfers	(25)	(61)	789		(67)	(35)	(601)	**−**	−	−
Currency translation				(1,343)	(3)	(6)	(57)	**(1,409)**	−	(1,409)
31 December 2021	**352**	**10,390**	**275,544**	**80,702**	**15,782**	**6,582**	**914**	**390,266**	**326,173**	**64,093**
−out of which Water	352	10,390	275,544	17,475	15,721	6,469	222	**326,173**	326,173	−
−out of which Energy	−	−	−	63,227	61	113	692	**64,093**	−	64,093
Net book value										
31 December 2020	**6,625**	**25,914**	**451,530**	**392,306**	**19,002**	**5,217**	**26,460**	**927,054**	**562,690**	**364,364**
−out of which Water	5,286	25,914	451,530	31,757	18,201	3,901	26,101	**562,690**	562,690	−
−out of which Energy	1,339	−	−	360,549	801	1,316	359	**364,364**	−	364,364
31 December 2021	**7,474**	**30,029**	**500,304**	**324,273**	**17,929**	**5,102**	**26,547**	**911,658**	**611,037**	**300,621**
−out of which Water	6,219	30,029	500,304	30,710	17,167	3,834	22,774	**611,037**	611,037	−
−out of which Energy	1,255	−	−	293,563	762	1,268	3,773	**300,621**	−	300,621

As at 31 December 2022 and 2021, the Group has no property, plant and equipment pledged as collateral for its borrowings.

(Amounts expressed in thousands of Georgian Lari)

10. Investment property

	Land	*Buildings*	*Total*
As at 31 December 2020	**8,428**	**1,326**	**9,754**
Disposals[1]	(2,907)	(723)	**(3,630)**
Net gain from fair value remeasurement	1,317	(59)	**1,258**
As at 31 December 2021	**6,838**	**544**	**7,382**
Net gain from fair value remeasurement	(161)	147	**(14)**
As at 31 December 2022	**6,677**	**691**	**7,368**

[1] In 2021, the Group sold several non−core buildings and lands included in Investment Property with net loss GEL 441.

Fair value measurement

Investment properties are stated at fair value. The date of the latest valuation performed by an independent appraiser is 15 November 2022, 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 the independent valuator. The Group uses several properties in a manner that differs from its highest and best use, because Group intends to sell them and not make capital expenditures on projects that may differ from the Groups principal business activities, which are regulated by GNERC.

Market approach

This method is based on the direct comparison of the subject property to another property, 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:

Class of investment property	*Fair value as at 31 December 2022*	*Valuation technique*	*Significant unobservable inputs used*	*Value of input / range / weighted average*
			Discount rate,	12.2%;
		Income approach	Price per square meter,	0.0092-0.944 (0.047);
Land plots	6,677	Market approach	Rent price per square meter	0.311
Buildings	691	Market approach	Price per square meter	0.220-1.314 (0.338)
Total investment property	**7,368**			

Class of investment property	*Fair value as at 31 December 2021*	*Valuation technique*	*Significant unobservable inputs used*	*Value of input / range / weighted average*
			Discount rate,	12.4%;
		Income approach	Price per square meter,	0.016-1.068 (0.048);
Land plots	6,838	Market approach	Rent price per square meter	0.328
Buildings	544	Market approach	Price per square meter	0.210-0.904 (0.26)
Total investment property	**7,382**			

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)

11. Other assets

As at 31 December 2021 other current assets of GEL 2,594 comprise GCAP's shares purchased by the Group for the purpose of settlement of its share−based compensation scheme (Note 24). The shares are classified at fair value through profit or loss.

	31 December 2022	*31 December 2021*
Intangible assets	2,118	3,782
Prepayments for non−current assets	5,543	1,491
Other non−current assets	−	763
Total other non−current assets	**7,661**	**6,036**

Historical cost of intangible assets and accumulated amortisation and impairment as at 31 December 2022 amounted to GEL 11,040 and GEL 8,922, respectively (31 December 2021: GEL 11,155 and GEL 7,373).

Intangible assets amortisation charge, including software licenses, was GEL 1,664 in 2022 (2021: GEL 1,212).

12. Trade and other receivables

	31 December 2022	*31 December 2021*	*31 December 2021*	*31 December 2021*
	Water	*Water*	*Energy*	*Total*
Non−current				
Trade receivables for water supply services from general population	130	121	−	121
	130	**121**	**−**	**121**
Less allowance for expected credit losses	(40)	(38)	−	(38)
Total restructured trade receivables, net	**90**	**83**	**−**	**83**
Current				
Trade receivables for water supply services from general population	32,229	28,069	−	28,069
Trade receivables for water supply services from legal entities	22,016	19,671	−	19,671
Trade receivables for installation of water meters	176	325	−	325
Trade receivables for connection service	3,589	3,756	−	3,756
Trade receivables for electric power sales	75	1,510	2,366	3,876
	58,085	**53,331**	**2,366**	**55,697**
Less allowance for expected credit losses	(39,492)	(33,829)	−	(33,829)
Total current trade receivables, net	**18,593**	**19,502**	**2,366**	**21,868**
Other receivables	3,788	5,373	−	5,373
Less allowance for expected credit losses	(932)	(1,316)	−	(1,316)
Total other receivables, net	**2,856**	**4,057**	**−**	**4,057**
Total current trade and other receivables, net	**21,449**	**23,559**	**2,366**	**25,925**

Other receivables mainly relate to the income that is not in scope of IFRS 15, *Revenue from Contracts with Customers*, including GEL 906 (2021: GEL 941) of penalties on illegal connections, and in 2021 additionally GEL 1,301 related to sale of non−core assets to third parties.

In 2022, Other receivables of GEL 2,003 (2021: GEL 1,803) are related to management services provided to the entities under common control by Georgia Capital JSC and is in scope of IFRS 15 *Revenue from Contracts with Customers*.

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

The Group 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.

(Amounts expressed in thousands of Georgian Lari)

12. Trade and other receivables (continued)

Aging analysis of trade and other receivables per classes as at 31 December 2022 is as follows:

31 December 2022	*Current*	*Less than 30 days*	*30 to 60 days*	*61 to 90 days*	*Over 91 days*	*Total*
Expected credit loss rate	0.00%	1.27%	22.03%	39.03%	96.47%	**65.26%**
Carrying amount at default	5,189	14,276	522	638	41,378	**62,003**
Expected credit loss	–	182	115	249	39,918	**40,464**

Aging analysis of trade and other receivables per classes as at 31 December 2021 is as follows:

31 December 2021	*Current*	*Less than 30 days*	*30 to 60 days*	*61 to 90 days*	*Over 91 days*	*Total*
Expected credit loss rate	0.00%	1.76%	30.11%	39.96%	96.06%	**57.50%**
Carrying amount at default	5,740	18,228	890	548	35,785	61,191
Expected credit loss	–	320	268	219	34,376	35,183

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

	Non−current trade and other receivables	*Current trade and other receivables*	*Total*
31 December 2020	**126**	**30,330**	**30,456**
Allowance for expected credit losses	(88)	6,177	**6,089**
Bad debts written off	−	(1,362)	**(1,362)**
31 December 2021	**38**	**35,145**	**35,183**
Allowance for expected credit losses	1	6,715	**6,716**
Bad debts written off	−	(1,435)	**(1,435)**
31 December 2022	**39**	**40,425**	**40,464**

In 2022 and 2021 the Group wrote−off certain aged receivables arisen more than three years ago. 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 older than three years. Written−off receivables have been previously fully provided for.

13. Equity

Share capital

Following change in controlling shareholder (Note 1), the Company's charter was amended to introduce several classes of ordinary shares: class A (55,032,421 as at 31 December 2022), class B (16,933,053 as at 31 December 2022), and class C (12,699,789 as at 31 December 2022, fully acquired by the Group and held in treasury). The terms of the Company's charter and shareholder agreement provide for equal dividend rights for class A and class B shareholders, while also establishing voting protocols on certain matters for class A and class B shareholders. Class C shares, while in issue, provided the holders with governance rights and economic benefit exposure towards Energy Business; class C shares were fully reacquired by the Group in connection with Energy Business demerger (Note 5).

	Number of ordinary shares	*Nominal amounts*
31 December 2020	**104,665,263**	**104,666**
Reduction of share capital	(20,000,000)	(20,000)
31 December 2021	**84,665,263**	**84,666**
31 December 2022	**84,665,263**	**84,666**

As at 31 December 2022, the Company's shareholders were Aqualia Georgia LLC and Georgia Capital JSC which hold GEL 55,032 and GEL 13,758, respectively, while treasury shares of GEL 15,875 were presented separately in the consolidated statement of financial position and consolidated statement of changes in equity.

Treasury shares

In connection with distribution of Energy segment subsidiaries to shareholder, the Group has repurchased its own shares of GEL 15,875 (3,174,948 B class shares and 12,699,789 C class shares).

(Amounts expressed in thousands of Georgian Lari)

13. Equity (continued)

Dividends

In 2022 and 2021, no dividends were declared and paid.

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 Immediate Parent for the GCAP's shares granted to the employees of the Group (Note 25) and unrealised gains/(losses) from transactions with owners of non−controlling interests in existing subsidiaries, and foreign currency translation reserve.

Revaluation reserve

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

Change in presentation

Additional paid−in capital and other reserves amount does not correspond to the 2021 financial statement as management of the Group changed its presentation and combined together amounts of additional paid in capital and other reserves.

Management of capital

The Group's objectives when managing capital are:

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

To achieve these goals the Group performs a detailed analysis of capital structure considering the cost of borrowed funds and level of own capital available. The Group defines capital for capital management purposes as equity and borrowings and bonds issued recognized in the consolidated financial statements. There are no externally imposed capital requirements to which the Group is subject to. Equity as at 31 December 2022 and 2021 was GEL 240,577 and GEL 159,823, respectively. Borrowings and bonds issued as at 31 December 2022 and 2021 were GEL 449,210 and 832,956, respectively.

There were no changes in the objectives, policies or processes for managing capital in 2022 and 2021.

14. Borrowings and bonds issued

	31 December 2022		*31 December 2021*	
	Current liabilities	***Non−current liabilities***	***Current liabilities***	***Non−current liabilities***
Loans from the Parent	2,987	443,292	−	−
Eurobonds issued	−	−	25,007	801,716
Loans from Georgian financial institutions	43	2,888	48	3,481
Loans from entities under common control	−	−	109	2,136
Other loans	−	−	25	434
Total borrowings and bonds issued	**3,030**	**446,180**	**25,189**	**807,767**
- *Out of which Water*	3,030	446,180	15,509	510,119
- *Out of which Energy*	−	−	9,680	297,648

On 23 July 2020, the Company issued US Dollar 250 million green bonds. The senior unsecured USD-denominated 7.75% green notes, with a 5-year non-call 2-year bullet maturity ("Eurobonds"), were settled on 30 July 2020. Eurobonds were issued and sold at par value. Eurobonds were listed on the Global Exchange Market of the Irish Stock Exchange and rated B+ (RWE) by Fitch and B (stable) by S&P. The proceeds of Eurobonds were used to refinance major existing loan arrangements of the Group and to finance capital expenditures in the water supply and wastewater collection services.

(Amounts expressed in thousands of Georgian Lari)

14. Borrowings and bonds issued (continued)

On 7 September 2022, the Group has redeemed its Eurobonds issued with carrying value amounting to GEL 826,723 (USD 266,891) as at 31 December 2021. The redemption was carried out at the price of 103.875%, plus accrued and unpaid interest in accordance with terms and conditions of the Notes, and the total redemption amount was GEL 741,764 (USD 255,463). In September 2022, the Group obtained borrowings from its shareholders (FCC Aqualia S.A. and Georgia Capital JSC) of GEL 476,628 (USD 164,100) and GEL 261,324 (USD 90,000), respectively, for the purposes of the Eurobonds settlement.

As of 31 December 2022, the Group has USD-denominated loan from the Parent of GEL 446,279 at fixed interest rate of 7.35% that matures on 31 August 2024. As of 31 December 2022, other borrowings comprise of EUR denominated loans from Georgian banks of GEL 239 (2021: GEL 317) and USD denominated loans of GEL 2,692 (2021: GEL 5,916).

At 31 December 2022 and 2021, the Group does not have any undrawn borrowing facilities.

In 2022, the Group incurred borrowings costs of GEL 56,000 (2021: GEL 64,686) of which GEL 279 has been capitalized to property, plant and equipment (2021: GEL 1,328).

Changes in liabilities arising from financial activities

	Borrowings	*Loan from Parent*	*Eurobonds issued*	*Loans from Georgia Capital*	*Lease liabilities*	*Total*
Carrying amount at 31 December 2020	**544**	**–**	**833,019**	**–**	**1,641**	**835,204**
Foreign currency translation	(465)	–	(46,264)	–	–	**(46,729)**
Cash proceeds	6,046	–	1,399	–	–	**7,445**
Cash repayments	(23)	–	–	–	(454)	**(477)**
Interest accrued	298	–	63,060	–	202	**63,560**
Interest paid (classified as financing cash outflows)	(18)	–	(61,898)	–	(202)	**(62,118)**
Reassessment of estimates related to Eurobonds refinancing	–	–	35,904	–	–	**35,904**
Other	(149)	–	1,503	–	485	**1,839**
Carrying amount at 31 December 2021	**6,233**	–	**826,723**	–	**1,672**	**834,628**
Foreign exchange gain	(755)	(33,459)	(52,238)	–	(125)	(86,577)
Foreign currency translation	–	–	–	(6,366)	–	(6,366)
Cash proceeds	864	476,628	–	261,324	–	738,816
Cash repayments	(135)	–	(726,658)	–	(281)	(727,074)
Interest accrued	318	11,298	42,451	1,403	251	55,721
Interest paid	(211)	(8,188)	(62,089)	–	(54)	(70542)
Commission paid for loan prepayment	–	–	(27,461)	–	–	(27,461)
Gain on extinguishment of financial liabilities	–	–	(1,009)	–	–	(1,009)
Other	20	–	281	–	222	523
Disposal of Energy Segment subsidiaries (Note 5)	(3,403)	–	–	(256,361)	(1,341)	(261,105)
Carrying amount at 31 December 2022	**2,931**	**446,279**	**–**	**–**	**344**	**449,554**

(Amounts expressed in thousands of Georgian Lari)

15. Contract assets and liabilities

The Group recognised GEL 241,804 of revenue from contracts with customers in 2022 (2021: GEL 236,721), including revenue attributable to discontinued operations (Note 5). The disaggregation of revenue from contracts with customers by types are presented in the consolidated statement of comprehensive income for 2022 and in Notes 17 and 18 and additionally revenue from management services provided to the entities under common control included in Other revenue in 2021.

Contract balances

The Group recognised the following revenue−related contract balances:

	31 December 2022	*31 December 2021*
Receivables		
Trade receivables	18,683	21,951
Total	**18,683**	**21,951**
Contract liabilities		
Advances received	16,275	16,005
Deferred revenue	35,292	32,419
Total	**51,567**	**48,424**

The Group recognised GEL 5,545 of revenue that relates to carried−forward contract liabilities in 2022 (2021: GEL 5,201).

Change in advances received in 2022 was mostly caused by cash receipts from electric power sales. Change in trade receivable mostly relate to increase in water sales volumes as offset against ECL charges.

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 of 31 December 2022:

	In 2023	*In 2024*	*In 2025*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on contracts with customers	5,514	5,211	4,891	8,630	11,046	**35,292**

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 2021:

	In 2022	*In 2022*	*In 2023*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on contracts with customers	5,545	4,682	4,353	7,596	10,243	**32,419**

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

16. Trade and other payables

	31 December 2022			*31 December 2021*		
	Water	*Energy*	*Total*	*Water*	*Energy*	*Total*
Trade payables	5,909	−	**5,909**	5,124	941	**6,065**
Payables for non−current assets	3,934	−	**3,934**	4,290	−	**4,290**
Payables to employees	4,471	−	**4,471**	5,619	−	**5,619**
Other payables	313	−	**313**	379	33	**412**
Total trade and other payables	**14,627**	**−**	**14,627**	**15,412**	**974**	**16,386**

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

(Amounts expressed in thousands of Georgian Lari)

17. Revenue from water supply and related services

	2022	*2021 as reclassified*
Revenue from water supply to legal entities	129,859	117,814
Revenue from water supply to general population	49,211	48,836
Total revenue from water supply before charges for related services	**179,070**	**166,650**
Charges for connection service	5,237	4,671
Charges for installation of water meters	563	1,001
Total revenue from water supply and related services	**184,870**	**172,322**

18. Revenue from electric power sales

	2022	*2021 as reclassified*
Revenue from electric power sales to commercial customers	23,084	25,880
Revenue from electric power sales to ESCO	807	785
Total revenue from electric power sales	**23,891**	**26,665**

19. Salaries and other employee benefits

	2022	*2021 as reclassified*
Salaries	18,169	17,120
Bonuses	2,833	3,659
Employee share−based compensation	27	1,057
Total salaries and benefits	**21,029**	**21,836**

20. General and administrative expenses

	2022	*2021 as reclassified*
Security expenses	1,440	1,463
Utility expenses	970	907
Communication expenses	516	455
Office expenses	776	351
Advertising expenses	149	105
Representation expenses	200	13
Business trip expenses	155	–
Total general and administrative expenses	**4,206**	**3,294**

21. Professional fees

	2022	*2021 as reclassified*
Consulting expenses	1,561	1,636
Legal and other professional fees	1,408	209
Total professional fees	**2,969**	**1,845**

(Amounts expressed in thousands of Georgian Lari)

21. Professional fees (continued)

Auditor's remuneration

Remuneration of Group's auditor for the years ended 31 December 2022 and 2021 comprises (net of VAT):

	2022	*2021*
Fees for the audit of the Company's annual financial statements for the year ended 31 December	259	397
Fees for the audit of the Company's interim financial statements for the six months ended 30 June	72	120
Fees for the audit of the subsidiaries' financial statements for the year ended 31 December	251	236
Total auditor's remuneration	**582**	**753**

22. Other income

	2022	*2021 as reclassified*
Penalty income on illegal connection services	535	254
Derecognition of unclaimed advances received and trade payables	342	539
Net gain from revaluation of investment property	–	1,258
Net share-based remeasurement income	–	346
Net gain from sale of inventories	–	331
Other income	480	469
Total other income	**1,357**	**3,197**

23. Other operating expenses

	2022	*2021 as reclassified*
Insurance expense	2,556	2,186
Bill processing expenses	1,487	1,472
Compensation for damage	421	600
Fines and penalties	565	533
Regulation fee	501	399
Rent expenses	369	162
Net loss from disposal of property, plant and equipment	276	204
Other expenses	340	238
Total other operating expenses	**6,515**	**5,794**

24. Finance costs

	2022	*2021 as reclassified*
Interest expense on borrowings	38,014	38,771
Bank fees and charges	73	58
Interest expense on lease liabilities	51	41
Total finance costs	**38,138**	**38,870**

(Amounts expressed in thousands of Georgian Lari)

25. Share−based payments

Prior to change in controlling shareholder to Aqualia (Note 1), the Group provided share-based awards to its management settled in shares of its ultimate parent, Georgia Capital plc, or in the phantom shares of the immediate parent, Georgia Global Utilities JSC. The Group accounted for these share−based awards as cash-settled.

As at 31 December 2021, the Group recognized GEL 5,579 liability in respect of its share-based awards (presented in other current liabilities in the consolidated statement of financial position), as well as GEL 2,594 shares issued by Georgia Capital plc acquired to satisfy some of the awards (presented in other current assets in the consolidated statement of financial position). The terms of the award provided leads to the immediate vesting in case of change of controlling shareholder, and the Group incorporated the expectation for accelerated vesting in measurement of its share-based expense and liability as at 31 December 2021 and for the year then ended. Accordingly, all outstanding share-based awards were vested in February 2022 following change in controlling shareholder of the Group from Georgia Capital PLC to Aqualia. In respect of extinguishment of the Group's share-based liabilities and related tax charges in 2022, the Group recognized GEL 685 in the statement of changes in equity for the year ended 31 December 2022.

The Group has an obligation to settle cash-settled share-based award granted to employees of an entity under common control. In 2022, the Group recognized GEL 1,306 of share-based charge attributable to those employees directly in consolidated statement of changes in equity.

The share-based charge recognized for employee services received during the year and the respective liability arising from cash-settled share-based payments was as follows:

	2022	*2021*
Liability outstanding in relation to cash-settled share-based payment transactions	–	5,579
Salary expense arising from cash-settled transactions	1,306	153
Non-recurring expenses from cash-settled transactions	–	875

In 2021, cash transfers to the Parent under the equity-settled and cash-settled share-based payment plan was GEL 414, recognized in the consolidated statement of changes in equity.

26. Non−recurring items

	2022	*2021 as reclassified*
Gain from bonds repayment	(1,009)	−
Tax expenses on abnormal water losses (Note 6)	−	11,710
Employee share-based compensation acceleration (Note 24)	−	1,702
Termination-related cash-based employee compensation (a)	−	1,530
Technical due diligence service fee	−	783
Total non−recurring (income) expenses	**(1,009)**	**15,725**

(a) Termination-related cash-based employee compensation are recognized with regards to the constructive obligation existing as at 31 December 2021 to make compensation payment in cash rather than in shares towards the members of the management expected to be terminated upon change of control.

27. Commitments and contingencies

Environmental matters

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

(Amounts expressed in thousands of Georgian Lari)

27. Commitments and contingencies (continued)

Taxation

In Georgia, tax returns remain open and subject to inspection for a period of up to three years. If an understatement of a tax liability is detected as a result of an inspection, penalties and fines to be paid might be material in respect of the tax liability misstatement. The Group's management does not expect the outcome of the inspections to have a material impact on the Group's consolidated financial position or results of operations. Management believes that the Group has paid and accrued all taxes that are applicable.

28. Financial instruments

Financial instruments overview

Cash at bank

Cash at bank as at 31 December 2022 and 2021 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 2022 and 2021, the Group did not have any significant financial assets that are past due, except for trade and other receivables (Note 12).

Fair value measurement

Assets and liabilities measured at fair value in the consolidated statement of financial position as at 31 December 2022 include investment property with fair value of GEL 7,368 (Level 3 of fair value hierarchy) (31 December 2021: GEL 7,382), shares issued by GCAP in other current assets of GEL nill (31 December 2021: GEL 2,594) (Level 1 of fair value hierarchy) in relation to cash−settled share−based payment transactions.

All financial instruments for which fair values are disclosed by the Group as at 31 December 2022 and 2021, 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 2022 and 2021.

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique or, in relation to shares and Eurobonds quoted on organized markets, with reference to their bid prices. 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. As at 31 December 2022, the fair value of fixed rate borrowings from Parent amounted to GEL 429,334. As of 31 December 2021, the fair value of fixed rate Eurobonds issued amounts to GEL 842,000 thousand, considering options exercise.

Management assessed that the fair values of cash at banks, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short−term maturities of these instruments.

Risk arising from financial instruments

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

Currency risk

Currency risk is the risk that the value or cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The management of the Group monitors open currency positions in each material currency and enters into foreign currency derivatives transactions as necessary.

(Amounts expressed in thousands of Georgian Lari)

28. Financial instruments (continued)

Risk arising from financial instruments (continued)

As at 31 December 2022 and 2021, currency risk arises from the USD denominated borrowings.

Currency	*Appreciation / depreciation in % 2022*	*Effect on profit 2022*	*Increase/ decrease in % 2021*	*Effect on profit 2021*
USD	18.92%	72,871	15.00%	57,108
USD	−18.92%	(72,871)	−7.00%	(24,475)

Credit risk

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

As at 31 December 2022 and 2021, the Group has no other significant financial assets subject to credit risk except for:

- Cash at bank and restricted cash: as at 31 December 2022 out of total cash at bank of GEL 36,909 (2021: GEL 96,842), GEL 29,026 (2021: GEL 75,148) 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 12).

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 2022 and 2021, carrying values of financial instruments best represent their maximum exposure to the credit risk.

Liquidity risk

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

The table below shows financial liabilities as at 31 December 2022 and 2021 based on contractual undiscounted repayment obligations.

	Less than 1 year	*1−3 years*	*3−5 years*	*Over 5 years*	*Total*
As at 31 December 2022					
Long−term and short−term borrowings and bonds issued	33,666	469,088	884	1,593	**505,231**
Trade and other payables	14,627	−	−	−	**14,627**
Lease liabilities	168	176	−	−	**344**
Total future payments	**48,461**	**469,264**	**884**	**1,593**	**520,202**
As at 31 December 2021					
Long−term and short−term borrowings and bonds issued	60,531	121,056	838,176	2,400	**1,022,163**
Trade and other payables	16,386	−	−	−	**16,386**
Lease liabilities	315	391	224	3,648	**4,578**
Total future payments	**77,232**	**121,447**	**838,400**	**6,048**	**1,043,127**

In managing liquidity risk, the management of the Group considers the Group will be able to settle the liabilities falling due by applying cash proceeds from operations towards the upcoming coupon interest and principal payments due on the borrowings and refinance or renegotiate the borrowings if needed.

29. Events after the reporting date

Subsequent to 31 December 2022, the Group obtained a loan of EUR 4 million for funding its capital expenditures.