# Georgia Global Utilities JSC

## Consolidated financial statements

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

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## Independent auditor's report

## Consolidated financial statements



## Notes to the consolidated financial statements

შპს იუაი
საქართველო, 0105, თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
www.ey.com/ge
www.facebook.com/EYGeorgia

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

# 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 at 31 December 2023, 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 material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

## *Basis for opinion*

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

## *Other information included in the Group's 2023 Management Report*

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

Building a better working world

- 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.

Dmytro Iurgelevych (SARAS-A-644274)

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

8 April 2024

Tbilisi, Georgia

# Consolidated statement of financial position

## As at 31 December 2023

*(Amounts expressed in thousands of Georgian Lari)*

| | Note | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 843,439 | 679,587 |
| Investment property | 9 | 9,297 | 7,368 |
| Right-of-use assets | | 1,648 | 332 |
| Restructured trade receivables | 12 | 155 | 90 |
| Other non-current assets | 10 | 5,452 | 7,661 |
| **Total non-current assets** | | **859,991** | **695,038** |
| **Current assets** | | | |
| Inventories | 11 | 6,942 | 5,776 |
| Trade and other receivables | 12 | 23,801 | 21,449 |
| Loans issued | | – | – |
| Prepaid taxes other than income tax | | 467 | 18 |
| Reimbursement assets | 25 | 1,900 | – |
| Prepayments | | 3,194 | 1,539 |
| Financial assets held for trading | | – | – |
| Other current assets | | – | – |
| Cash and cash equivalents | 26 | 7,282 | 36,909 |
| **Total current assets** | | **43,586** | **65,691** |
| **Total assets** | | **903,577** | **760,729** |
| **Equity** | | | |
| Share capital | 13 | 84,666 | 84,666 |
| Treasury shares | 13 | (15,875) | (15,875) |
| Additional paid-in capital and other reserves | 13 | 15,021 | 15,021 |
| Revaluation reserve for property, plant and equipment | 13 | 4,385 | 4,385 |
| Retained earnings | | 201,792 | 152,380 |
| **Total equity** | | **289,989** | **240,577** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 14 | 2,604 | 446,180 |
| Deferred revenue | 15 | 32,054 | 29,797 |
| Lease liabilities | | 1,512 | 176 |
| Other non-current liabilities | | 152 | 89 |
| **Total non-current liabilities** | | **36,322** | **476,242** |
| **Current liabilities** | | | |
| Borrowings | 14 | 509,295 | 3,030 |
| Advances received | 15 | 26,252 | 16,275 |
| Trade and other payables | 16 | 28,423 | 14,627 |
| Provisions for liabilities and charges | 25 | 6,868 | 1,855 |
| Deferred revenue | 15 | 6,261 | 5,495 |
| Lease liabilities | | 152 | 168 |
| Other taxes payable | | 15 | 2,460 |
| **Total current liabilities** | | **577,266** | **43,910** |
| **Total liabilities** | | **613,588** | **520,152** |
| **Total liabilities and equity** | | **903,577** | **760,729** |

Approved for issue and signed on behalf of Georgia Global Utilities JSC on 8 April 2024:

José Miguel Santos Gonzalez
Chief Executive Officer

*The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.*

## Consolidated statement of financial position

## As at 31 December 2023

*(Amounts expressed in thousands of Georgian Lari)*

| | Note | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Assets** | | | |
| **Non−current assets** | | | |
| Property, plant and equipment | 8 | 843,439 | 679,587 |
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| Right−of−use assets | | 1,648 | 332 |
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| **Current assets** | | | |
| Inventories | 11 | 6,942 | 5,776 |
| Trade and other receivables | 12 | 23,801 | 21,449 |
| Loans issued | | − | − |
| Prepaid taxes other than income tax | | 467 | 18 |
| Reimbursement assets | 25 | 1,900 | − |
| Prepayments | | 3,194 | 1,539 |
| Financial assets held for trading | | − | − |
| Other current assets | | − | − |
| Cash and cash equivalents | 26 | 7,282 | 36,909 |
| **Total current assets** | | **43,586** | **65,691** |
| **Total assets** | | **903,577** | **760,729** |
| **Equity** | | | |
| Share capital | 13 | 84,666 | 84,666 |
| Treasury shares | 13 | (15,875) | (15,875) |
| Additional paid−in capital and other reserves | 13 | 15,021 | 15,021 |
| Revaluation reserve for property, plant and equipment | 13 | 4,385 | 4,385 |
| Retained earnings | | 201,792 | 152,380 |
| **Total equity** | | **289,989** | **240,577** |
| **Liabilities** | | | |
| **Non−current liabilities** | | | |
| Borrowings | 14 | 2,604 | 446,180 |
| Deferred revenue | 15 | 32,054 | 29,797 |
| Lease liabilities | | 1,512 | 176 |
| Other non−current liabilities | | 152 | 89 |
| **Total non−current liabilities** | | **36,322** | **476,242** |
| **Current liabilities** | | | |
| Borrowings | 14 | 509,295 | 3,030 |
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| Provisions for liabilities and charges | 25 | 6,868 | 1,855 |
| Deferred revenue | 15 | 6,261 | 5,495 |
| Lease liabilities | | 152 | 168 |
| Other taxes payable | | 15 | 2,460 |
| **Total current liabilities** | | **577,266** | **43,910** |
| **Total liabilities** | | **613,588** | **520,152** |
| **Total liabilities and equity** | | **903,577** | **760,729** |

Approved for issue and signed on behalf of Georgia Global Utilities JSC on 8 April 2024:

José Miguel Santos Gonzalez

Chief Executive Officer

*The accompanying notes on pages 5 to 30 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 2023

*(Amounts expressed in thousands of Georgian Lari)*

| | *Note* | *2023* | *2022* (Reclassified)* |
|---|---|---|---|
| Revenue from water supply and related services | 17 | 190,969 | 184,870 |
| Revenue from electric power sales | 18 | 28,747 | 23,891 |
| Other revenue | | 611 | 1,254 |
| **Total revenue, income and gains** | | **220,327** | **210,015** |
| Electricity and transmission costs | | (23,574) | (24,081) |
| Salaries and other employee benefits | 19 | (27,637) | (21,029) |
| Allowance for expected credit losses | 12 | (7,314) | (6,716) |
| Taxes other than income tax | | (9,487) | (7,169) |
| General and administrative expenses | 20 | (5,631) | (4,206) |
| Professional fees | 21 | (3,045) | (2,969) |
| Raw materials, fuel and other consumables | | (3,638) | (3,656) |
| Maintenance expenditure | | (2,660) | (2,095) |
| Charge for provisions and legal claims related expenses | | (913) | (737) |
| Other operating expenses | 23 | (12,444) | (6,239) |
| Other income | 22 | 3,698 | 1,357 |
| | | **(92,645)** | **(77,540)** |
| **EBITDA** | | **127,682** | **132,475** |
| Finance income | | 2,094 | 4,491 |
| Finance costs | 24 | (34,330) | (38,138) |
| Net foreign exchange (loss) gain | | (162) | 57,873 |
| Depreciation and amortisation | | (42,898) | (37,749) |
| Net loss from write−off of property and equipment | | (2,974) | (276) |
| Non−recurring income, net | | – | 1,009 |
| **Profit before income tax expense from continuing operations** | | **49,412** | **119,685** |
| Income tax expense | | – | – |
| **Profit for the year from continuing operations** | | **49,412** | **119,685** |
| **Discontinued operations:** | | | |
| Loss after tax for the year from discontinued operations | 4 | – | (1,993) |
| **Profit for the year** | | **49,412** | **117,692** |
| **Other comprehensive income** | | | |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods* | | | |
| Gain from currency translation differences | | – | 7,631 |
| **Other comprehensive income for the year from continuing operations** | | – | 7,631 |
| Other comprehensive loss for the year from discontinued operations – loss from currency translation differences | 4 | – | (2,980) |
| **Total other comprehensive income** | | – | **4,651** |
| **Total comprehensive income for the year** | | **49,412** | **122,343** |

* *Certain amounts do not correspond to the 2022 consolidated financial statements reflecting the adjustment made for presentation of loss from Property plant and equipment write−off (Note 3).*

*The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.*

## Consolidated statement of changes in equity

## For the year ended 31 December 2023

*(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 |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2021** | **84,666** | – | **26,381** | **44,391** | **4,385** | **159,823** |
| Profit for the year | – | – | – | 117,692 | – | **117,692** |
| Foreign currency translation reserve | – | – | 4,651 | – | – | **4,651** |
| **Total comprehensive income for the year** | **–** | **–** | **4,651** | **117,692** | **–** | **122,343** |
| Transfers to parent under share−based compensation program | – | – | (685) | – | – | **(685)** |
| Distribution of Energy business to the shareholders (Note 4) | – | (15,875) | (15,326) | (9,703) | – | **(40,904)** |
| **Balance as at 31 December 2022** | **84,666** | **(15,875)** | **15,021** | **152,380** | **4,385** | **240,577** |
| Profit for the year | – | – | – | 49,412 | – | **49,412** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **49,412** | **–** | **49,412** |
| **Balance as at 31 December 2023** | **84,666** | **(15,875)** | **15,021** | **201,792** | **4,385** | **289,989** |

*The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.*

## Consolidated statement of cash flows

## For the year ended 31 December 2023

*(Amounts expressed in thousands of Georgian Lari)*

| | Note | 2023 | 2022 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit before income tax expense** | | **49,412** | **117,692** |
| *Adjustments for:* | | | |
| Depreciation and amortisation | | 42,898 | 45,819 |
| Allowance for expected credit losses | 12 | 7,314 | 6,716 |
| Charge for provisions and legal claims related expenses | | 913 | 737 |
| Net loss from disposal of and write−off of property, plant and equipment | | 2,974 | 1,847 |
| Revaluation (gain) loss on investment property | 9 | (1,930) | 14 |
| Net foreign exchange losses(gains) | | 162 | (58,050) |
| Finance income | | (2,094) | (5,351) |
| Finance costs | 24 | 34,330 | 55,845 |
| Termination bonus payment | | − | (1,306) |
| Derecognition of unclaimed advances received and trade payables | | − | (342) |
| Non−recurring expenses, net | | − | 792 |
| *Working capital changes* | | | |
| Change in inventories | | (1,166) | (664) |
| Change in trade and other receivables | | (9,677) | (7,339) |
| Change in reimbursement assets | 25 | (1,900) | − |
| Change in prepaid taxes other than income tax | | (449) | (2,896) |
| Change in prepayments | | (1,655) | (417) |
| Change in trade and other payables | | 4,500 | (3,613) |
| Change in deferred revenue – current portion | | 766 | (50) |
| Change in advances received | | 9,977 | 612 |
| Change in other tax payables | | (2,445) | 1,100 |
| **Operating cash flows after working capital changes** | | **131,930** | **151,174** |
| Change in deferred revenue – non−current portion | | 2,257 | 2,923 |
| Net investments in trading securities | | − | 6,808 |
| **Net cash flows from operating activities** | | **134,187** | **160,905** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment and intangible assets | | (193,563) | (109,702) |
| Proceeds from sale of property, plant and equipment and investment property | | 200 | 2,949 |
| Purchase of other non−current assets | | − | − |
| Proceeds from loan issued | | − | (10,485) |
| Interest received | | 1,891 | 5,088 |
| Purchase of the Parent's bonds | | | |
| Distribution of Energy business to the shareholders | 4 | − | (15,144) |
| **Net cash used in investing activities** | | **(191,472)** | **(127,294)** |
| **Cash flows from financing activities** | | | |
| Payment of principal portion of lease liabilities | | (735) | (281) |
| Proceeds from borrowings | 14 | 37,355 | 738,816 |
| Repayment of borrowings | 14 | (118) | (726,793) |
| Interest paid | 14 | (8,850) | (70,542) |
| Commission for prepayment of loans | | − | (27,461) |
| Transfers to parent under share−based compensation program | | − | (3,563) |
| **Net cash from (used in) financing activities** | | **27,652** | **(89,824)** |
| Effect of exchange rate changes on cash and cash equivalents | | 6 | (3,720) |
| **Net change in cash and cash equivalents** | | **(29,627)** | **(59,933)** |
| Cash and cash equivalents at the beginning of year | 26 | 36,909 | 96,842 |
| **Cash and cash equivalents at the end of year** | 26 | **7,282** | **36,909** |

In 2023 following non−cash items were included in purchase of property, plant and equipment and intangible assets: GEL 2,087 (2022: GEL 4,165) and GEL 12,230 (2022: GEL 365) of change in prepayments and payables for non−current assets respectively, capitalised accrued bonuses and capitalised borrowing costs to GEL 1,446 and GEL 218 (2022: GEL 2,629 and GEL 286) respectively.

*The accompanying notes on pages 5 to 30 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.

## Change in controlling shareholder in 2022

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 S.A. ("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%. As at 31 December 2023 and 2022, Aqualia Georgia LLC (a subsidiary of Aqualia) and GCAP own 80% and GCAP 20% of GGU's shares, respectively.

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, Hydrolea LLC and Qartli Wind Farm LLC) 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 4.

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 2023* | *31 December 2023* |
|---|---|---|---|---|---|
| Georgian Water and Power LLC | Georgia | 25−Jun−1997 | 14−May−2008 | 100% | 100% |
| Rustavi Water LLC * | Georgia | 31−Aug−1999 | 14−May−2008 | − | 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 | Georgia | 23−Apr−2019 | 15−Dec−2019 | 100% | 100% |

* Rustavi Water LLC was legally merged with Georgian Water and Power LLC in 2023.

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 2023 GGU also owned and operated hydroelectric 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. Basis of preparation

These consolidated financial statements of the Group for the year ended 31 December 2023 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 2023 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 2023, the Group amended presentation of losses write−off of property and equipment, previously presented in other operating expenses. From 2023, the Group presents such losses together with net losses from disposal of property and equipment below EBITDA subtotal in its consolidated statement of profit or loss and other comprehensive income. Comparative information and explanatory notes have been amended accordingly.

*Going concern*

As at 31 December 2023, the Group's current liabilities exceeded its current assets by GEL 533,680. Included into current liabilities as at 31 December 2023 are the borrowings due to the Group's Parent in amount of GEL 444,020 and GEL 65,211 with maturity in August 2024 and December 2024, respectively, which the management of the Group expects to refinance with new long−term debt provided by the third parties or, in case such refinancing is not available or considered by the management to be not economically feasible, to be further prolonged by the Parent for the term of at least 12 months since the date of approval of these consolidated financial statements. The management of the Group is confident in the Group's ability to settle its liabilities as they come due based on the Group's successful history of debt raising (including capital markets transaction experience) and strong current and projected financial performance, as evidenced by GEL 49,412 net profit, GEL 127,682 EBITDA and GEL 134,187 net operating cash flow for 2023, respectively, with significant further increase expected for 2024 and going forward as the result of water supply tariff increase by 40% for legal entities as updated in December 2023 for 2024−2026 tariff cycle. Accordingly, the management considered going concern basis of preparation for these financial statements to be appropriate.

## 3. Summary of material accounting policies

### Adoption of new or revised standards and interpretations

Several amendments and interpretations apply for the first time in 2023, but do not have an impact on the consolidated financial statements of the Group, except as discussed below:

- *IFRS 17 Insurance Contracts*
- *Definition of Accounting Estimates – Amendments to IAS 8*
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12*
- *International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12*
- *Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2*

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The Group revised its disclosure of accounting policies as presented in this note. The revised material accounting policy information focuses on how the Group has applied the requirements of the IFRSs to its own circumstances and includes largely items where the Group chose an accounting policy from one or more options permitted by IFRSs, items subject to significant judgments or estimates, and excludes information that only duplicates or summarizes the requirements of IFRSs, as well as accounting policies about immaterial matters.

*(Amounts expressed in thousands of Georgian Lari)*

## 3. Summary of material 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.

- *Amendments to IFRS 16: Lease liability in a Sale and Leaseback* − The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

*Amendments to IAS 1: Classification of Liabilities as Current or Non−current*

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non−current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification
- In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non−current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.
- The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation. *Supplier Finance Arrangements − Amendments to IAS 7 and IFRS 7*

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

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

### 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.

### 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 26.

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.

*(Amounts expressed in thousands of Georgian Lari)*

## 3. Summary of material accounting policies (continued)

### 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 and cash at bank.

***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. For majority of its trade receivables, the Group evaluates the assets to be credit−impaired on a collective basis based on days past due information. The asset is deemed to be credit−impaired if it becomes past due for 90 days or more. Other evidence of impairment may include:

- Significant financial difficulty of the counterparty;
- 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 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.

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

### Derecognition of financial instruments

*Financial assets*

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. Write−off constitutes a derecognition event.

*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.

*(Amounts expressed in thousands of Georgian Lari)*

## 3. Summary of material accounting policies (continued)

### Derecognition of financial instruments (continued)

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 (such as where the present value of the modified cash flows discounted using the original effective interest rate differs by more than 10% from the carrying value of the original liability), or the terms of an existing liability are substantially modified (for example, by changing the currency of denomination, changing interest rate accrual basis from fixed to floating or visa versa, or by introduction of an equity conversion feature), 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 comprised 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. In addition to the purchase price, cost of property, plant and equipment, including assets under construction, includes directly attributable costs. Directly attributable costs include professional services provided by technical, environmental and other relevant experts and an allocation of internal costs.

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.

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 | Up to 60 years |
| Water infrastructure assets | 5−45 years |
| Energy infrastructure assets (applicable for 2022) | 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. Residual values for majority of the Group's property and equipment, except for vehicles, is assessed at nil.

### 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 and presented within Other income.

### 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.

*(Amounts expressed in thousands of Georgian Lari)*

## 3. Summary of material accounting policies (continued)

### 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.

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 other 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. Cost of inventory is determined using the weighted average basis.

### Cash and cash equivalents

Cash and cash equivalents include current accounts and deposits held with banks at call or with original maturities of three months or less and are subject to insignificant risk of change in value.

### Share capital

The amount of the Company's authorized share capital is defined by the Company's charter. The authorized capital is recognised as share capital in the equity of the Company to the extent that it was paid. Treasury shares are presented separately in the consolidated statement of financial position.

### 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.

### 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, such as in case of litigations against the Group.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain, which is normally the case whether the Group has a valid insurance contract in place.

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, except as recognized within provisions in the consolidated statement of financial position.

**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 gains or losses, loss from property and equipment disposals and write−offs and non−recurring expenses.

*(Amounts expressed in thousands of Georgian Lari)*

## 3. Summary of material accounting policies (continued)

### 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. Georgian Lari was determined to be the functional currency of the Company and its subsidiaries following divestment of the energy business in 2022 (prior to the divestment, the functional currency of the Company and the energy business subsidiaries was US Dollar).

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 2023 and 2022 were 2.9753 and 2.8844 GEL to 1 Euro, respectively. The official NBG exchange rates as at 31 December 2023 and 2022 were 2.6894 and 2.7020 GEL to 1 USD, respectively.

### 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.

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.

*(Amounts expressed in thousands of Georgian Lari)*

## 4. 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 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.

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 2022.

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)*

## 4. Discontinued operations (continued)

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

| | **2022 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) | 177 |
| 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)** |

## 5. 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 2023 and for the period from 3 February 2022, the Group's immediate parent is Aqualia Georgia LLC and its ultimate controlling parent is Aqualia FCC S.A. As at 31 December 2023 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 and entities under its control are presented in the table below as transactions with other shareholders.

*(Amounts expressed in thousands of Georgian Lari)*

## 5. 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 2023* | | *31 December 2022* | | |
|---|---|---|---|---|---|
| | ***Parent*** | ***Other (GCAP companies)*** | ***Parent*** | ***Other shareholders*** | ***Other (GCAP companies)*** |
| **Assets** | | | | | |
| Trade and other receivables (including ECL of nil) | – | 2,170 | – | – | 2,206 |
| Prepayments | – | 12 | – | – | 756 |
| Reimbursement asset | – | 1,900 | – | – | – |
| **Borrowings as at 1 January** | **446,279** | – | **–** | **–** | **2,245** |
| Proceeds from borrowings and interest accrued during the year | 71,316 | – | 487,993 | 262,727 | 415 |
| Repayment of borrowing including interest during the year | (8,564) | – | (8,188) | – | – |
| Forex on borrowings | 200 | – | (33,526) | – | (44) |
| Currency translation differences on borrowings | – | – | – | (6,366) | – |
| Disposal of Energy Business | – | – | – | (256,361) | (2,616) |
| **Borrowings as at 31 December** | **509,231** | **–** | **446,279** | **–** | **–** |
| **Liabilities** | | | | | |
| Advances received | – | 46 | – | 19 | 19 |
| Trade and other payables | 394 | 147 | – | 103 | 103 |

| | *2023* | | *2022* | | |
|---|---|---|---|---|---|
| | ***Parent*** | ***Other (GCAP companies)*** | ***Parent*** | ***Other shareholders*** | ***Other (GCAP companies)*** |
| **Income and expenses** | | | | | |
| Revenue from water supply | – | 1,810 | – | – | 2,132 |
| Other revenue | – | – | – | – | 236 |
| Professional fees | (1,353) | – | (873) | – | – |
| Other operating expenses[1t] | – | (2,721)[1] | – | – | (2,619)[2] |
| Finance costs | (33,741) | – | (11,365) | (1,403) | |
| Finance income | – | – | | 260 | |

1 Other operating expenses mostly comprises of insurance expense.

2 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.

3 In 2023, the Group recognized GEL 1,900 as insurance reimbursement due from other related party, presented as a deduction from other operating expenses (Note 25, 23). In 2023, the Group incurred GEL 3,130 (2022: GEL 1,363) in management fees due to the Parent, of which GEL 1,353 was recognized as professional fees in profit or loss and GEL 1,777 was capitalized to cost of assets.

*(Amounts expressed in thousands of Georgian Lari)*

## 5. Related party disclosure (continued)

### Directors' compensation

The Group's key management personnel in 2023 and 2022 included non−executive and executive directors of GGU (2022: included non−executive directors of GGU, Chairman of the Supervisory Board of Georgia Water and Power LLC and members of executive management board of Georgia Water and Power LLC). Total compensation paid to key management for the years ended 31 December 2023 and 2022 is as follows:

| | ***2023*** | ***2022*** |
|---|---|---|
| Salaries and benefits | 2,916 | 2,787 |
| Bonuses | 890 | 2,380 |
| Employee share−based compensation | − | 1,306 |
| **Total management compensation** | **3,806** | **6,473** |

Remuneration to Aqualia Georgia LLC (the Parent) for management services amounted to GEL 3,130 (2022: GEL 1,363).

## 6. 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 2) and presentation of the renewable business results as discontinued operation (Note 4)) 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 2023, fair values of investment properties amounted to GEL 9,297 (2022: GEL 7,368) (Note 9).

### Impairment indications for property, plant and equipment

The management of the Group considered facts and circumstances existing as at 31 December 2023 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 2023 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 2022−2023), have been incorporated to the tariffs 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 2023. Accordingly, the management concluded that no impairment or recovery indicators existed as at 31 December 2023.

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 cash−generating unit composition (whereby the management concluded that, following legal merger in 2023, Rustavi and Tbilisi water supply and wastewater network assets represent a single cash−generating unit considering that interdependent nature of tariff−setting for Tbilisi and Rustavi customers and resulting revenues) 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 8).

*(Amounts expressed in thousands of Georgian Lari)*

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

### Useful lives and residual values 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.

In 2023, in light of intention to update the vehicle park, the management revised the remaining useful lives and residual values of the Group's vehicles, resulting in GEL 2,200 recognized as depreciation charge in profit or loss for 2023.

### 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 12).

The amount of ECLs recognized in respect of trade and other receivables amounted to GEL 46,309 as of 31 December 2023 (2022: GEL 40,464) (Note 12).

## 7. Segment information

Following divestment of Energy Business (Note 4), 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.

Transactions between segments are accounted for at actual transaction prices, with exception for deemed electricity sales for water supply needs measured in accordance with the terms of GNERC regulations applied for water supply tariff setting purposes.

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)*

## 7. Segment information (continued)

### Water supply and wastewater collection services (continued)

The following table present financial results of the Group's operating segments for the year ended 31 December 2023:

| | *Electric power generation and sales* | *Water supply and wastewater collection services* | *Intersegment transactions* | *Total* |
|---|---|---|---|---|
| Revenue from water supply and related services | – | 190,969 | – | **190,969** |
| Revenue from electric power sales[1] | 33,372 | – | (4,625) | **28,747** |
| Other revenue | – | 611 | – | **611** |
| **Total revenue** | **33,372** | **191,580** | **(4,625)** | **220,327** |
| Electricity and transmission costs | (99) | (28,100) | 4,625 | **(23,574)** |
| Salaries and other employee benefits | (2,074) | (25,563) | – | **(27,637)** |
| Allowance for expected credit losses | (226) | (7,088) | – | **(7,314)** |
| Taxes other than income tax | (39) | (9,448) | – | **(9,487)** |
| General and administrative expenses | (195) | (5,436) | – | **(5,631)** |
| Professional fees | (93) | (2,952) | – | **(3,045)** |
| Raw materials, fuel and other consumables | (104) | (3,534) | – | **(3,638)** |
| Maintenance expenditure | (9) | (2,651) | – | **(2,660)** |
| Charge for provisions and legal claims related expenses | – | (913) | – | **(913)** |
| Other operating expenses | (4,097) | (8,347) | – | **(12,444)** |
| Other income | 12 | 3,686 | – | **3,698** |
| **EBITDA** | **26,448** | **101,234** | **–** | **127,682** |
| Finance income | 288 | 1,806 | – | **2,094** |
| Finance costs | (1,470) | (32,860) | – | **(34,330)** |
| Net foreign exchange gains/(losses) | (19) | (143) | – | **(162)** |
| Depreciation and amortization | (2,216) | (40,682) | – | **(42,898)** |
| Loss from disposal and write−off of property and equipment | (62) | (2,912) | – | **(2,974)** |
| **Profit before income tax expense** | **22,969** | **26,443** | **–** | **49,412** |
| Income tax expense | – | – | – | **–** |
| **Profit for the period** | **22,969** | **26,443** | **–** | **49,412** |

1 43% of total revenue from electric power sales is generated from one customer.

*(Amounts expressed in thousands of Georgian Lari)*

## 7. Segment information (continued)

### Water supply and wastewater collection services (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 (reclassified)*** | ***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 | (4,208) | (2,031) | – | – | – | **(6,239)** |
| Other income | 11 | 1,346 | – | – | – | **1,357** |
| **EBITDA** | **20,604** | **110,586** | **–** | **–** | **1,285** | **132,475** |
| 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)** |
| Loss from disposal and write−off of property and equipment | (276) | – | – | – | – | **(276)** |
| 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** |

[2] 46% 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 2023 and 2022.
- **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)*

## 8. Property, plant and equipment

The movements in property, plant and equipment in 2023 were as follows:

| | *Land plots* | *Real estate* | *Infrastructure assets* | *Vehicles* | *Fixtures and fittings* | *CIP* | *Total* |
|---|---|---|---|---|---|---|---|
| **Gross carrying amount 31 December 2022** | 7,033 | 41,287 | 910,772 | 35,581 | 11,034 | 34,733 | **1,040,440** |
| Additions | – | 131 | 28,371 | 180 | 240 | 179,142 | **208,064** |
| Disposals | (1) | – | (28) | (1,165) | (38) | (2,710) | **(3,942)** |
| Transfers | 399 | 3,627 | 144,648 | 6,451 | 1,285 | (156,410) | **0** |
| **31 December 2023** | **7,431** | **45,045** | **1,083,763** | **41,046** | **12,521** | **54,755** | **1,244,562** |
| **Accumulated depreciation and impairment** | | | | | | | |
| **31 December 2022** | **352** | **11,054** | **324,252** | **17,735** | **7,460** | **–** | **360,853** |
| Depreciation charge | – | 738 | 33,829 | 5,538 | 987 | – | **41,092** |
| Disposals | – | – | (9) | (796) | (17) | – | **(822)** |
| **31 December 2023** | **352** | **11,792** | **358,072** | **22,477** | **8,430** | **–** | **401,123** |
| **Net book value** | | | | | | | |
| **31 December 2022** | **6,681** | **30,233** | **586,520** | **17,846** | **3,574** | **34,733** | **679,587** |
| **31 December 2023** | **7,079** | **33,253** | **725,691** | **18,570** | **4,091** | **54,755** | **843,439** |

*(Amounts expressed in thousands of Georgian Lari)*

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

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 | – | – | – | – | – | – | – | **–** | – | – |

As at 31 December 2023 and 2022, the Group has no property, plant and equipment pledged as collateral for its borrowings.

*(Amounts expressed in thousands of Georgian Lari)*

## 9. Investment property

| | *Land* | *Buildings* | *Total* |
|---|---|---|---|
| **As at 31 December 2021** | **6,838** | **544** | **7,382** |
| Net gain (loss) from fair value remeasurement | (161) | 147 | **(14)** |
| **As at 31 December 2022** | **6,677** | **691** | **7,368** |
| Net gain (loss) from fair value remeasurement | 1,990 | (60) | **1,930** |
| **As at 31 December 2023** | **8,667** | **630** | **9,297** |

### Fair value measurement

Investment properties are stated at fair value. The date of the latest valuation performed by an independent appraiser is 15 November 2023, 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 2023* | *Valuation technique* | *Significant unobservable inputs used* | *Value of input / range / weighted average* |
|---|---|---|---|---|
| Land plots | 8,667 | Income approach<br>Market approach | Discount rate,<br>Price per square meter,<br>Rent price per square meter | 12.31%;<br>0.013−1.336 (0.061);<br>0.406 |
| Buildings | 630 | Market approach | Price per square meter | 0. 198−1.569 (0.257) |
| **ETotal investment property** | **9,297** | | | |

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

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)*

## 10. Other assets

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Intangible assets | 1,996 | 2,118 |
| Prepayments for non−current assets | 3,456 | 5,543 |
| **Total other non−current assets** | **5,452** | **7,661** |

Historical cost of intangible assets and accumulated amortisation and impairment as at 31 December 2023 amounted to GEL 11,974 and GEL 9,978, respectively (31 December 2022: GEL 11,040 and GEL 8,922).

Intangible assets amortisation charge was GEL 1,055 in 2023 (2022: GEL 1,664).

## 11. Inventories

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| Raw materials | 5,250 | 4,374 |
| Fuel | 450 | 446 |
| Spare parts | 380 | 230 |
| Labor safety materials | 272 | 127 |
| Other inventories | 590 | 599 |
| **Total inventories** | **6,942** | **5,776** |

## 12. Trade and other receivables

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| **Non−current** | | |
| Trade receivables for water supply services from general population | 200 | 130 |
| | **200** | **130** |
| Less allowance for expected credit losses | (45) | (40) |
| **Total restructured trade receivables, net** | **155** | **90** |
| **Current** | | |
| Trade receivables for water supply services from general population | 37,746 | 32,229 |
| Trade receivables for water supply services from legal entities | 23,239 | 22,016 |
| Trade receivables for installation of water meters | 167 | 176 |
| Trade receivables for connection service | 4,005 | 3,589 |
| Trade receivables for electric power sales | 1,214 | 75 |
| | **66,371** | **58,085** |
| Less allowance for expected credit losses | (45,012) | (39,492) |
| **Total current trade receivables, net** | **21,360** | **18,593** |
| Other receivables | 3,692 | 3,788 |
| Less allowance for expected credit losses | (1,252) | (932) |
| **Total other receivables, net** | **2,441** | **2,856** |
| **Total current trade and other receivables, net** | **23,801** | **21,449** |

Other receivables mainly relate to the income that is not in scope of IFRS 15, *Revenue from Contracts with Customers*, including GEL 998 (2022: GEL 906) of penalties on illegal connections.

As at 31 December 2023 and 2022, Other receivables of GEL 2,003 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 2023 is as follows:

| *31 December 2023* | *Less than 30 days* | *30 to 60 days* | *61 to 90 days* | *Over 91 days* | *Total* |
|---|---|---|---|---|---|
| Expected credit loss rate | 0.75% | 21.95% | 36.22% | 97.61% | **65.91%** |
| Carrying amount at default | 20,513 | 2,570 | 751 | 46,429 | **70,263** |
| **Expected credit loss** | **154** | **564** | **272** | **45,319** | **46,309** |

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

| *31 December 2022* | *Less than 30 days* | *30 to 60 days* | *61 to 90 days* | *Over 91 days* | *Total* |
|---|---|---|---|---|---|
| Expected credit loss rate | 0.94% | 22.00% | 39.12% | 96.47% | **65.26%** |
| Carrying amount at default | 19,465 | 522 | 638 | 41,378 | **62,003** |
| **Expected credit loss** | **182** | **115** | **249** | **39,918** | **40,464** |

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 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** |
| Allowance for expected credit losses | 5 | 7,310 | **7,315** |
| Bad debts written off | − | (1,472) | **(1,472)** |
| **31 December 2023** | **44** | **46,263** | **46,307** |

In 2023 and 2022 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 2023 and 2022), class B (16,933,053 as at 31 December 2023 and 2022), and class C (12,699,789 as at 31 December 2023 and 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 4).

| | *Number of ordinary shares* | *Nominal amounts* |
|---|---|---|
| **31 December 2021** | **84,665,263** | **84,666** |
| **31 December 2022** | **84,665,263** | **84,666** |
| **31 December 2023** | **84,665,263** | **84,666** |

As at 31 December 2023, 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.

*(Amounts expressed in thousands of Georgian Lari)*

## 13. Equity (continued)

### Treasury shares

In connection with distribution of Energy segment subsidiaries to shareholder in 2022, the Group has repurchased its own shares of GEL 15,875 (3,174,948 B class shares and 12,699,789 C class shares).

### Dividends

In 2023 and 2022, 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 13).

### 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 13) 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.

### 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 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 2023 and 2022 was GEL 289,989 and GEL 240,577, respectively. Borrowings as at 31 December 2023 and 2022 were GEL 511,899 and GEL 449,210, respectively.

There were no changes in the objectives, policies or processes for managing capital in 2023 and 2022.

## 14. Borrowings

| | *31 December 2023* | | *31 December 2022* | |
|---|---|---|---|---|
| | ***Current liabilities*** | ***Non−current liabilities*** | ***Current liabilities*** | ***Non−current liabilities*** |
| Loans from the Parent | 509,231 | − | 2,987 | 443,292 |
| Loans from Georgian financial institutions | 64 | 2,604 | 43 | 2,888 |
| **Total borrowings and bonds issued** | **509,295** | **2,604** | **3,030** | **446,180** |

As of 31 December 2023 the Group has USD−denominated loan from the Parent of GEL 444,020 at fixed interest rate of 7.35% that matures on 31 August 2024 (31 December 2022: GEL 446,279). During 2023, the Group has also obtained a loan from the Parent denominated in EUR with fixed interest rate of 7.6% that matures on 31 December 2024. As at 31 December 2023 outstanding balance from EUR denominated loan from Parent is GEL 65,211.

During 2023 year, accrued interest related to the USD loan from Parent was capitalized to the carrying amount of EUR−loan in the amount of GEL 24,512.

*(Amounts expressed in thousands of Georgian Lari)*

## 14. Borrowings (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 2023 and 2022, other borrowings comprise of EUR denominated loans from Georgian banks of GEL 227 (2021: GEL 239) and USD denominated loans of GEL 2,441 (2021: GEL 2,692).

At 31 December 2023 and 2022, the Group has undrawn borrowing facilities from the Parent amounting to GEL 114,449 (2022: nil).

In 2023, the Group incurred borrowings costs of GEL 34,123 (2022: GEL 56,000) of which GEL 218 has been capitalized to property, plant and equipment (2022: GEL 279).

### Changes in liabilities arising from financial activities

| | *Borrowings* | *Loan from the Parent* | *Eurobonds issued* | *Loans from Georgia Capital* | *Lease liabilities* | *Total* |
|---|---|---|---|---|---|---|
| **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) | **(70,542)** |
| 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 4) | (3,403) | – | – | (256,361) | (1,341) | **(261,105)** |
| **Carrying amount at 31 December 2022** | **2,931** | **446,279** | **–** | **–** | **344** | **449,554** |
| Foreign exchange gain | 70 | 200 | – | – | – | **270** |
| Cash proceeds | – | 37,355 | – | – | – | **37,355** |
| Cash repayments | (118) | – | – | – | (735) | **(853)** |
| Interest accrued | 162 | 33,961 | – | – | 111 | **34,234** |
| Interest paid | (175) | (8,564) | – | – | (111) | **(8,850)** |
| Additions to Right of use assets | – | – | – | – | 1,415 | **1,415** |
| Other | (202) | – | – | – | 640 | **438** |
| **Carrying amount at 31 December 2023** | **2,668** | **509,231** | **–** | **–** | **1,664** | **513,563** |

*(Amounts expressed in thousands of Georgian Lari)*

## 15. Contract assets and liabilities

The Group recognised GEL 219,716 of revenue from contracts with customers in 2023 (2022: GEL 241,804, including revenue attributable to discontinued operations (Note 4)). The disaggregation of revenue from contracts with customers by types are presented in the consolidated statement of comprehensive income for 2023 and in Notes 17 and 18. Revenue from management services provided to the entities under common control included in Other revenue in 2022.

### Contract balances

The Group recognised the following revenue−related contract balances:

| | *31 December 2023* | *31 December 2022* |
|---|---|---|
| **Receivables** | | |
| Trade receivables | 21,515 | 18,683 |
| Other receivables | 2,003 | 2,003 |
| **Total** | **23,518** | **20,686** |
| **Contract liabilities** | | |
| Advances received | 26,252 | 16,275 |
| Deferred revenue | 38,315 | 35,292 |
| **Total** | **64,567** | **51,567** |

The Group recognised GEL 5,514 of revenue that relates to carried−forward contract liabilities in 2023 (2022: GEL 5,545).

In 2023 the Group identified issues related to application of water supply and wastewater services billing rates for certain customers. Change in trade receivable and contract liabilities in 2023 includes GEL 392 recognized as decrease in trade receivable and GEL 4,500 as increase in advances received in correspondence with revenue for 2023 to reflect cumulative effects of billing correction for those customers.

### 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 2023:

| | *In 2024* | *In 2025* | *In 2026* | *In 3 to 5 years* | *In 5 to 10 years* | *Total* |
|---|---|---|---|---|---|---|
| Revenue expected to be recognized on contracts with customers | 6,129 | 5,809 | 5,354 | 9,676 | 11,347 | **38,315** |

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 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 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 2023* | *31 December 2022* |
|---|---|---|
| Trade payables | 16,164 | 5,909 |
| Payables for non−current assets | 9,177 | 3,934 |
| Payables to employees | 2,479 | 4,471 |
| Other payables | 603 | 313 |
| **Total trade and other payables** | **28,423** | **14,627** |

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

| | *2023* | *2022* |
|---|---|---|
| Revenue from water supply to legal entities | 131,655 | 129,859 |
| Revenue from water supply to general population | 53,285 | 49,211 |
| **Total revenue from water supply before charges for related services** | **184,940** | **179,070** |
| Charges for connection service | 5,781 | 5,237 |
| Charges for installation of water meters | 248 | 563 |
| **Total revenue from water supply and related services** | **190,969** | **184,870** |

## 18. Revenue from electric power sales

| | *2023* | *2022* |
|---|---|---|
| Revenue from electric power sales to commercial customers | 28,150 | 23,084 |
| Revenue from electric power sales to ESCO | 597 | 807 |
| **Total revenue from electric power sales** | **28,747** | **23,891** |

## 19. Salaries and other employee benefits

| | *2023* | *2022* |
|---|---|---|
| Salaries | 26,076 | 18,169 |
| Bonuses | 1,561 | 2,860 |
| **Total salaries and benefits** | **27,637** | **21,029** |

## 20. General and administrative expenses

| | *2023* | *2022* |
|---|---|---|
| Security expenses | 1,612 | 1,440 |
| Utility expenses | 1,424 | 970 |
| Communication expenses | 576 | 516 |
| Office expenses | 760 | 776 |
| Advertising expenses | 1,029 | 149 |
| Representation expenses | 79 | 200 |
| Business trip expenses | 151 | 155 |
| **Total general and administrative expenses** | **5,631** | **4,206** |

## 21. Professional fees

| | *2023* | *2022* |
|---|---|---|
| Consulting expenses | 1,561 | 1,561 |
| Legal and other professional fees | 1,484 | 1,408 |
| **Total professional fees** | **3,045** | **2,969** |

### Auditor's remuneration

Remuneration of Group's auditor for the years ended 31 December 2023 and 2022 comprises (net of VAT):

| | *2023* | *2022* |
|---|---|---|
| Fees for the audit of the Company's annual consolidated and separate financial statements for the year ended 31 December | 36 | 259 |
| Fees for the review of the Group's interim financial statements for the six months ended 30 June | – | 72 |
| Fees for the audit of the Group's subsidiaries' financial statements for the year ended 31 December | 538 | 251 |
| **Total auditor's remuneration** | **574** | **582** |

*(Amounts expressed in thousands of Georgian Lari)*

## 22. Other income

| | *2023* | *2022* |
|---|---|---|
| Penalty income on illegal connection services | 749 | 535 |
| Derecognition of unclaimed advances received and trade payables | – | 342 |
| Net gain from revaluation of investment property | 1,930 | – |
| Net gain from sale of inventories | 654 | – |
| Other income | 365 | 480 |
| **Total other income** | **3,698** | **1,357** |

## 23. Other operating expenses

| | *2023* | *2022* |
|---|---|---|
| Insurance expense | 2,758 | 2,556 |
| Bill processing expenses | 1,567 | 1,487 |
| Compensation for damage | 4,394 | 421 |
| Fines and penalties | 1,052 | 565 |
| Regulation fee | 699 | 501 |
| Rent expenses | 806 | 369 |
| Other expenses | 1,168 | 340 |
| **Total other operating expenses** | **12,444** | **6,239** |

## 24. Finance costs

| | *2023* | *2022* |
|---|---|---|
| Interest expense on borrowings | 34,123 | 38,014 |
| Bank fees and charges | 96 | 73 |
| Interest expense on lease liabilities | 111 | 51 |
| **Total finance costs** | **34,330** | **38,138** |

## 25. 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.

### 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.

### Litigations

The Group is subject to litigations in normal course of business. The Group normally obtains insurance against common types of claims, such as those associated with damages related to water supply network deficiencies. As at 31 December 2023, the Group recognized GEL 6,868 provision for legal claims and GEL 1,900 reimbursement asset due from the insurance company in respect of such claims.

*(Amounts expressed in thousands of Georgian Lari)*

## 26. Financial instruments

### Financial instruments overview

*Cash and cash equivalents*

Cash and cash equivalents as at 31 December 2023 and 2022 includes the funds placed on current accounts in Georgian banks. All cash at bank balances are current and not impaired. As at 31 December 2023 and 2022, 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 2023 include investment property with fair value of GEL 9,297 (Level 3 of fair value hierarchy) (31 December 2022: GEL 7,368).

All financial instruments for which fair values are disclosed by the Group as at 31 December 2023 and 2022, 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 2023 and 2022.

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique The fair value of 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 2023, the fair value of fixed rate borrowings from Parent amounted to 504,620 (2022: GEL 429,334).

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.

As at 31 December 2023 and 2022, currency risk arises mostly from the USD and EUR denominated borrowings.

| ***Currency*** | ***Appreciation / depreciation in % 2023*** | ***Effect on profit 2023*** | ***Increase/ decrease in % 2022*** | ***Effect on profit 2022*** |
|---|---|---|---|---|
| USD | 27.37% | 17,910 | 18.92% | 72,871 |
| USD | −27.37% | (17,910) | −18.92% | (72,871) |
| EUR | 18.84% | 84,112 | N/A | N/A |
| EUR | −18.84% | (84,112) | N/A | N/A |

*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. Such risks are monitored on a continuous basis and subject to an annual or more frequent review.

As at 31 December 2023 and 2022, the Group has no other significant financial assets subject to credit risk except for:

- Cash and cash equivalents: as at 31 December 2023 out of total cash at bank of GEL 7,282 (2022: GEL 36,909), GEL 6,866 (2022: GEL 29,026) 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).

*(Amounts expressed in thousands of Georgian Lari)*

## 26. Financial instruments (continued)

### Risk arising from financial instruments (continued)

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 2023 and 2022, 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 2023 and 2022 based on contractual undiscounted repayment obligations.

| | ***Less than 1 year*** | ***1−3 years*** | ***3−5 years*** | ***Over 5 years*** | ***Total*** |
|---|---|---|---|---|---|
| **As at 31 December 2023** | | | | | |
| Long−term and short−term borrowings and bonds issued | 536,546 | 882 | 881 | 1,150 | **539,459** |
| Trade and other payables | 28,423 | − | − | − | **28,423** |
| Lease liabilities | 152 | 1,512 | − | − | **1,664** |
| **Total future payments** | **565,121** | **2,394** | **881** | **1,150** | **569,546** |
| **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** |

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.

## 27. Events after the reporting date

Subsequent to 31 December 2023, the Group obtained a loan of EUR 3 million for funding its capital expenditures.