

# **Georgia Global Utilities JSC**

## **Combined financial statements**

*for the years ended 31 December 2019, 2018 and 2017  
with independent auditor's report*

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## Independent auditor's report

To the Shareholder and Supervisory Board of Georgia Global Utilities JSC

### **Opinion**

We have audited the combined financial statements of Georgia Global Utilities JSC and its subsidiaries and certain entities under common control (hereinafter, the "Group"), which comprise the combined statement of financial position as at 31 December 2019, 2018 and 2017, and the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the years then ended, and the notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Group as at 31 December 2019, 2018 and 2017 and its combined financial performance and its combined cash flows for the years 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 combined financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of management and the Supervisory Board for the combined financial statements**

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

In preparing the combined 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 combined financial statements***

Our objectives are to obtain reasonable assurance about whether the combined 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 combined 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 combined 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 combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined 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 combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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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.

A handwritten signature in blue ink, appearing to read 'Alexey Loza', with a stylized flourish at the end.

Alexey Loza

On behalf of EY LLC

15 May 2020

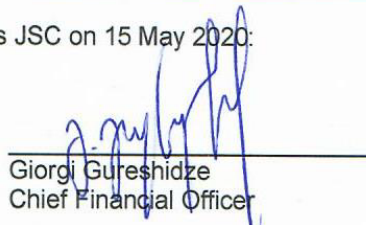
Tbilisi, Georgia

**Combined statement of financial position****As at 31 December 2019***(Amounts expressed in thousands of Georgian Lari)*

	<b>Note</b>	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7	842,032	567,533	354,887
Investment property	8	8,641	9,865	11,286
Right-of-use assets	4	1,305	-	-
Restructured trade receivables		209	204	133
Other non-current assets	9	3,526	41,204	47,009
<b>Total non-current assets</b>		<b>855,713</b>	<b>618,806</b>	<b>413,315</b>
<b>Current assets</b>				
Inventories		3,928	3,913	3,787
Trade and other receivables	10	24,424	19,514	23,210
Loans issued		82	-	-
Current income tax prepayments		-	-	184
Prepaid taxes other than income tax		2,214	3,747	5,436
Reimbursement assets	7	46,457	-	3,222
Prepayments		3,805	1,648	1,469
Derivative financial assets	24	-	-	450
Restricted cash	28	6,581	877	7,656
Cash at bank	28	46,806	14,357	65,502
<b>Total current assets</b>		<b>134,297</b>	<b>44,056</b>	<b>110,916</b>
<b>Total assets</b>		<b>990,010</b>	<b>662,862</b>	<b>524,231</b>
<b>Equity</b>				
Share capital	11	2	2	2
Additional paid-in capital	11	101,205	59,348	12,757
Retained earnings		145,421	130,900	128,875
Other reserves	11	(4,253)	(6,276)	(4,505)
Revaluation reserve for property, plant and equipment	11	4,813	8,200	9,698
<b>Equity attributable to the owners of the parent</b>		<b>247,188</b>	<b>192,174</b>	<b>146,827</b>
Non-controlling interests		24,896	26,458	5,294
<b>Total equity</b>		<b>272,084</b>	<b>218,632</b>	<b>152,121</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Borrowings	12	608,929	366,534	305,321
Deferred revenue	14	24,569	18,948	16,023
Lease liabilities		1,064	-	-
Other non-current liabilities		1,538	1,334	1,299
<b>Total non-current liabilities</b>		<b>636,100</b>	<b>386,816</b>	<b>322,643</b>
<b>Current liabilities</b>				
Borrowings	12	44,437	24,424	6,884
Advances received	14	6,242	8,424	8,562
Trade and other payables	13	13,601	15,360	24,662
Provisions for liabilities and charges		614	525	3,103
Deferred revenue	14	4,764	3,921	3,451
Lease liabilities		248	-	-
Derivative financial liabilities	24	1,919	1,777	-
Other current liabilities	30	5,479	676	-
Other taxes payable		4,522	2,307	2,805
<b>Total current liabilities</b>		<b>81,826</b>	<b>57,414</b>	<b>49,467</b>
<b>Total liabilities</b>		<b>717,926</b>	<b>444,230</b>	<b>372,110</b>
<b>Total liabilities and equity</b>		<b>990,010</b>	<b>662,862</b>	<b>524,231</b>

Approved for issue and signed on behalf of Georgia Global Utilities JSC on 15 May 2020:


  
 \_\_\_\_\_  
 Giorgi Vakhtangishvili  
 Chief Executive Officer


  
 \_\_\_\_\_  
 Giorgi Gureshidze  
 Chief Financial Officer

The accompanying notes on pages 5 to 43 are an integral part of these combined financial statements.

**Combined statement of profit or loss and other comprehensive income****For the year ended 31 December 2019***(Amounts expressed in thousands of Georgian Lari)*

	<b>Note</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Revenue from water supply and related services	15	137,855	136,039	122,143
Revenue from electric power sales	16	26,341	9,052	9,755
Business interruption reimbursement gain	7	10,047	-	-
Other revenue	17	1,227	677	635
<b>Total revenue and gains</b>		<b>175,470</b>	<b>145,768</b>	<b>132,533</b>
Electricity and transmission costs	4	(16,917)	(18,695)	(18,303)
Salaries and other employee benefits	18	(20,539)	(18,620)	(18,923)
Allowance for expected credit losses	10	(7,325)	(5,033)	(1,675)
Taxes other than income tax		(6,631)	(4,631)	(4,312)
General and administrative expenses	19	(3,751)	(3,784)	(3,817)
Professional fees	20	(2,890)	(3,082)	(2,793)
Raw materials, fuel and other consumables		(2,792)	(2,495)	(3,077)
Maintenance expenditure		(1,966)	(2,247)	(3,205)
Charge for provisions and legal claims related expenses		(120)	(231)	3
Other operating expenses	22	(7,968)	(7,013)	(7,798)
Other income	21	3,785	3,790	2,153
		<b>(67,114)</b>	<b>(62,041)</b>	<b>(61,747)</b>
<b>EBITDA</b>		<b>108,356</b>	<b>83,727</b>	<b>70,786</b>
Finance income		1,995	589	1,692
Finance costs	23	(33,992)	(15,172)	(14,287)
Net foreign exchange losses		(7,544)	(5,278)	(676)
Depreciation and amortisation	7, 9	(34,960)	(23,695)	(18,077)
Gain from sale of non-core assets	29	2,364	-	-
Non-recurring expenses, net	26	(1,891)	(4,044)	(3,001)
<b>Profit before income tax expense</b>		<b>34,328</b>	<b>36,127</b>	<b>36,437</b>
Income tax expense		-	-	-
<b>Profit for the year</b>		<b>34,328</b>	<b>36,127</b>	<b>36,437</b>
<b>Attributable to:</b>				
Owners of the parent		33,295	35,938	36,775
Non-controlling interests		1,033	189	(338)
<b>Other comprehensive income</b>				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>				
Gain from currency translation differences		5,195	825	290
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>5,195</b>	<b>825</b>	<b>290</b>
<b>Other comprehensive income for the year</b>		<b>5,195</b>	<b>825</b>	<b>290</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>39,523</b>	<b>36,952</b>	<b>36,727</b>
<b>Attributable to:</b>				
Owners of the parent		37,086	36,475	36,963
Non-controlling interests		2,437	477	(236)

**Combined statement of changes in equity****For the year ended 31 December 2019***(Amounts expressed in thousands of Georgian Lari)*

	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Revaluation reserve for property, plant and equipment</i>	<i>Total equity attributable to owners of the parent</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
<b>Balance as at 1 January 2017</b>	<b>2</b>	<b>4,267</b>	<b>543</b>	<b>120,067</b>	<b>9,731</b>	<b>134,610</b>	<b>2,459</b>	<b>137,069</b>
Profit for the year	-	-	-	36,775	-	36,775	(338)	36,437
Other comprehensive income	-	-	189	-	-	189	101	290
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>189</b>	<b>36,775</b>	<b>-</b>	<b>36,964</b>	<b>(237)</b>	<b>36,727</b>
Share-based payments (Note 25)	-	2,783	-	-	-	2,783	-	2,783
Transfers to parent under share-based compensation program (Note 25)	-	-	(5,237)	-	-	(5,237)	-	(5,237)
Contributions from the shareholders (Note 11)	-	5,707	-	-	-	5,707	3,072	8,779
Realised revaluation reserve for investment property	-	-	-	33	(33)	-	-	-
Dividends declared (Note 11)	-	-	-	(28,000)	-	(28,000)	-	(28,000)
<b>Balance as at 31 December 2017</b>	<b>2</b>	<b>12,757</b>	<b>(4,505)</b>	<b>128,875</b>	<b>9,698</b>	<b>146,827</b>	<b>5,294</b>	<b>152,121</b>
Effect from adoption of IFRS 9 (Note 4)	-	-	-	(6,571)	-	(6,571)	-	(6,571)
<b>Balance as at 1 January 2018</b>	<b>2</b>	<b>12,757</b>	<b>(4,505)</b>	<b>122,304</b>	<b>9,698</b>	<b>140,256</b>	<b>5,294</b>	<b>145,550</b>
Profit for the year	-	-	-	35,938	-	35,938	189	36,127
Other comprehensive income	-	-	536	-	-	536	289	825
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>536</b>	<b>35,938</b>	<b>-</b>	<b>36,474</b>	<b>478</b>	<b>36,952</b>
Share-based payments (Note 25)	-	8,171	-	-	-	8,171	-	8,171
Contributions under share-based compensation program	-	-	(2,307)	-	-	(2,307)	-	(2,307)
Conversion of loan to equity (Note 11)	-	38,420	-	-	-	38,420	20,686	59,106
Realised revaluation reserve for investment property	-	-	-	1,498	(1,498)	-	-	-
Dividends declared (Note 11)	-	-	-	(28,840)	-	(28,840)	-	(28,840)
<b>Balance as at 31 December 2018</b>	<b>2</b>	<b>59,348</b>	<b>(6,276)</b>	<b>130,900</b>	<b>8,200</b>	<b>192,174</b>	<b>26,458</b>	<b>218,632</b>
Profit for the year	-	-	-	33,295	-	33,295	1,033	34,328
Other comprehensive income	-	-	3,791	-	-	3,791	1,404	5,195
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>3,791</b>	<b>33,295</b>	<b>-</b>	<b>37,086</b>	<b>2,437</b>	<b>39,523</b>
Share-based payments (Note 25)	-	5,881	-	-	-	5,881	-	5,881
Transfers to parent under share-based compensation program (Note 25)	-	-	(1,768)	-	-	(1,768)	-	(1,768)
Contributions from the shareholders (Note 11)	-	43,110	-	-	-	43,110	510	43,620
Distributions to the shareholders (Note 11)	-	(7,580)	-	-	-	(7,580)	(3,975)	(11,555)
Acquisition of non-controlling interests in existing subsidiaries	-	446	-	(161)	-	285	(534)	(249)
Realised revaluation reserve for investment property	-	-	-	3,387	(3,387)	-	-	-
Dividends declared (Note 11)	-	-	-	(22,000)	-	(22,000)	-	(22,000)
<b>Balance as at 31 December 2019</b>	<b>2</b>	<b>101,205</b>	<b>(4,253)</b>	<b>145,421</b>	<b>4,813</b>	<b>247,188</b>	<b>24,896</b>	<b>272,084</b>



**Combined statement of cash flows****For the year ended 31 December 2019***(Amounts expressed in thousands of Georgian Lari)*

	<b>Note</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>				
<b>Profit before income tax</b>		<b>34,328</b>	<b>36,127</b>	<b>36,437</b>
<i>Adjustments for:</i>				
Depreciation and amortisation	7, 9	34,960	23,695	18,077
Allowance for expected credit losses	10	7,325	5,033	1,675
Reversal of provisions		120	231	(3)
Net (gain)/loss from disposal of property, plant and equipment, non-core assets and investment property	29	(2,188)	88	1,360
Revaluation gain on investment property	8	(988)	(269)	(554)
Net foreign exchange losses		7,544	5,278	676
Finance income		(1,995)	(589)	(1,692)
Finance costs	23	33,992	15,172	14,287
Derecognition of unclaimed advances received and trade payables	21	(845)	(360)	(257)
Business interruption reimbursement gain	7	(10,047)	-	-
Non-recurring expenses, net		(971)	(1,287)	142
Share-based payment expense	25	4,187	6,077	1,391
<i>Working capital changes</i>				
Change in inventories		(1,093)	(126)	(729)
Change in trade and other receivables		(10,628)	(7,977)	(4,920)
Change in prepaid taxes other than income tax		1,839	1,689	(2,171)
Change in prepayments		316	117	260
Change in trade and other payables		532	1,442	(2,212)
Change in deferred revenue – current portion		843	470	(23)
Change in advances received		(1,860)	222	4,744
Change in reimbursement asset		-	568	-
Change in other tax payables		2,275	(494)	(234)
Change in restricted cash		653	6,540	(2,966)
<b>Operating cash flows after working capital changes</b>		<b>98,299</b>	<b>91,647</b>	<b>63,288</b>
Income tax paid		-	184	281
Change in deferred revenue - non-current portion		5,621	2,925	1,254
<b>Net cash flows from operating activities</b>		<b>103,920</b>	<b>94,756</b>	<b>64,823</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment and intangible assets		(114,020)	(220,146)	(192,238)
Purchase of investment property		-	-	(12)
Proceeds from sale of property, plant and equipment	29	4,029	456	16
Acquisition of subsidiaries, net of cash acquired	30	(88,014)	-	-
Loans issued		(74)	-	-
Interest received		1,995	589	1,692
Proceeds from sale of investment property and non-core assets		2,742	1,455	602
<b>Net cash used in investing activities</b>		<b>(193,342)</b>	<b>(217,646)</b>	<b>(189,940)</b>
<b>Cash flows from financing activities</b>				
Payment of principal portion of lease liabilities	4	(259)	-	-
Proceeds from borrowings	12	309,822	132,284	354,588
Repayment of borrowings	12	(162,813)	(5,764)	(161,240)
Interest paid	23	(30,528)	(21,658)	(13,709)
Dividend paid	11	(22,000)	(28,840)	(28,000)
Contributions from the shareholders	11	43,620	-	8,779
Distribution to the parent	11	(11,555)	-	-
Contributions under share-based payment plan	25	(4,492)	(2,307)	(5,237)
<b>Net cash from financing activities</b>		<b>121,795</b>	<b>73,715</b>	<b>155,181</b>
Effect of exchange rate changes on cash and cash equivalents		75	(1,970)	4,834
<b>Net change in cash and cash equivalents</b>		<b>32,448</b>	<b>(51,145)</b>	<b>34,898</b>
Cash and cash equivalents at the beginning of year	28	14,358	65,503	30,605
<b>Cash and cash equivalents at the end of year</b>	28	<b>46,806</b>	<b>14,358</b>	<b>65,503</b>

The accompanying notes on pages 5 to 43 are an integral part of these combined financial statements

(Amounts expressed in thousands of Georgian Lari)

## 1. Corporate information

These combined financial statements of Georgia Global Utilities JSC include the financial statements of Georgian Global Utilities LTD together with its subsidiaries, Svaneti Hydro JSC, Georgia Energy Holding LLC with its subsidiaries and Georgian Wind Company LLC with its immediate subsidiary, collectively referred to as the “Group”.

The Group has two operating segments based on products sold and services rendered: (1) water supply and wastewater collection services, and (2) electricity generation and sales.

### Georgian Global Utilities LTD

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

	<b>Country of incorporation</b>	<b>Date of incorporation</b>	<b>Date of acquisition</b>	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Georgian Water and Power LLC (“GWP”)	Georgia	25 June 1997	14 May 2008	100%	100%	100%
Rustavi Water LLC	Georgia	31 August 1999	14 May 2008	100%	100%	100%
Mtskheta Water LLC	Georgia	1 September 1999	14 May 2008	100%	100%	100%
Gardabani Sewage Treatment Plant LLC	Georgia	20 December 1999	14 May 2008	100%	100%	100%
Georgian Engineering and Management Company LLC	Georgia	29 March 2011	29 March 2011	100%	100%	100%
Saguramo Energy LLC	Georgia	11 December 2008	19 December 2015	100%	100%	100%
Georgian Energy and Trading Company LLC (“GETC”)	Georgia	23 April 2019	15 December 2019	0% <sup>1</sup>	N/A	N/A

<sup>1</sup> GETC is owned by Georgia Capital JSC, GGU’s parent. On 15 December 2019, a tri-party agreement was conducted among Georgia Capital JSC, GGU and GWP. Under the terms of the agreement, Georgia Capital JSC irrevocably assigned GGU and GWP with the power and rights to direct relevant activities of GETC in exchange for variable consideration linked to the GETC’s net profit and revenue. GGU assessed that the terms of the agreement provide GGU with the control over GETC. This assessment represents a significant judgment. GGU combined GETC under the pooling of interests’ method since its incorporation, 23 April 2019. Consolidation of GETC had no material effect on the consolidated financial statements.

GGU’s principal business activities are rendering water supply and wastewater collection services to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. GGU owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection. GGU also owns and operates hydroelectric power stations generating electric power for own use and for sale. GGU engages in electric power trading.

The GGU’s registered address is at Pasea Estate, P.O. Box 958, Road Town, Tortola, VG 1110, British Virgin Islands.

As at 31 December 2019 and 2018, 100% of GGU’s shares were owned by Georgia Capital JSC, the ultimate parent of which is Georgia Capital PLC (“GCAP”), domiciled in the United Kingdom.

As at 31 December 2017, 100% of the GGU’s shares were owned by BGEO Group PLC (“BGEO”).

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

### Svaneti Hydro JSC

JSC Svaneti Hydro (“SH”) was founded in 2013 as a joint stock company in accordance with Georgian regulations.

SH’s main activities present development of renewable energy projects in Georgia. In 2017, SH started construction of 50MW Mestiachala hydro power plants (“HPPs”) in the north-western part of Georgia.

As at 31 December 2019 and 2018, 100% of the SH’s shares were owned by JSC Georgian Renewable Power Company (“GRPC”), the ultimate parent of which is GCAP. RP Global, an Austrian based business controlled by Dr. Gerhard Matzinger and the family, owns 35% non-controlling interest stake in GRPC.

As at 31 December 2017, 100% of the Company’s shares are owned by GRPC, the ultimate parent of which is BGEO.

SH’s registered address is N 79, Agmashenebeli Ave., Tbilisi, Georgia.

(Amounts expressed in thousands of Georgian Lari)

## 1. Corporate information (continued)

### Georgia Energy Holding LLC

Georgia Energy Holding LLC (“GEH”) was founded in 2019 as a limited liability company in accordance with Georgian regulations.

GEH is a holding parent company of the following subsidiaries:

Name	Country of operation	Proportion of ownership interest
		2019
Hydrolea LLC (“HYDL”)	Georgia	100%
Hydro Georgia LLC	Georgia	100%
Geoenergy LLC	Georgia	100%
Darchi LLC	Georgia	100%
Hydro S LLC	Georgia	100%
Kasleti 2 LLC	Georgia	100%

GEH acquired HYDL on 28 October 2019 (Note 30). HYDL controls all of the other subsidiaries listed above. HYDL is engaged in development of renewable energy projects in Georgia. HYDL operates three HPPs with an aggregate 21MW installed capacity and has a greenfield HPP project with a 19MW targeted installed capacity.

As at 31 December 2019, 100% of GEH is ultimately owned by GCAP.

GEH registered address is 10 Medea (Mzia) Jugheli Str, Tbilisi, 0179.

### Georgian Wind Company LLC

Georgian Wind Company LLC (“GWC”) was founded in 2019 as a limited liability company in accordance with Georgian regulations.

GWC is a parent holding company which owns 100% interest in Qartli Wind Farm LLC (“QWF”). GWC acquired QWF on 30 December 2019 (Note 30). QWF is engaged in development and operation of renewable energy projects in Georgia.

As at 31 December 2019, 100% of GWC shares are ultimately owned by GCAP.

GWC’s registered address is 10 Medea (Mzia) Jugheli Str, Tbilisi, 0179.

### Reorganization of the Group

In the beginning of 2020, GGU implemented a planned de-offshorisation (re-domiciliation) process, pursuant where to, change has been made to the GGU’s shareholding structure. GGU has been replaced by Georgia Global Utilities JSC, a Georgian resident and 100% owned subsidiary of Georgia Capital JSC. Other than replacement of GGU by Georgian Global Utilities JSC, there were no other changes to the GGU structure. In March 2020, GGU was liquidated. Georgia Global Utilities JSC is considered a continuation of GGU for the purpose of preparation of these combined financial statements.

Taking into account the Georgian Global Utilities JSC’s intention to issue Eurobonds in 2020, management of the Group considered preparation of these combined financial statements to be appropriate in the circumstances (Note 3).

## 2. Operating environment

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

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the developed countries, such as economic uncertainty caused by the global COVID-19 pandemic (Note 31).

(Amounts expressed in thousands of Georgian Lari)

### 3. Basis of preparation

These combined financial statements of the Group for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued by the International Accounting Standards Board (“IASB”) effective for 2019 reporting.

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

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

#### *Basis of combination and consolidation*

These combined financial statements have been prepared from the financial statements of the combined entities as if Georgia Global Utilities JSC has been established and the Group reorganization (Note 1) has been completed as at 31 December 2019, and assuming that GGU’s date of transition to IFRS is the initial date of transition to IFRS of Georgian Global Utilities LTD. The assets and liabilities of Georgia Global Utilities LTD, Georgia Wind Company LLC, Georgia Energy Holding LLC and Svaneti Hydro JSC and their consolidated subsidiaries, as appropriate, were recognized in these combined financial statements at their carrying values as presented in their respective consolidated and standalone IFRS financial statements, for all the periods presented as long as they were under common control. Transactions and balances between entities included to the combined financial statements were eliminated.

Subsidiaries controlled by entities that comprise these combined financial statements are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

### 4. Summary of significant accounting policies

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

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

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

#### *Amendments to IFRS 3: Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. The amendments become mandatorily effective on 1 January 2020, with an early adoption option.

(Amounts expressed in thousands of Georgian Lari)

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

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

The Group early adopted the amendments from 1 January 2019, and applied the amended requirements of IFRS 3, including those of optional fair value concentration test, in respect of acquisitions that occurred in 2019 (Note 30).

##### IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

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

##### Transition to IFRS 16

The Group is a lessee of a limited number of real estates and land leases. The Group's lease arrangement usually do not include any variable component, are concluded for the average period from 20 to 30 years and are denominated in GEL or US Dollar ("USD").

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

The effect of adoption IFRS 16 is as follows:

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

	<b>1 January 2019</b>
Right-of-use assets	587
<b>Total assets</b>	<b>587</b>
Lease liabilities	587
<b>Total liabilities</b>	<b>587</b>

The adoption had no impact on the shareholder equity.

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

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

	<b>Real Estate</b>
<b>Balance as at 31 December 2018</b>	<b>-</b>
The effect of adoption of IFRS 16	587
<b>Balance as at 1 January 2019</b>	<b>587</b>
Additions	983
<b>Balance as at 31 December 2019</b>	<b>1,570</b>
Depreciation charge for the period	(265)
<b>Right-of-use assets as at 31 December 2019</b>	<b>1,305</b>

(Amounts expressed in thousands of Georgian Lari)

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

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

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

<b>At 1 January 2019</b>	<b>587</b>
Additions	983
Interest expense on lease liabilities	121
Payment of principal portion of lease liabilities	(259)
Payment of lease interest	(121)
<b>At 31 December 2019</b>	<b>1,311</b>

Impact on the combined statement of profit or loss and other comprehensive income:	<b>2019</b>
Depreciation expense of right-of-use assets (Depreciation and amortization)	265
Interest expense on lease liabilities (Finance costs)	121
Rent expenses on short-term leases (Other operating expenses)	304
<b>Net effect recognized in the Combined statement of profit or loss and other comprehensive income</b>	<b>690</b>

In 2019, total lease payments, including low-value and short-term leases were GEL 537.

##### Summary of new accounting policies

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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### Right-of-use assets

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

##### Lease liabilities

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

##### Short-term leases and leases of low-value assets

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

##### Other standards and interpretations

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

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

(Amounts expressed in thousands of Georgian Lari)

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

##### Fair value measurement

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

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

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

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

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

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

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

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

##### Financial assets

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

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

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

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

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

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

(Amounts expressed in thousands of Georgian Lari)

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

##### Financial assets (continued)

###### *Derivative financial instruments*

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

###### *Impairment of receivables*

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

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

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

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

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

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

Uncollectible assets are written off against the related ECL allowance after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. In addition, a customer may file an application with the regulator – Georgian National Energy and Water Supply Regulatory Commission (“GNERC”) – for derecognition of a receivable overdue for more than 3 years. If such an application is approved by GNERC, the Group is required to derecognize respective receivable by law.

Note 10 provides further details on assessment and judgement applied in respect with ECL and write-off of trade and other receivables.

###### *Renegotiated receivables*

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

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



(Amounts expressed in thousands of Georgian Lari)

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

##### Financial assets (continued)

###### *Derecognition of financial instruments*

###### *Financial assets*

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

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

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

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

###### *Financial liabilities*

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

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

###### *Debt to equity swaps*

When the terms of a financial liability are renegotiated and result in the Group issuing equity instruments to a creditor to extinguish all or part of the financial liability (so called “debt to equity swap”), the Group’s instruments issued to a creditor to extinguish all or part of a financial liability are treated as consideration paid and are measured at their fair value at the date of extinguishment. If that fair value cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability and the consideration paid (including the equity instruments issued) is recognized in profit or loss. In debt to equity swaps with the existing shareholders of the Group, the equity instruments issued are measured at carrying value of extinguished liability, with no gain or loss is recognized in profit or loss.

(Amounts expressed in thousands of Georgian Lari)

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

##### 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 mainly comprise of turbine-generators, intakes and reservoirs as well as measurement masts required for wind projects and water-flow measurement stations. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and initially recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset's base is charged as an operating cost. As well as the purchase price, cost of property, plant and equipment, including assets under construction, includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. Directly attributable costs include professional services provided by technical, environmental and other relevant experts. Additionally, directly attributable costs consider pre-permission expenditures, which include studies and services provided during the project assessment period, such as measurement studies, design expenditure, technical and environmental expertise, geological surveys. Contributions to the local governing bodies incurred for obtaining building permissions of power plants are also part of directly attributable costs. The liability for dismantling and removing items is recognised within provisions.

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

All categories of property, plant and equipment are accounted for at cost less accumulated depreciation and impairment.

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:

	<u>Useful lives</u>
Real estate	60 years
Water infrastructure assets	5-45 years
Energy infrastructure assets	10-50 years
Fixtures and fittings	5-10 years
Vehicles	5-10 years

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

##### Investment property

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

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition. The revaluation reserve for investment property in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

##### Contingencies

Contingent liabilities are not recognized in the combined 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 combined statement of financial position unless reimbursement is virtually certain (which is usually the case with reimbursement from insurance companies) but disclosed when an inflow of economic benefits is probable.

##### Intangible assets

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

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

(Amounts expressed in thousands of Georgian Lari)

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

##### Taxation

The annual profit earned by entities other than banks, insurance companies and microfinance organizations 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 non-recurring expenses in the combined statement of profit or loss and other comprehensive income.

##### Inventories

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

##### Prepayments

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

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

##### Cash at bank and restricted cash

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

##### Share capital

In these combined financial statements, share capital of Georgia Global Utilities JSC after its incorporation in 2020 is presented throughout all the reporting periods as if it had always been incorporated. Any increases or decreases in charter or share capital of the entities comprising these combined financial statements are presented in correspondence with retained earnings in the combined statement of changes in equity.

##### Dividends

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

##### Value added tax

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

*(Amounts expressed in thousands of Georgian Lari)*

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

##### **Borrowing costs**

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from borrowings in foreign currency to the extent that they are regarded as an adjustment to interest costs. Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. The amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred on that borrowing during the period of respective property construction phase. The capitalization rate for borrowing costs was 8.5% in 2019 (2018: 5.5%, 2017: 7.2%).

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

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

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

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

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

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

##### **EBITDA**

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

##### **Gain from sale of non-core assets**

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

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

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

##### **Offsetting**

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

(Amounts expressed in thousands of Georgian Lari)

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

##### Functional currencies and foreign currency translation

The Group's combined financial statements are presented in Georgian Lari. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. For entities of electric power generation and sales, US Dollar, and for other entities of the Group, Georgian Lari was determined to be the functional currency.

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

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

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2019, 2018 and 2017 were 3.2095, 3.0701 and 3.1044 GEL to 1 Euro, respectively. The official NBG exchange rates as at 31 December 2019, 2018 and 2017 were 2.8677, 2.6766 and 2.5922 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*

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.

(Amounts expressed in thousands of Georgian Lari)

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

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

###### *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 combined statement of profit or loss and other comprehensive income (Note 21).

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

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

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

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

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

##### Employee benefits

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

##### Employee stock ownership plan

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

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

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

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

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

##### Standards issued but not yet effective

Up to the date of approval of the combined financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. Standards issued but not yet effective are:

- ▶ IFRS 17 Insurance Contracts;
- ▶ Amendments to IAS 1 and IAS 8: Definition of Material;
- ▶ Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform;
- ▶ Amendments to IAS 1: Classification of Liabilities.

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

*(Amounts expressed in thousands of Georgian Lari)*

## 5. Significant accounting judgements and estimates

The Group makes estimates and assumptions that affect the amounts recognised in the combined 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 combined financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

### Going concern

The management of the Group made an assessment of the Group's ability to continue as a going concern. As the result of the assessment, the management did not become aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the combined financial statements continue to be prepared on a going concern basis. Evaluation of the appropriateness of going concern basis of preparation and existence of any material uncertainty in respect of the going concern assumption requires significant judgment in forecasting cash flows from operations, required capital expenditures, as well as in the assessment of Group's ability to service the existing debt as it falls due and maintain financial covenants required by the borrowing arrangements, or, if needed, refinance or prolong the existing borrowings or renegotiate the payment terms and terms of the financial covenants with the lenders.

### Fair value of investment property

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

### Impairment of property, plant and equipment

For the years ended 31 December 2019, 2018 and 2017, the Group analysed property, plant and equipment impairment or recovery indicators. Management found no indications of potential impairment of property, plant and equipment nor recovery of previously recognized impairment, except as in relation to an impairment due to physical damage or loss event. In case of any impairment as a result of physical damage or destruction of assets, the Group assesses the extent of such damage for each individual item and writes off respective items of the property, plant and equipment that are no longer usable. Such assessment requires judgment in determination whether the assets can be usable.

In assessment of recoverable amount of water supply and wastewater collection services cash generating unit assets as at 1 January 2017, and in subsequent assessment of whether indicators of impairment or recovery of previously recognized impairment exist, significant judgment is required in determination of appropriate discount rate and assessment of its subsequent changes, developing expectations in relation to water supply tariffs to be applied in subsequent periods (including assumptions about particular capital and operating expenditures eligible for incorporation to the tariff base, and regulatory weighted average cost of capital), expected water supply volumes and forecasted operating expenditures and maintenance capital expenditures, and other relevant impairment or recovery indicators.

### Measurement of reimbursement assets

Significant judgment is required to assess whether an insurance reimbursement for a loss event is virtually certain and whether recognition of respective insurance claim receivable is appropriate, as well as in the measurement of the insurance claim receivable at the reporting date. Information about impairment losses and the respective insurance reimbursement recognised in 2017-2019 is disclosed in Note 7.

### Useful lives of property, plant and equipment

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

(Amounts expressed in thousands of Georgian Lari)

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

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

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

At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and, 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.

The amount of ECLs recognized in respect of trade and other receivables amounted to GEL 25,328 as at 31 December 2019 (2018: GEL 19,289, 2017: GEL 35,958) (Note 10).

### Acquisition of subsidiaries

The Group accounted for acquisitions of Hydrolea LLC and Qartli Wind Farm LLC as asset acquisitions, as opposed to business combination, based on the results of the optional concentration test provided by IFRS 3 *Business Combinations* (Note 30). Significant judgment is required, in respect of each acquisition, in determination of single group of similar identifiable assets and assessment of whether substantially all of the fair value of the acquired gross assets is concentrated in such single group for the purpose of the optional concertation test.

## 6. Segment information

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 combined financial statements.

Transactions between segments are accounted for at actual transaction prices.

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



(Amounts expressed in thousands of Georgian Lari)

**6. Segment information (continued)**

	<b>Sub- note</b>	<b>Electric power generation, 2019</b>	<b>Water supply and wastewater collection services, 2019</b>	<b>Intersegment transactions, 2019</b>	<b>Total, 2019</b>
Revenue from water supply and related services		-	137,855	-	137,855
Revenue from electric power sales <sup>1</sup>		30,116	-	(3,775)	26,341
Business interruption reimbursement		10,047	-	-	10,047
Other revenue		-	1,227	-	1,227
<b>Total revenue</b>	<b>1</b>	<b>40,163</b>	<b>139,082</b>	<b>(3,775)</b>	<b>175,470</b>
Electricity and transmission costs		(195)	(20,497)	3,775	(16,917)
Salaries and other employee benefits	2	(2,362)	(18,177)	-	(20,539)
Allowance for ECL of trade receivables		-	(7,325)	-	(7,325)
Taxes other than income tax		(1,332)	(5,299)	-	(6,631)
General and administrative expenses		(381)	(3,370)	-	(3,751)
Professional fees		(286)	(2,604)	-	(2,890)
Raw materials, fuel and other consumables		(85)	(2,707)	-	(2,792)
Maintenance expenditure		(33)	(1,933)	-	(1,966)
Reversal of provisions and legal claims related expenses		-	(120)	-	(120)
Other operating expenses		(2,998)	(4,970)	-	(7,968)
Other income		10	3,775	-	3,785
<b>EBITDA</b>		<b>32,501</b>	<b>75,855</b>	<b>-</b>	<b>108,356</b>
Finance income	3	15	1,980	-	1,995
Finance costs	3	(12,001)	(21,991)	-	(33,992)
Foreign exchange gains/(losses)		(629)	(6,915)	-	(7,544)
Depreciation and amortization		(5,859)	(29,101)	-	(34,960)
Gain from sale of non-core assets		-	2,364	-	2,364
Non-recurring expenses, net	4	(2,061)	170	-	(1,891)
<b>Profit before income tax expense</b>		<b>11,966</b>	<b>22,362</b>	<b>-</b>	<b>34,328</b>
Income tax expense		-	-	-	-
<b>Profit for the year</b>		<b>11,966</b>	<b>22,362</b>	<b>-</b>	<b>34,328</b>
<b>Attributable to:</b>					
Owners of the parent		10,933	22,362	-	33,295
Non-controlling interests		1,033	-	-	1,033
<b>Other comprehensive income</b>					
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)</i>		-	-	-	-
Gain from currency translation differences		5,195	-	-	5,195
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>		<b>5,195</b>	<b>-</b>	<b>-</b>	<b>5,195</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>5,195</b>	<b>-</b>	<b>-</b>	<b>5,195</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>		<b>17,161</b>	<b>22,362</b>	<b>-</b>	<b>39,523</b>
<b>Attributable to:</b>					
Owners of the parent		14,724	22,362	-	37,086
Non-controlling interests		2,437	-	-	2,437

<sup>1</sup>60% of total revenue from electric power sales is generated from one customer.

(Amounts expressed in thousands of Georgian Lari)

## 6. Segment information (continued)

	<i>Sub note</i>	<i>Electric power generation, 2018</i>	<i>Water supply and wastewater collection services, 2018</i>	<i>Intersegment transactions, 2018</i>	<i>Total, 2018</i>
Revenue from water supply and related services		-	136,039	-	136,039
Revenue from electric power sales		13,051	-	(3,999)	9,052
Other revenue		-	677	-	677
<b>Total revenue</b>	<b>1</b>	<b>13,051</b>	<b>136,716</b>	<b>(3,999)</b>	<b>145,768</b>
Electricity and transmission costs		(91)	(22,603)	3,999	(18,695)
Salaries and other employee benefits	2	(1,885)	(16,735)	-	(18,620)
Allowance for ECL of trade receivables		-	(5,033)	-	(5,033)
Taxes other than income tax		(521)	(4,110)	-	(4,631)
General and administrative expenses		(167)	(3,617)	-	(3,784)
Professional fees		(104)	(2,978)	-	(3,082)
Raw materials, fuel and other consumables		(61)	(2,434)	-	(2,495)
Maintenance expenditure		(5)	(2,242)	-	(2,247)
Reversal of provisions and legal claims related expenses		-	(231)	-	(231)
Other operating expenses		(2,189)	(4,824)	-	(7,013)
Other income		13	3,777	-	3,790
<b>EBITDA</b>		<b>8,041</b>	<b>75,686</b>	<b>-</b>	<b>83,727</b>
Finance income	3	61	528	-	589
Finance costs	3	(2,237)	(12,935)	-	(15,172)
Foreign exchange gains/(losses)		(308)	(4,970)	-	(5,278)
Depreciation and amortization		(1,574)	(22,121)	-	(23,695)
Non-recurring expenses, net	4	(1,294)	(2,750)	-	(4,044)
<b>Profit before income tax expense</b>		<b>2,689</b>	<b>33,438</b>	<b>-</b>	<b>36,127</b>
Income tax expense		-	-	-	-
<b>Profit for the year</b>		<b>2,689</b>	<b>33,438</b>	<b>-</b>	<b>36,127</b>
<b>Attributable to:</b>					
Owners of the parent		2,500	33,438	-	35,938
Non-controlling interests		189	-	-	189
<b>Other comprehensive income</b>					
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)</i>		-	-	-	-
Gain from currency translation differences		825	-	-	825
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>		<b>825</b>	<b>-</b>	<b>-</b>	<b>825</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>825</b>	<b>-</b>	<b>-</b>	<b>825</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>		<b>3,514</b>	<b>33,438</b>	<b>-</b>	<b>36,952</b>
<b>Attributable to:</b>					
Owners of the parent		3,037	33,438	-	36,475
Non-controlling interests		477	-	-	477

(Amounts expressed in thousands of Georgian Lari)

## 6. Segment information (continued)

	<i>Sub note</i>	<i>Electric power generation, 2017</i>	<i>Water supply and wastewater collection services, 2017</i>	<i>Intersegment transactions, 2017</i>	<i>Total, 2017</i>
Revenue from water supply		-	122,143	-	122,143
Revenue from electric power sales		14,011	-	(4,256)	9,755
Other revenue		-	635	-	635
<b>Total revenue</b>	<b>1</b>	<b>14,011</b>	<b>122,778</b>	<b>(4,256)</b>	<b>132,533</b>
Electricity and transmission costs		(91)	(22,468)	4,256	(18,303)
Salaries and other employee benefits	2	(761)	(18,162)	-	(18,923)
Allowance for impairment of trade receivables		-	(1,675)	-	(1,675)
Taxes other than income tax		(772)	(3,540)	-	(4,312)
General and administrative expenses		(231)	(3,586)	-	(3,817)
Professional fees		(60)	(2,733)	-	(2,793)
Raw materials, fuel and other consumables		(103)	(2,974)	-	(3,077)
Maintenance expenditure		(10)	(3,195)	-	(3,205)
Reversal of provisions and legal claims related expenses		-	3	-	3
Other operating expenses		(2,233)	(5,565)	-	(7,798)
Other income		52	2,101	-	2,153
<b>EBITDA</b>		<b>9,802</b>	<b>60,984</b>	<b>-</b>	<b>70,786</b>
Finance income	3	56	1,636	-	1,692
Finance costs	3	(1,308)	(12,979)	-	(14,287)
Foreign exchange gains/(losses)		(218)	(458)	-	(676)
Depreciation and amortization		(1,182)	(16,895)	-	(18,077)
Non-recurring expenses, net	4	(142)	(2,859)	-	(3,001)
<b>Profit before income tax expense</b>		<b>7,008</b>	<b>29,429</b>	<b>-</b>	<b>36,437</b>
Income tax expense		-	-	-	-
<b>Profit for the year</b>		<b>7,008</b>	<b>29,429</b>	<b>-</b>	<b>36,437</b>
<b>Attributable to:</b>					
Owners of the parent		7,345	29,430	-	36,775
Non-controlling interests		(338)	-	-	(338)
<b>Other comprehensive income</b>					
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)</i>		-	-	-	-
Gain from currency translation differences		290	-	-	290
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>		<b>290</b>	<b>-</b>	<b>-</b>	<b>290</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>290</b>	<b>-</b>	<b>-</b>	<b>290</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>		<b>7,297</b>	<b>29,430</b>	<b>-</b>	<b>36,727</b>
<b>Attributable to:</b>					
Owners of the parent		7,533	29,430	-	36,963
Non-controlling interests		(236)	-	-	(236)

(Amounts expressed in thousands of Georgian Lari)

## 6. Segment information (continued)

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

- Revenue** – in 2019, 2018 and 2017 the Group consumed electric power internally generated by Zhinvali HPP and Tetrichevi HPP. For the purpose of segment disclosure in 2019, the revenue from the internally used electric power was recorded at a regulated tariff set by GNERC (Decree No. 50, dated 27 December 2017). For the purpose of the segment disclosure in 2017, the revenue from the internally used electric power was recorded at a regulated tariff set by GNERC (Decree No. 33, dated 4 December 2008).
- Salaries and benefits** – the costs of salaries and other benefits except that of administrative staff were attributed directly to the appropriate segments based on actual expenditure. Salaries and benefits of the administrative staff were allocated proportionally based on the number of employees in each operating segment.
- Interest income and finance costs** were allocated according to the amount of borrowings received for each segment.
- Non-recurring expenses, net** include non-operating tax expenses and net income from transfer of assets upon exit from the share purchase agreement (Note 27), both are directly attributable to the Water supply and wastewater collection services segment. Employee share-based acceleration expense and termination benefits, both are allocated equally to each segment in GGU. Non-recurring items related to rock avalanche event in Mestiachala (Note 26) are presented in the Electric power generation segment.

## 7. Property, plant and equipment

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

	<i>Land plots</i>	<i>Real estate</i>	<i>Water Infrastructure assets</i>	<i>Energy Infrastructure assets</i>	<i>Vehicles</i>	<i>Fixtures and fittings</i>	<i>CIP</i>	<i>Total</i>
<b>Historical cost</b>								
<b>31 December 2018</b>	<b>4,172</b>	<b>31,616</b>	<b>529,387</b>	<b>39,261</b>	<b>27,537</b>	<b>7,527</b>	<b>159,042</b>	<b>798,542</b>
Additions	191	2	13,973	5,268	65	180	137,360	157,039
Disposals	(78)	(927)	(38)	(275)	(1,465)	(3)	(362)	(3,148)
Acquisition of subsidiaries (Note 30)	887	-	-	181,170	320	6	175	182,558
Transfers	1,905	3,857	86,204	169,848	4,750	495	(267,059)	-
Impairment and write-off	-	-	-	(39,011)	-	-	-	(39,011)
Currency translation	15	-	-	8,015	29	34	-	8,093
<b>31 December 2019</b>	<b>7,092</b>	<b>34,548</b>	<b>629,526</b>	<b>364,276</b>	<b>31,236</b>	<b>8,239</b>	<b>29,156</b>	<b>1,104,073</b>
<b>Accumulated depreciation and impairment</b>								
<b>31 December 2018</b>	<b>417</b>	<b>9,191</b>	<b>193,883</b>	<b>12,025</b>	<b>9,902</b>	<b>3,867</b>	<b>1,724</b>	<b>231,009</b>
Depreciation charge	-	569	24,696	5,443	2,404	858	-	33,970
Disposals	-	(372)	(6)	(260)	(794)	(2)	-	(1,434)
Impairment	-	-	-	(1,675)	-	-	-	(1,675)
Transfers	6	8	268	-	13	1	(296)	-
Currency translation	-	-	-	114	-	5	52	171
<b>31 December 2019</b>	<b>423</b>	<b>9,396</b>	<b>218,841</b>	<b>15,647</b>	<b>11,525</b>	<b>4,729</b>	<b>1,480</b>	<b>262,041</b>
<b>Net book value</b>								
<b>31 December 2018</b>	<b>3,755</b>	<b>22,425</b>	<b>335,504</b>	<b>27,236</b>	<b>17,635</b>	<b>3,660</b>	<b>157,318</b>	<b>567,533</b>
<b>31 December 2019</b>	<b>6,669</b>	<b>25,152</b>	<b>410,685</b>	<b>348,629</b>	<b>19,711</b>	<b>3,510</b>	<b>27,676</b>	<b>842,032</b>

(Amounts expressed in thousands of Georgian Lari)

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

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

	<i>Land plots</i>	<i>Real estate</i>	<i>Water Infrastructure assets</i>	<i>Energy Infrastructure assets</i>	<i>Vehicles</i>	<i>Fixtures and fittings</i>	<i>CIP</i>	<i>Total</i>
<b>Historical cost</b>								
<b>31 December 2017</b>	<b>3,716</b>	<b>20,291</b>	<b>389,025</b>	<b>27,963</b>	<b>26,333</b>	<b>5,821</b>	<b>90,514</b>	<b>563,663</b>
Additions	75	23	14,991	15	135	197	215,624	231,060
Disposals	(4)	(163)	(809)	-	(22)	(40)	(4)	(1,042)
Transfers	382	11,465	126,180	11,274	1,086	1,549	(151,936)	-
Currency translation	3	-	-	9	5	-	4,844	4,861
<b>31 December 2018</b>	<b>4,172</b>	<b>31,616</b>	<b>529,387</b>	<b>39,261</b>	<b>27,537</b>	<b>7,527</b>	<b>159,042</b>	<b>798,542</b>
<b>Accumulated depreciation and impairment</b>								
<b>31 December 2017</b>	<b>410</b>	<b>8,811</b>	<b>174,235</b>	<b>10,720</b>	<b>7,573</b>	<b>3,254</b>	<b>3,773</b>	<b>208,776</b>
Depreciation charge	-	352	18,310	1,296	2,314	620	-	22,892
Disposals	-	(95)	(575)	-	(2)	(30)	-	(702)
Transfers	7	123	1,913	-	17	23	(2,083)	-
Currency translation	-	-	-	9	-	-	34	43
<b>31 December 2018</b>	<b>417</b>	<b>9,191</b>	<b>193,883</b>	<b>12,025</b>	<b>9,902</b>	<b>3,867</b>	<b>1,724</b>	<b>231,009</b>
<b>Net book value</b>								
<b>31 December 2017</b>	<b>3,306</b>	<b>11,480</b>	<b>214,790</b>	<b>17,243</b>	<b>18,760</b>	<b>2,567</b>	<b>86,741</b>	<b>354,887</b>
<b>31 December 2018</b>	<b>3,755</b>	<b>22,425</b>	<b>335,504</b>	<b>27,236</b>	<b>17,635</b>	<b>3,660</b>	<b>157,318</b>	<b>567,533</b>

The movements in property, plant and equipment in 2017 were as follows:

	<i>Land plots</i>	<i>Real estate</i>	<i>Water Infrastructure assets</i>	<i>Energy Infrastructure assets</i>	<i>Vehicles</i>	<i>Fixtures and fittings</i>	<i>CIP</i>	<i>Total</i>
<b>Historical cost 31 December 2016</b>								
<b>31 December 2016</b>	<b>3,137</b>	<b>18,528</b>	<b>312,380</b>	<b>24,610</b>	<b>12,661</b>	<b>4,105</b>	<b>25,779</b>	<b>401,200</b>
Additions	1	23	10,859	205	677	300	151,432	163,497
Disposals	-	(163)	(1,327)	(1)	(121)	(6)	(644)	(2,262)
Transfers	580	1,903	67,113	3,145	13,117	1,422	(87,280)	-
Currency translation	(2)	-	-	4	(1)	-	1,227	1,228
<b>31 December 2017</b>	<b>3,716</b>	<b>20,291</b>	<b>389,025</b>	<b>27,963</b>	<b>26,333</b>	<b>5,821</b>	<b>90,514</b>	<b>563,663</b>
<b>Accumulated depreciation and impairment</b>								
<b>31 December 2016</b>	<b>388</b>	<b>8,918</b>	<b>161,384</b>	<b>9,610</b>	<b>4,909</b>	<b>2,541</b>	<b>3,884</b>	<b>191,634</b>
Depreciation charge	17	(7)	13,004	1,043	2,623	706	-	17,386
Disposals	-	(115)	(708)	67	(54)	(4)	570	(244)
Transfers	5	15	555	-	95	11	(681)	-
<b>31 December 2017</b>	<b>410</b>	<b>8,811</b>	<b>174,235</b>	<b>10,720</b>	<b>7,573</b>	<b>3,254</b>	<b>3,773</b>	<b>208,776</b>
<b>Net book value</b>								
<b>31 December 2016</b>	<b>2,749</b>	<b>9,610</b>	<b>150,996</b>	<b>15,000</b>	<b>7,752</b>	<b>1,564</b>	<b>21,895</b>	<b>209,566</b>
<b>31 December 2017</b>	<b>3,306</b>	<b>11,480</b>	<b>214,790</b>	<b>17,243</b>	<b>18,760</b>	<b>2,567</b>	<b>86,741</b>	<b>354,887</b>

(Amounts expressed in thousands of Georgian Lari)

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

The Group has pledged property, plant and equipment as collateral for its borrowings with carrying amount of GEL 319,936 as at 31 December 2019. The carrying amount of the land plots and real estate pledged as at 31 December 2018 and 2017 was GEL 114,270 and GEL 45,876, respectively (Note 12).

In 2017, the Group started construction of the 30MW Mestiachala 1 and 20MW Mestiachala 2 HPPs. Mestiachala HPPs are run-of-the-river plants located in Mestia, Svaneti, a mountainous region of Georgia. In September 2017, a heavy flood event occurred at the Mestiachala river and damaged the construction site. As a result, the Group wrote off the damaged items of property, plant and equipment of GEL 495 and incurred expense for settling flood related charges of third parties of GEL 160. In addition, the Group recognized provision for additional liabilities to the its contactors of GEL 2,709 as at 31 December 2017.

In relation to this loss event, the Group recognized a reimbursement assets (insurance claim receivable) of GEL 3,222 as at 31 December 2017. The resulting net loss of GEL 142 was recognized as non-recurring expense in the combined statement of profit or loss and other comprehensive income of 2017.

In 2018, the Group received the insurance reimbursement of GEL 3,605. The Group recognized the gain of GEL 1,287 as non-recurring income in the combined statement of profit or loss and other comprehensive income. In 2018, the Group covered all liabilities related to the flood event.

In July 2019, a rock avalanche event in the valley of the Mestiachala river caused damage to the Mestiachala HPPs and the surrounding infrastructure. As a result of the rock avalanche event, Mestiachala HPPs were damaged and stopped operations. Mestiachala 2 HPP resumed generation in December 2019. Mestiachala 1 HPP is expected to resume generation by the end of 2020. As a result of this natural disaster, the Group wrote off damaged items of property, plant and equipment of GEL 37,336 in 2019. The loss was included in Non-recurring items in the combined statement of profit or loss and other comprehensive income for 2019.

In relation to the loss event, the Group recognized a reimbursement assets (insurance claim receivable) from an insurance company, an entity under common control, of GEL 46,457 in the combined statement of financial position as at 31 December 2019, the related business interruption reimbursement income of GEL 10,047, reimbursement of incurred damages of GEL 36,706 and currency translation difference of GEL 296, included in the Non-recurring items, in the combined statement of profit or loss and comprehensive income for 2019. The Group considers insurance reimbursement to be virtually certain.

Impairment and related insurance reimbursements described above relate to the Electric power generation segment.

## 8. Investment property

	<i>Land</i>	<i>Buildings</i>	<i>Total</i>
<b>As at 1 January 2017</b>	<b>17,615</b>	<b>1,307</b>	<b>18,922</b>
Additions	12	-	12
Disposals	(564)	(33)	(597)
Transfer to property, plant and equipment	(7,692)	(317)	(8,009)
Transfer from property, plant and equipment	404	-	404
Net gain from fair value remeasurement	478	76	554
<b>As at 31 December 2017</b>	<b>10,253</b>	<b>1,033</b>	<b>11,286</b>
Disposals	(1,689)	-	(1,689)
Net gain from fair value remeasurement	228	41	269
<b>As at 31 December 2018</b>	<b>8,791</b>	<b>1,074</b>	<b>9,865</b>
Additions	1,547	83	1,630
Disposals	(3,842)	-	(3,842)
Net gain from fair value remeasurement	1,032	(44)	988
<b>As at 31 December 2019</b>	<b>7,528</b>	<b>1,113</b>	<b>8,641</b>

The investment property pledged as collateral for Group's borrowings as at 31 December 2019 was nil (2018: GEL 2,211, 2017: nil).

(Amounts expressed in thousands of Georgian Lari)

## 8. Investment property (continued)

### Fair value measurement

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

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

#### 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 related sensitivity to reasonably possible changes in inputs are as follows:

<i>Class of investment property</i>	<i>Fair value as at 31 December 2019</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs used</i>	<i>Value of input / range/weighted average/Rent price per square meter</i>
Land plots	7,528	Income approach Market approach	WACC, Price per square meter, Rent price per square meter	11.5%, 0.007-1.061 (0.05); 0.269;
Buildings	1,113	Market approach	Price per square meter,	0.118-2.269 (0.347)
<b>Total investment property</b>	<b>8,641</b>			

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

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

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

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

(Amounts expressed in thousands of Georgian Lari)

## 9. Other non-current assets

	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Intangible assets	2,106	1,255	1,867
Prepayments for non-current assets	1,211	39,304	43,628
Other non-current assets	209	645	1,514
<b>Total other non-current assets</b>	<b>3,526</b>	<b>41,204</b>	<b>47,009</b>

Historical cost of intangible assets and accumulated amortisation and impairment as at 31 December 2019 amounted to GEL 6,792 and GEL 4,686, respectively (2018: GEL 5,216 and GEL 3,961, 2017: GEL 5,025 and GEL 3,158).

Intangible assets amortisation charge, including software licenses, was GEL 725 in 2019 (2018: GEL 803, 2017: GEL 691).

## 10. Trade and other receivables

	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Non-current</b>			
Trade receivables for water supply services from general population	263	408	373
	<b>263</b>	<b>408</b>	<b>373</b>
Less allowance for expected credit losses	(54)	(204)	(240)
<b>Total restructured trade receivables, net</b>	<b>209</b>	<b>204</b>	<b>133</b>
<b>Current</b>			
Trade receivables for water supply services from general population	20,697	16,184	33,917
Trade receivables for water supply services from legal entities	17,110	17,013	18,340
Trade receivables for installation of water meters	86	100	1,225
Trade receivables for connection service	3,000	3,161	2,874
Trade receivables for electric power sales	5,546	700	1,202
	<b>46,439</b>	<b>37,158</b>	<b>57,558</b>
Less allowance for expected credit losses	(24,200)	(18,938)	(35,365)
<b>Total current trade receivables, net</b>	<b>22,239</b>	<b>18,220</b>	<b>22,193</b>
Other receivables	3,259	1,441	1,370
Less allowance for expected credit losses	(1,074)	(147)	(353)
<b>Total other receivables, net</b>	<b>2,185</b>	<b>1,294</b>	<b>1,017</b>
<b>Total current trade and other receivables, net</b>	<b>24,424</b>	<b>19,514</b>	<b>23,210</b>

As at 31 December 2019, the Group recognised GEL 3,259 of other receivables, which relate to the income that is not in scope of IFRS 15, *Revenue from Contracts with Customers* (2018: GEL 1,441, 2017: GEL 1,370), and mainly comprise from the penalties on illegal connections.

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

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

	<b>Neither past due nor impaired 31 December 2017</b>	<b>Past due but not individually impaired 31 December 2017</b>	<b>Individually impaired 31 December 2017</b>	<b>Total 31 December 2017</b>
Non-current trade receivables	-	373	-	<b>373</b>
Current trade receivables	16,291	41,242	584	<b>58,117</b>
Other receivables	1,001	353	-	<b>1,354</b>
<b>Total</b>	<b>17,292</b>	<b>41,968</b>	<b>584</b>	<b>59,844</b>



(Amounts expressed in thousands of Georgian Lari)

**10. Trade and other receivables (continued)**

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.

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

<b>31 December 2019</b>	<b>Contract assets</b>	<b>Current</b>	<b>Less than 30 days</b>	<b>30 to 60 days</b>	<b>61 to 90 days</b>	<b>Over 91 days</b>	<b>Total</b>
Expected credit loss rate	0.00%	0.00%	4.75%	26.12%	40.52%	94.32%	<b>50.69%</b>
Carrying amount at default	2,993	6,352	13,582	804	496	25,734	<b>49,961</b>
<b>Expected credit loss</b>	<b>-</b>	<b>-</b>	<b>645</b>	<b>210</b>	<b>201</b>	<b>24,272</b>	<b>25,328</b>

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

<b>31 December 2018</b>	<b>Contract assets</b>	<b>Current</b>	<b>Less than 30 days</b>	<b>30 to 60 days</b>	<b>61 to 90 days</b>	<b>Over 91 days</b>	<b>Total</b>
Expected credit loss rate	0.00%	0.00%	1.39%	19.95%	32.30%	91.01%	<b>49.45%</b>
Carrying amount at default	3,346	3,763	9,680	782	870	20,566	<b>39,007</b>
<b>Expected credit loss</b>	<b>-</b>	<b>-</b>	<b>135</b>	<b>156</b>	<b>281</b>	<b>18,717</b>	<b>19,289</b>

Aging analysis of trade and other receivables per classes as at 31 December 2017 is as follows:

<b>31 December 2017</b>	<b>Less than 30 days</b>	<b>30 to 90 days</b>	<b>91 to 180 days</b>	<b>181 to 360 days</b>	<b>Over 360 days</b>	<b>Total</b>
Non-current trade receivables	-	-	-	-	373	<b>373</b>
Current trade receivables	2,021	2,118	1,481	3,590	32,032	<b>41,242</b>
Other receivables	-	-	-	-	353	<b>353</b>
<b>Total</b>	<b>2,021</b>	<b>2,118</b>	<b>1,481</b>	<b>3,590</b>	<b>32,758</b>	<b>41,968</b>

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

	<b>Non-current trade and other receivables</b>	<b>Current trade and other receivables</b>	<b>Total</b>
<b>31 December 2016</b>	<b>293</b>	<b>35,945</b>	<b>36,238</b>
Allowance for expected credit losses	3	1,672	<b>1,675</b>
Write-off	(56)	(1,899)	<b>(1,955)</b>
<b>31 December 2017</b>	<b>240</b>	<b>35,718</b>	<b>35,958</b>
IFRS 9 transition effect	-	6,571	<b>6,571</b>
Charge	51	4,982	<b>5,033</b>
Bad debts written off	(87)	(28,186)	<b>(28,273)</b>
<b>31 December 2018</b>	<b>204</b>	<b>19,085</b>	<b>19,289</b>
Allowance /reversal for expected credit losses	(150)	7,475	<b>7,325</b>
Bad debts written off <sup>1</sup>	-	(1,286)	<b>(1,286)</b>
<b>31 December 2019</b>	<b>54</b>	<b>25,274</b>	<b>25,328</b>

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

(Amounts expressed in thousands of Georgian Lari)

## 11. Equity

### Share capital

As at 31 December 2019, 2018 and 2017, share capital as presented in these combined financial statements comprised of GEL 2, representing 1000 ordinary shares of GGU with nominal value of US dollar 1 (one) each.

### Contributions from and distributions to the shareholders

In 2019, Georgia Capital JSC contributed GEL 42,139 in cash to the share capital of Georgian Energy Holding LLC and Georgian Wind Company LLC, the Group's combined subsidiaries.

In 2019, Svaneti Hydro JSC increased share capital in exchange of cash consideration from the shareholders of GEL 1,481. In March 2019, Svaneti Hydro JSC decreased its share capital in exchange of cash distribution to shareholders of GEL 11,555.

In 2018, borrowings from the shareholders with carrying value of GEL 59,106 were converted into the share capital of Svaneti Hydro JSC without change in the Group's share of ownership interest in Svaneti Hydro JSC, which remained at 65% before and after conversion.

In 2017, Svaneti Hydro JSC issued 3,600 shares with the nominal value of one USD to its shareholders for cash consideration of GEL 8,779.

### Dividends

In 2019, dividends of GEL 22,000 were declared and paid (2018: GEL 28,840, 2017: GEL 28,000).

### Additional paid-in capital

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

### Other reserves

Other reserves reflect the transfers of cash to the parent for the Parent's shares granted to the employees of the Group (Note 25) and unrealised gains/(losses) from transactions with owners of non-controlling interests in existing subsidiaries, and foreign currency translation reserve.

### Revaluation reserve

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

### Management of capital

The Group's objectives when managing capital are:

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

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

There were no changes in the objectives, policies or processes for managing capital in 2019, 2018 and 2017.

(Amounts expressed in thousands of Georgian Lari)

## 12. Borrowings

	31 December 2019		31 December 2018		31 December 2017	
	Current liabilities	Non-current liabilities	Current liabilities	Non-current liabilities	Current liabilities	Non-current liabilities
Loans from international financial institutions	25,917	234,476	17,755	220,661	717	212,301
Loans from Georgian financial institutions	18,119	308,552	6,445	116,117	5,943	10,736
Debt securities issued	256	30,355	224	29,756	224	29,722
Loans from the shareholders	145	35,546	-	-	-	52,562
<b>Total borrowings</b>	<b>44,437</b>	<b>608,929</b>	<b>24,424</b>	<b>366,534</b>	<b>6,884</b>	<b>305,321</b>

As at 31 December 2019, borrowings comprise of GEL denominated loans of GEL 204,409 (2018: GEL 127,669, 2017: GEL 100,083), USD denominated loans of GEL 272,333 (2018: GEL 70,711, 2017: GEL 64,848) and EUR denominated loans of GEL 146,013 (2018: GEL 162,598, 2017: GEL 117,328).

As at 31 December 2019, the Group has GEL-denominated debt securities issued of GEL 30,611 (2018: GEL 29,980, 2017: GEL 29,946). The debt securities were issued on 6 December 2016 and mature in 2021.

Debt matures on average in 11 years (2018: 10 years, 2017: 8 years).

At 31 December 2019, the Group has GEL 58,559 of undrawn borrowing facilities (2018: GEL 19,623, 2017: GEL 110,426).

As at 31 December 2019, the Group's borrowings from shareholders are denominated in USD with a fixed interest rate of 10% with average maturity of 2 years (2018: nil, 2017: fixed interest rate of 10.5% with average maturity of 5 years).

The Group is subject to certain covenants related to its borrowings, such as maintaining different limits for debt to EBITDA ratio, capital investments and others. Non-compliance with such covenants may result in negative consequences for the Group including termination of the loan agreement and withdrawal of loan amount or any part thereof. The Group was in compliance with covenants as at 31 December 2019, 2018 and 2017.

Certain property, plant and equipment and investment property were pledged as collateral for borrowings as at 31 December 2019, 2018 and 2017 (Notes 7, 8).

Hydrolea LLC has pledged 100% shareholding in Hydro Georgia LLC, Kasleti 2 LLC and 94% of its shareholding in GeoEnergy LLC as a security to the loan from Georgian banks.

In 2019, the Group incurred borrowings costs of GEL 38,548 (2018: GEL 29,759, 2017: GEL 19,460) of which GEL 4,804 has been capitalized to property, plant and equipment (2018: GEL 15,192, 2017: GEL 5,812).

On 25 December 2018, borrowings from the shareholders with carrying value of GEL 59,106 were converted into share capital of Svaneti Hydro JSC (Note 11).

(Amounts expressed in thousands of Georgian Lari)

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

	<i><b>Borrowings</b></i>	<i><b>Debt securities issued</b></i>	<i><b>Lease liabilities</b></i>	<b>Total</b>
<b>Carrying amount at 31 December 2016</b>	<b>73,700</b>	<b>32,567</b>	-	<b>106,267</b>
Foreign currency translation	8,750	-	-	8,750
Cash proceeds	314,588	40,000	-	354,588
Cash repayments	(118,657)	(42,583)	-	(161,240)
Interest accrued	15,358	4,741	-	20,099
Interest paid	(8,974)	(4,735)	-	(13,709)
Other	(2,506)	(44)	-	(2,550)
<b>Carrying amount at 31 December 2017</b>	<b>282,259</b>	<b>29,946</b>	-	<b>312,205</b>
Foreign currency translation	5,256	-	-	5,256
Cash proceeds	132,284	-	-	132,284
Cash repayments	(5,764)	-	-	(5,764)
Interest accrued	27,176	3,188	-	30,364
Interest paid (classified as operating cash outflows)	(18,470)	(3,188)	-	(21,658)
Conversion of loan into share capital	(59,106)	-	-	(59,106)
Other	(2,657)	34	-	(2,623)
<b>Carrying amount at 31 December 2018</b>	<b>360,978</b>	<b>29,980</b>	-	<b>390,958</b>
Foreign currency translation	8,748	-	-	8,748
Cash proceeds	309,822	-	-	309,822
Acquisition of subsidiaries (Note 30)	98,194	-	-	98,194
Cash repayments	(162,813)	-	(259)	(163,072)
Interest accrued	35,550	3,125	121	38,796
Interest paid (classified as operating cash outflows)	(27,314)	(3,093)	(121)	(30,528)
Other	(410)	599	1,570	1,759
<b>Carrying amount at 31 December 2019</b>	<b>622,755</b>	<b>30,611</b>	<b>1,311</b>	<b>654,677</b>

<sup>1</sup> Includes IFRS 16 adoption effect and lease liability additions.**13. Trade and other payables**

	<i><b>31 December 2019</b></i>	<i><b>31 December 2018</b></i>	<i><b>31 December 2017</b></i>
Payables for non-current assets	4,223	5,437	15,561
Trade payables	5,393	6,034	5,989
Payables to employees	3,742	3,665	2,913
Other payables	243	224	199
<b>Total trade and other payables</b>	<b>13,601</b>	<b>15,360</b>	<b>24,662</b>

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

(Amounts expressed in thousands of Georgian Lari)

#### 14. Contract assets and liabilities

The Group recognised GEL 164,196 of revenue from contracts with customers in 2019 (2018: GEL 145,091, 2017: GEL 131,898). The disaggregation of revenue from contracts with customers by types are presented in the combined statement of profit and loss and other comprehensive income for 2019 and in Notes 15, 16.

##### Contract balances

The Group recognised the following revenue-related contract balances:

	<b>31 December 2019</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Receivables</b>			
Trade receivables	22,448	18,424	22,326
<b>Total</b>	<b>22,448</b>	<b>18,424</b>	<b>22,326</b>
<b>Contract liabilities</b>			
Advances received	6,242	8,424	8,562
Deferred revenue	29,333	22,869	19,474
<b>Total</b>	<b>35,575</b>	<b>31,293</b>	<b>28,036</b>

The Group recognised GEL 3,921 of revenue that relates to carried-forward contract liabilities in 2019 (2018: GEL 3,451).

Increase in receivables in 2019 mostly relates to outstanding settlement on electric power sales (2018: Decrease in receivables in 2018 is due to recovery of outstanding receivables).

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

In 2019 and 2018, change in deferred revenue was mostly attributed to conclusion of the new water supply connection contracts of GEL 11,049 (2018: GEL 6,230), as offset by amounts recognized as revenue in profit or loss.

##### Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date and deferred as at 31 December 2019:

	<b>In 2020</b>	<b>In 2021</b>	<b>In 2022</b>	<b>In 3 to 5 years</b>	<b>In 5 to 10 years</b>	<b>Total</b>
Revenue expected to be recognized on contracts with customers	4,764	4,610	4,046	6,353	9,560	<b>29,333</b>

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

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

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

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

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

*(Amounts expressed in thousands of Georgian Lari)***15. Revenue from water supply and related services**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Revenue from water supply to legal entities	93,556	92,691	85,523
Revenue from water supply to general population	39,728	39,585	32,921
<b>Total revenue from water supply before charges for related services</b>	<b>133,284</b>	<b>132,276</b>	<b>118,444</b>
Charges for connection service	3,566	2,741	2,604
Charges for installation of water meters	1,005	1,022	1,095
<b>Total revenue from water supply and related services</b>	<b>137,855</b>	<b>136,039</b>	<b>122,143</b>

**16. Revenue from electric power sales**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Revenue from electric power sales to legal entities	23,849	8,814	8,557
Revenue from electric power sales to government-related entities	2,492	238	1,198
<b>Total revenue from electric power sales</b>	<b>26,341</b>	<b>9,052</b>	<b>9,755</b>

**17. Other revenue**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Income from rent	661	631	598
Other revenue	566	46	37
<b>Total other revenue</b>	<b>1,227</b>	<b>677</b>	<b>635</b>

**18. Salaries and other employee benefits**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Salaries	16,787	15,588	15,421
Bonuses	2,427	2,118	2,111
Employee share-based compensation	1,325	914	1,391
<b>Total salaries and benefits</b>	<b>20,539</b>	<b>18,620</b>	<b>18,923</b>

**19. General and administrative expenses**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Security expenses	1,289	964	980
Utility expenses	818	843	670
Office expenses	797	753	745
Communication expenses	447	460	377
Advertising expenses	178	454	543
Business trip expenses	79	154	143
Representation expenses	72	156	359
Management service	71	-	-
<b>Total general and administrative expenses</b>	<b>3,751</b>	<b>3,784</b>	<b>3,817</b>

*(Amounts expressed in thousands of Georgian Lari)***20. Professional fees**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Consulting expenses	2,086	2,460	2,225
Legal and other professional fees	804	622	568
<b>Total professional fees</b>	<b>2,890</b>	<b>3,082</b>	<b>2,793</b>

**21. Other income**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Penalty income on illegal connection services	1,028	1,896	-
Net gain from revaluation of investment property	988	269	554
Derecognition of unclaimed advances received and trade payables	845	360	257
Other income	924	1,265	1,342
<b>Total other income</b>	<b>3,785</b>	<b>3,790</b>	<b>2,153</b>

**22. Other operating expenses**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Bill processing expenses	1,697	1,710	1,735
Insurance expense	1,805	1,321	1,104
Electricity production facilities utilization costs	1,302	1,425	1,591
Compensation for damage	657	309	189
Regulation fee	322	288	203
Charity expenses	297	293	132
Net loss from disposal of property, plant and equipment	176	88	1,360
Rent expenses	307	711	957
Fines and penalties	136	537	241
Research and certification expenses	109	28	-
Cost of wastewater treatment	96	91	65
Maintenance expenditure	65	26	12
Other expenses	999	186	209
<b>Total other operating expenses</b>	<b>7,968</b>	<b>7,013</b>	<b>7,798</b>

**23. Finance costs**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Interest expenses on borrowings	33,744	14,567	13,648
Bank fees and charges	127	605	639
Interest expenses on lease liabilities	121	-	-
<b>Total finance costs</b>	<b>33,992</b>	<b>15,172</b>	<b>14,287</b>

(Amounts expressed in thousands of Georgian Lari)

## 24. Derivative financial liabilities

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

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

	<b>Notional Amount</b>	<b>2019 Liability</b>	<b>Notional Amount</b>	<b>2018 Liability</b>	<b>Notional Amount</b>	<b>2017 Asset</b>
Forward - domestic	22,467	(1,919)	28,579	(1,777)	28,898	450
<b>Derivative financial assets/(liabilities)</b>	<b>22,467</b>	<b>(1,919)</b>	<b>28,579</b>	<b>(1,777)</b>	<b>28,898</b>	<b>450</b>

## 25. Share-based payments

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

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

In addition to the Executive's Equity Compensation Plan, the Group grants shares of GCAP to the employees of the Group.

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

	<b>2019</b>	<b>2018</b>
<b>Shares outstanding at 1 January</b>	<b>525,000</b>	<b>-</b>
Granted during the year	6,400	525,000
Forfeited during the year	(239,000)	-
Vested during the year	(113,400)	-
<b>Shares outstanding at 31 December</b>	<b>179,000</b>	<b>525,000</b>

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

In addition to GCAP's shares, executives are awarded class B shares of GGU, of which each award is subject to a five-year vesting period subject to continued employment within the Group during such vesting period.

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

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Increase in equity arising from equity-settled share-based payments	5,881	7,874	2,783
Expense arising from equity-settled transactions	4,187	6,077	1,391

In 2019, the contributions to parent under the share-based payment plan was GEL 4,492 (2018: GEL 2,307, 2017: GEL 5,237).



(Amounts expressed in thousands of Georgian Lari)

## 25. Share-based payments (continued)

There were no cancellations or modifications to the awards in 2019, 2018 or 2017, except for BGEO share awards described above and termination of Executive Chairman benefits upon resignation (Note 26).

The Group does not have an obligation to settle the above awards, but it is expected that the Group will transfer cash to the Parent to compensate it for the settlement of the Group's awards. In 2019, the amount of such transfer was GEL 1,768 (2018: GEL 2,307, 2017: 5,237).

## 26. Non-recurring expenses

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Termination benefits	2,862	-	-
Demerger-related share-based acceleration expense	-	5,163	-
Non-operating tax expenses	-	168	2,609
Net income from transfer of assets upon exit from the share purchase agreement (Note 27)	(1,601)	-	-
Charity expenses	-	-	250
Non-recurring expenses/(income) related to loss events, net (Note 7)	630	(1,287)	142
<b>Total non-recurring expenses</b>	<b><u>1,891</u></b>	<b><u>4,044</u></b>	<b><u>3,001</u></b>

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

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

The loss of GEL 37,336 related to the property, plant and equipment write-off was included in non-recurring items in the combined statement of profit or loss and other comprehensive income for 2019, as offset against gain on insurance reimbursement of GEL 36,706 (Note 7).

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

## 27. Commitments and contingencies

### Commitments

As at 31 December 2019, the letters of credit of GEL 682 (2018: GEL 2,670) are issued for the payables related to construction in progress of the Group and is partly presented in restricted cash balance (Note 28).

As at 31 December 2019, certain entities of the Group (Qartli Wind Farm LLC, Svaneti Hydro JSC, Kasleti 2 LLC Geoenergy LLC, Hydro Georgia LLC) have active agreements with Electricity System Commercial Operation (ESCO) on the guaranteed purchase of electric power sales for the period from ten to fifteen years. In accordance with the agreements, the companies are obliged to provide electricity to ESCO during winter months, except for Qartli Wind Farm LLC, which has full year obligation of providing electricity. Guaranteed prices vary from 5.4 to 6.5 USD cents per 1 kWh.

In 2014, Svaneti Hydro JSC signed the Memorandum of Understanding with the Government of Georgia, Georgian State Electrosystem JSC, United Energy System Sakrusenergo JSC, Electricity System Commercial Operator JSC and Energotrans LLC in regards to the construction of Mestiachala HPPs. Svaneti Hydro JSC committed to finish the construction of the Mestiachala 2 HPP and Mestiachala 1 HPP and commence the operations in 2019 and 2020, respectively. Commitments were met since construction of Svaneti Hydro HPPs was completed in the first half of 2019.

(Amounts expressed in thousands of Georgian Lari)

## 27. Commitments and contingencies (continued)

### Commitments (continued)

#### *Exit from the share purchase agreement*

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

As a result of the exit from the SPA, GGU's subsidiaries further perfected (registered) their ownership title over certain immovable assets (property, plant and equipment) that were possessed without registered title. In addition, the Group also acquired certain other immovable assets (investment property) from the Government for a nominal consideration. At the same time, Georgian Water and Power LLC transferred certain immovable assets (property, plant and equipment), located in the Zhinvali village near Zhinvali Hydro Power Plant, to the Government free of charge. The net effect of these exchange transactions of GEL 1,601 was included in non-recurring items in the statement of profit or loss and other comprehensive income.

### 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 combined financial position or results of operations. Management believes that the Group has paid and accrued all taxes that are applicable.

## 28. Financial instruments

### Financial instruments overview

#### *Restricted cash*

Included in restricted cash as at 31 December 2019, 2018 and 2017 comprise funds blocked on the current account in a Georgian bank. The funds are pledged as collateral under the letters of credit granted by local banks (Note 27).

#### *Cash at bank*

Cash at bank as at 31 December 2019, 2018 and 2017 includes the funds placed on current accounts in Georgian banks. All cash at bank balances are classified as current and not impaired.

As at 31 December 2019, 2018 and 2017, the Group did not have any significant financial assets that are past due, except for trade and other receivables (Note 10).

(Amounts expressed in thousands of Georgian Lari)

## 28. Financial instruments (continued)

### Fair value measurement

All financial instruments for which fair values are disclosed by the Group as at 31 December 2019, 2018 and 2017, are measured at fair value using a valuation technique with market observable and unobservable inputs. There were no changes in valuation techniques for Level 3 recurring fair value measurements in 2019, 2018 and 2017.

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

### Risk arising from financial instruments

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

#### Currency risk

Currency risk is the risk that the value or a 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 2019, 2018 and 2017, currency risk arises from the EUR denominated borrowings and derivative financial liabilities.

<b>Currency</b>	<b>Increase/ decrease in % 2019</b>	<b>Effect on profit 2019</b>
EUR	11.00%	16,268
EUR	-8.00%	(8,926)
GEL	10.00%	1,207
GEL	-5.00%	(603)
<b>Currency</b>	<b>Increase/ decrease in % 2018</b>	<b>Effect on profit 2018</b>
EUR	11.00%	17,816
EUR	-11.00%	(17,864)
GEL	11.00%	(149)
GEL	-11.00%	149

#### Interest rate risk

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

<b>Currency</b>	<b>Increase/ decrease in % 2019</b>	<b>Effect on profit 2019</b>
GEL	-2.00%	(2,932)
GEL	2.00%	2,932
USD	0.35%	277
USD	-0.35%	(277)
<b>Currency</b>	<b>Increase/ decrease in % 2018</b>	<b>Effect on profit 2018</b>
GEL	0.75%	472
GEL	-0.75%	(472)
EUR	0.020%	13
EUR	-0.020%	(13)

(Amounts expressed in thousands of Georgian Lari)

## 28. Financial instruments (continued)

### Risk arising from financial instruments (continued)

#### Credit risk

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

As at 31 December 2019, 2018 and 2017, the Group has no other significant financial assets subject to credit risk except for:

- ▶ Cash at bank and restricted cash: as at 31 December 2019 out of total cash at bank and restricted cash of respectively GEL 53,387 (2018: 15,234, 2017: GEL 73,158) and GEL 47,598 (2018: GEL 6,542, 2017: GEL 51,727) was kept with banks having ratings of "BB-/bb-" from Standard & Poor's, "B1/NP" (FC) & "Ba3/NP" (LC) from Moody's and "BB-/bb-" from Fitch Ratings;
- ▶ Trade and other receivables (Note 10).

The credit quality of all financial assets is constantly monitored in order to identify any potential adverse changes in the credit quality. In respect of trade and other receivables, the management monitors credit quality based on days past due information. As at 31 December 2019, 2018 and 2017, carrying values of financial instruments best represent their maximum exposure to the credit risk.

#### Liquidity risk

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

The table below shows financial liabilities as at 31 December 2019, 2018 and 2017 based on contractual undiscounted repayment obligations.

	<i>Less than 1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>Over 5 years</i>	<i>Total</i>
<b>As at 31 December 2019</b>					
Long-term and short-term borrowings	77,109	214,858	175,934	458,886	<b>926,787</b>
Trade and other payables	13,601	-	-	-	<b>13,601</b>
Lease liabilities	285	637	178	3,772	<b>4,872</b>
Derivative financial liabilities	1,919	-	-	-	<b>1,919</b>
<b>Total future payments</b>	<b>92,914</b>	<b>215,495</b>	<b>176,112</b>	<b>462,658</b>	<b>947,179</b>
<b>As at 31 December 2018</b>					
Long-term and short-term borrowings	45,397	154,468	104,030	208,699	<b>512,594</b>
Trade and other payables	15,360	-	-	-	<b>15,360</b>
Derivative financial liabilities	1,777	-	-	-	<b>1,777</b>
<b>Total future payments</b>	<b>62,534</b>	<b>154,468</b>	<b>104,030</b>	<b>208,699</b>	<b>529,731</b>
<b>As at 31 December 2017</b>					
Long-term and short-term borrowings	21,954	79,364	107,553	214,594	<b>423,465</b>
Trade and other payables	24,662	-	-	-	<b>24,662</b>
<b>Total future payments</b>	<b>46,616</b>	<b>79,364</b>	<b>107,553</b>	<b>214,594</b>	<b>448,127</b>

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, draw-down of available loan commitments, refinancing and rolling-over of maturing facilities and, if appropriate, renegotiation of financial covenants (Note 12).

(Amounts expressed in thousands of Georgian Lari)

## 29. Related parties disclosures

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

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

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

	31 December 2019		31 December 2018		31 December 2017	
	Parent company	Entities under common control	Parent Company	Entities under common control	Parent Company	Entities under common control
<b>Assets:</b>						
Cash and cash equivalents	-	-	-	-	-	14,992
Trade and other receivables	-	1,822	-	181	-	116
Prepayments <sup>1</sup>	2,474	420	-	403	-	347
Derivative financial assets	-	-	-	-	450	-
Reimbursement asset (Note 7)	-	46,457	-	-	-	3,222
Other non-current assets	-	-	-	-	-	446
Property, plant and equipment (capitalized costs)	8,277	-	8,277	-	2,952	-
<b>Borrowings as at 1 January</b>	-	-	52,562	-	-	521
Proceeds from borrowings and interest accrued during the year	65,126	-	6,506	-	52,562	11,556
Repayment of borrowing including interest during the year	(29,595)	-	-	-	-	(12,077)
Conversion of loan into share capital	-	-	(59,068)	-	-	-
<b>Borrowings as at 31 December</b>	35,531	-	-	-	52,562	-
<b>Liabilities:</b>						
Advances received	-	106	-	43	-	311
Trade and other payables	-	216	-	206	-	170
Derivative financial liabilities	1,919	-	1,777	-	-	-

<sup>1</sup> Prepayments towards the Parent represents advances made in compensation of settlement of share-based payment awards

	Entities under common control		Entities under common control	
	2019	2018	2018 <sup>1</sup>	2017
<b>Income and expenses</b>				
Revenue from water supply	1,745	1,704	141	1,550
Revenue from technical support	47	249	-	16
Other revenue	7	216	-	1
Business interruption reimbursement <sup>2</sup>	10,047	-	-	-
Other income	1,032	5	4	553
Gain from sale of non-core assets <sup>3</sup>	2,364	-	-	(11)
Income from insurance reimbursement <sup>4</sup>	36,706	-	-	-
Finance cost	(36)	-	(1,344)	(1,964)
Other operating expenses	(636)	(1,262)	(50)	(1,204)

<sup>1</sup> Includes income and expenses generated before demerger (Note 1) by the companies not included in GCAP Group entities as at 31 December 2018.

<sup>2</sup> Business interruption reimbursement income in 2019 represents the business interruption insurance reimbursement.

<sup>3</sup> In 2019, the Group sold non-core assets to an entity under common control, classified as investment property and property, plant and equipment in the combined statement of financial position. Carrying amount of assets disposed amounted to GEL 4,522 and the consideration received was GEL 6,886, of which GEL 861 is outstanding as receivable as at 31 December 2019. The Group presented gain from sale of those assets as gain from sale of non-core assets in the Combined statement of profit and loss and other comprehensive income.

<sup>4</sup> Other non-recurring items represents reimbursement of flood-related damages due from Insurance company Aldagi JSC, an entity under common control.

(Amounts expressed in thousands of Georgian Lari)

## 29. Related parties disclosures (continued)

### Directors' compensation

The Group's key management personnel in 2019, 2018 and 2017 included non-executive Directors of GGU, executive Chairman of the Supervisory Board of GWP and members of executive management board of GWP. Compensation paid to key executive management personnel (including the executive Chairman of the Supervisory Board and 6 members of executive management board of GWP) for their services in full time executive management positions is made up of salary, employee share-based compensations and performance bonuses depending on financial performance of GWP. Total compensation paid to key management amounted to GEL 9,244, GEL 11,432 and GEL 5,967 for the years ended 31 December 2019, 2018 and 2017, respectively as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Salaries and benefits	1,936	2,300	1,894
Bonuses	1,323	1,258	1,290
Employee share-based compensation (Note 25)	3,123	7,874	2,783
Termination payments towards executive management personnel (Note 26)	2,862	-	-
<b>Total management compensation</b>	<b>9,244</b>	<b>11,432</b>	<b>5,967</b>

## 30. Acquisitions of subsidiaries

### Acquisition of Hydrolea LLC

On 28 October 2019, Georgia Energy Holding LLC acquired 100% equity interest in Hydrolea LLC, operator of three HPPs with an aggregate 21MW installed capacity. The management considered that substantially all of the fair value of gross assets of Hydrolea LLC is concentrated in a single group of assets, being HPPs and the related land and facilities. Accordingly, this acquisition was accounted for as an asset acquisition by recognizing financial instruments acquired at their fair values and allocating the remaining consideration paid to other non-financial acquired assets and liabilities proportionally to their fair values.

Assets and liabilities of Hydrolea LLC recognized by the Group as at the date of acquisition were as follows:

	<b>Values recognised on acquisition</b>
Cash and cash equivalents	3,137
Amounts due from credit institutions	250
Accounts receivable	1,266
Inventories	52
Property and equipment	107,980
Intangible assets	17
Other assets	1,129
	<b>113,831</b>
Borrowings	47,882
Accounts payable	316
Other liabilities	381
	<b>48,579</b>
<b>Total net assets</b>	<b>65,252</b>
<b>Purchase consideration</b> <sup>1</sup>	<b>65,252</b>

<sup>1</sup> Purchase consideration comprises of GEL 65,252, which consists of cash payment of GEL 59,600 and deferred consideration with a fair value of GEL 5,652 as at 28 October 2019, presented in Other liabilities in the combined statement of financial position as at 31 December 2019.

(Amounts expressed in thousands of Georgian Lari)

### 30. Acquisitions of subsidiaries (continued)

#### Acquisition of Hydrolea LLC (continued)

The net cash outflow on acquisition was as follows:

	<b>31 December 2019</b>
Cash paid	(59,600)
Cash acquired with the subsidiary	3,137
<b>Net cash outflow</b>	<b>(56,463)</b>

#### Acquisition of Qartli Wind Farm LLC

On 30 December 2019, Georgia Wind Company LLC acquired 100% equity interest in Qartli Wind Farm LLC. The management considered that substantially all of the fair value of gross assets of Qartli Wind Farm LLC is concentrated in a single group of assets, being wind power plants and related land and facilities. Accordingly, this acquisition was accounted for as asset acquisition.

Assets and liabilities of Qartli Wind Farm LLC recognized by the Group as at the date of acquisition were as follows:

	<b>Values recognised on acquisition</b>
Cash and cash equivalents	9,772
Amounts due from credit institutions	6,337
Accounts receivable	1,271
Property and equipment	74,578
Other assets	306
	<b>92,264</b>
Borrowings	50,312
Accounts payable	630
	<b>50,942</b>
<b>Total net assets</b>	<b>41,322</b>
<b>Purchase consideration</b>	<b>41,322</b>

The net cash outflow on acquisition was as follows:

	<b>31 December 2019</b>
Cash paid	(41,322)
Cash acquired with the subsidiary	9,772
<b>Net cash outflow</b>	<b>(31,550)</b>

*(Amounts expressed in thousands of Georgian Lari)*

### **31. Events after the reporting period**

In the beginning of 2020, GGU implemented a planned de-offshorisation (re-domiciliation) process, pursuant where to, change has been made to the GGU's shareholding structure. GGU has been replaced by a Georgian resident Georgia Global Utilities JSC, a 100% owned subsidiary of Georgia Capital JSC. Other than the replacement of GGU by Georgian Global Utilities JSC, there were no other changes to the GGU structure. At the date of authorization for issue of these combined financial statements, Georgian Global Utilities LTD has been liquidated.

On 25 February 2020, GCAP acquired additional 34.4% in Georgian Renewable Power Company JSC and, as a result, became the 100% owner of Svaneti Hydro JSC.

In February-May 2020, the Group received GEL 6,299 in settlement of reimbursement asset related to business interruption.

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

In response to those developments, on 1 April 2020 the government of Georgia announced GEL 3.5 billion economy support initiative. The initiative package includes, among other measures, coverage of March-May 2020 water supply services payments by the government on behalf of the certain categories of individuals that account for the majority of the Group's individual customer's base.

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