Georgia Global Utilities JSC

Consolidated financial statements

for the year ended 31 December 2021
with independent auditor's report

Contents

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Independent auditor's report

To the Shareholders and the Supervisory Board of Georgia Global Utilities JSC

Opinion

We have audited the consolidated financial statements of Georgia Global Utilities JSC and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as of 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from metered water supply	
The Group recognized revenue from metered water supply of GEL 132,725 thousand in 2021. Recognition of revenue from metered water supply was one of the matters of most significance in our audit due to the significance of the amount of revenue recognized as well as due to the number of customers and the level of management judgment involved in estimation of volumes delivered but not yet billed. The disclosures related to revenue from metered water supply are included in Notes 4 and 16 to the consolidated financial statements.	We assessed the design and tested the effectiveness of controls over the revenue recognition process. We analyzed the patterns of water consumption in order to assess management's estimates, including the estimate made in respect of the volumes of metered water supply but not billed. We compared estimated volumes of metered water supply but not yet billed to the historical information. We considered the Group's accounting policy in respect of revenue recognition for the metered water supply compliance with the requirements of IFRS 15 *Revenue from Contracts with Customers*. We analyzed relevant disclosures in the consolidated financial statements.
Existence and measurement of property, plant and equipment	
The carrying amount of the Group's property, plant and equipment as of 31 December 2021 is GEL 911,658 thousand, of which significant share are underground assets that are not readily available for physical observation. This matter was one of most significance in our audit due to the complexity of the physical access to the underground assets. In addition, matter of impairment was one of most significance in our audit due to the judgmental nature of the assessment of impairment or recovery of previously recorded impairment indicators and the assumptions applied by the Group's management, such as in respect of expected prospective updates to water supply and sanitation tariffs as well as the other relevant internal and external changes including those arising from COVID-19 outbreak. In 2021, the Group recognized GEL 36,595 thousand impairment of property, plant and equipment in relation to one of the Group's hydro power plants, which materially affected the Group's reported performance for the period. Related disclosures are included in Notes 2 and 8 to the consolidated financial statements.	We compared the information about underground assets constructed during the period to the information in customer billing systems in respective locations. We tested, on a sample basis, additions and disposals to the underground infrastructure assets in 2021 and compared the cost of additions and disposals recorded in the Group's financial statements to the supporting documents. We considered the management's assessment of indicators of impairment or recovery of previously recorded impairment as at 31 December 2021 performed under requirements of IAS 36 *Impairment of Assets* with reference to the external and internal sources of information, with focus on the regulatory tariff setting methodology. We evaluated the recoverable amount of the property, plant and equipment related to the hydro power plant impaired as at 31 December 2021. We assessed respective disclosures in the consolidated financial statements.

Other information included in the Group's 2021 management report

Other information consists of the information included in the Group's 2021 management report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2021 management report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats of safeguards applied.

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

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

Alexey Loza

On behalf of EY LLC

Tbilisi, Georgia

28 April 2022

Consolidated statement of financial position

As at 31 December 2021

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2021	31 December 2020
Assets			
Non-current assets			
Property, plant and equipment	8	911,658	927,054
Investment property	9	7,382	9,754
Right-of-use assets		1,591	1,607
Restructured trade receivables	11	83	53
Other non-current assets	10	6,036	7,702
Total non-current assets		**926,750**	**946,170**
Current assets			
Inventories		5,471	4,991
Trade and other receivables	11	25,925	14,044
Loans issued		14	164
Prepaid taxes other than income tax		1,506	1,641
Reimbursement assets	8	2,318	2,808
Prepayments		1,732	996
Financial assets held for trading	27	8,122	–
Other current assets	10, 24	2,594	268
Cash at bank	27	96,842	118,839
Total current assets		**144,524**	**143,751**
Total assets		**1,071,274**	**1,089,921**
Equity			
Share capital	12	84,666	104,666
Additional paid-in capital	12	21,230	19,191
Retained earnings		44,391	55,161
Other reserves	12	5,151	7,551
Revaluation reserve for property, plant and equipment	12	4,385	4,813
Total equity		**159,823**	**191,382**
Liabilities			
Non-current liabilities			
Borrowings and bonds issued	13	807,767	807,104
Deferred revenue	14	26,874	25,341
Lease liabilities		1,358	1,356
Other non-current liabilities		575	3,128
Total non-current liabilities		**836,574**	**836,929**
Current liabilities			
Borrowings and bonds issued	13	25,189	26,459
Advances received	14	16,005	12,801
Trade and other payables	15	16,386	13,027
Provisions for liabilities and charges		1,401	1,081
Deferred revenue	14	5,545	5,201
Lease liabilities		315	286
Other current liabilities	24	5,579	268
Other taxes payable		4,457	2,487
Total current liabilities		**74,877**	**61,610**
Total liabilities		**911,451**	**898,539**
Total liabilities and equity		**1,071,274**	**1,089,921**

Approved for issue and signed on behalf of Georgia Global Utilities JSC on 28 April 2022:

José Miguel Santos Gonzalez
Chief Executive Officer

Giorgi Gureshidze
Chief Financial Officer

The accompanying notes on pages 5 to 38 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2021

(Amounts expressed in thousands of Georgian Lari)

	Note	*2021*	*2020* (reclassified)*
Revenue from water supply and related services	16	172,322	120,549
Revenue from electric power sales	17	62,635	44,155
Business interruption reimbursement gain	8	587	4,252
Other revenue		2,498	1,080
Total revenue, income and gains		**238,042**	**170,036**
Electricity and transmission costs	4	(23,315)	(18,009)
Salaries and other employee benefits	18	(22,765)	(21,429)
Allowance for expected credit losses	11	(6,089)	(6,248)
Taxes other than income tax		(8,974)	(8,339)
General and administrative expenses	19	(3,623)	(4,061)
Professional fees	20	(2,577)	(2,779)
Raw materials, fuel and other consumables		(3,225)	(3,339)
Maintenance expenditure		(4,450)	(4,250)
Charge for provisions and legal claims related expenses		(388)	(560)
Other operating expenses	22	(7,733)	(8,243)
Gain from sale of non-core assets		4,151	1,120
Other income	21	3,197	2,820
		(75,791)	**(73,317)**
EBITDA		**162,251**	**96,719**
Finance income		4,437	2,404
Finance costs	23	(63,743)	(59,620)
Net foreign exchange gain/(loss)		25,558	(44,651)
Depreciation and amortisation		(49,181)	(48,337)
Loss on extinguishment of financial liabilities	13	–	(20,904)
Impairment of property plant and equipment	8	(36,595)	–
Reassessment of estimates related to Eurobonds' refinancing	13	(35,904)	–
Non-recurring expenses, net	25	(18,021)	(1,576)
Loss before income tax expense		**(11,198)**	**(75,965)**
Income tax expense		–	–
Loss for the year		**(11,198)**	**(75,965)**
Attributable to:			
Owners of the parent		(11,198)	(75,231)
Non-controlling interests		–	(734)
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
(Loss)/gain from currency translation differences		–	5,589
Other comprehensive (loss)/*income not to be reclassified to profit or loss in subsequent periods*		–	–
(Loss)/gain from currency translation differences		(1,986)	7,642
Other comprehensive (loss) income for the year		**(1,986)**	**13,231**
Total comprehensive loss for the year		**(13,184)**	**(62,734)**
Attributable to:			
Owners of the parent		(13,184)	(60,539)
Non-controlling interests		–	(2,195)

* *EBITDA amount does not correspond to the 2020 consolidated financial statement as it reflects reclassification of Gain from sale of non-core assets from non-operating to operating activities as described in Note 4.*

The accompanying notes on pages 5 to 38 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2021

(Amounts expressed in thousands of Georgian Lari)

	Share capital	*Additional paid-in capital*	*Other reserves*	*Retained earnings*	*Revaluation reserve for property, plant and equipment*	*Total*	*Non-controlling interests*	*Total equity*
Balance as at 31 December 2019	**2**	**101,205**	**(4,253)**	**145,421**	**4,813**	**247,188**	**24,896**	**272,084**
Loss for the year	–	–	–	(75,231)	–	**(75,231)**	(734)	**(75,965)**
Other comprehensive income	–	–	14,692	–	–	**14,692**	(1,461)	**13,231**
Total comprehensive income/(loss) for the year	**–**	**–**	**14,692**	**(75,231)**	**–**	**(60,539)**	**(2,195)**	**(62,734)**
Share-based payments (Note 24)	–	2,356	–	–	–	**2,356**	–	**2,356**
Transfers to parent under share-based compensation program (Note 24)	–	–	(3,505)	–	–	**(3,505)**	–	**(3,505)**
Contribution from the shareholders (Note 12)	–	3,108	–	–	–	**3,108**	–	**3,108**
Distributions to the shareholders (Note 12)	–	(4,927)	–	–	–	**(4,927)**	–	**(4,927)**
Acquisition of non-controlling interests in existing subsidiaries (Note 12)	–	22,113	617	(29)	–	**22,701**	(22,701)	**–**
Group reorganization (Note 12)	104,664	(104,664)	–	–	–	**–**	–	**–**
Dividends declared (Note 12)	–	–	–	(15,000)	–	**(15,000)**	–	**(15,000)**
Balance as at 31 December 2020	**104,666**	**19,191**	**7,551**	**55,161**	**4,813**	**191,382**	**–**	**191,382**
Loss for the year	–	–	–	(11,198)	–	**(11,198)**	–	**(11,198)**
Other comprehensive loss	–	–	(1,986)	–	–	**(1,986)**	–	**(1,986)**
Total comprehensive loss for the year	**–**	**–**	**(1,986)**	**(11,198)**	**–**	**(13,184)**	**–**	**(13,184)**
Share-based payments (Note 24)	–	2,039	–	–	–	**2,039**	–	**2,039**
Transfers to parent under share-based compensation program (Note 24)	–	–	(414)	–	–	**(414)**	–	**(414)**
Reduction of share capital (Note 12)	(20,000)	–	–	–	–	**(20,000)**	–	**(20,000)**
Revaluation reserve realized upon disposal	–	–	–	428	(428)	**–**	–	**–**
Balance as at 31 December 2021	**84,666**	**21,230**	**5,151**	**44,391**	**4,385**	**159,823**	**–**	**159,823**

The accompanying notes on pages 5 to 38 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

(Amounts expressed in thousands of Georgian Lari)

	Note	2021	2020
Cash flows from operating activities			
Loss before income tax expense		**(11,198)**	**(75,965)**
Adjustments for:			
Depreciation and amortisation	8, 10	49,181	48,337
Allowance for expected credit losses	11	6,089	6,248
Charge for provisions and legal claims related expenses		388	560
Net gain from disposal of property, plant and equipment, non-core assets and investment property		(3,973)	(699)
Revaluation gain on investment property	9	(1,258)	(1,113)
Net foreign exchange (gains) losses		(25,558)	44,651
Finance income		(4,437)	(2,404)
Finance costs	23	63,743	59,620
Loss on extinguishment of financial liabilities	13	–	20,904
Derecognition of unclaimed advances received and trade payables	21	(539)	(409)
Business interruption reimbursement gain	8	(587)	(4,252)
Other income related to cash settled share-based payments	24	(346)	(247)
Impairment of property plant and equipment	8	36,595	–
Non-recurring expenses, net	25	3,200	1,501
Share-based payment expense	24	2,759	1,332
Reassessment of estimates related to Eurobonds refinancing	13	35,904	–
Working capital changes			
Change in inventories		(480)	(1,063)
Change in trade and other receivables		(18,156)	4,099
Change in prepaid taxes other than income tax		135	573
Change in prepayments		(736)	335
Change in trade and other payables		151	(44)
Change in deferred revenue – current portion		344	437
Change in advances received		3,592	6,943
Change in reimbursement asset		650	11,246
Change in other tax payables		1,970	(2,752)
Change in restricted cash		–	6,581
Operating cash flows after working capital changes		**137,433**	**124,419**
Change in deferred revenue – non-current portion		1,533	385
Net cash flows from operating activities		**138,966**	**124,804**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(85,738)	(87,973)
Reimbursement of property damage		–	40,892
Proceeds from sale of property, plant and equipment and investment property		8,010	1,348
Acquisition of subsidiaries, net of cash acquired		–	(6,008)
Purchase of other non-current assets		(568)	–
Loans issued		–	(73)
Proceeds from loan issued		146	–
Interest received		4,047	2,404
Purchase of the Parent's bonds		(8,308)	–
Net cash used in investing activities		**(82,411)**	**(49,410)**
Cash flows from financing activities			
Payment of principal portion of lease liabilities		(454)	(445)
Proceeds from borrowings	13	7,445	826,659
Repayment of borrowings	13	(23)	(752,635)
Interest paid	13	(62,118)	(40,898)
Payment of transaction costs related to bonds issuance		–	(11,619)
Commission for prepayment of loans		–	(12,422)
Dividend paid	12	–	(15,000)
Contributions from the shareholders	12	–	3,108
Reduction of the share capital	12	(20,000)	(4,927)
Transfers to parent under share-based compensation program	24	(414)	(1,365)
Net cash used in financing activities		**(75,564)**	**(9,544)**
Effect of exchange rate changes on cash and cash equivalents		(2,988)	6,183
Net change in cash and cash equivalents		**(21,997)**	**72,033**
Cash and cash equivalents at the beginning of year	27	118,839	46,806
Cash and cash equivalents at the end of year	27	**96,842**	**118,839**

In 2021 following non-cash items were included in purchase of property, plant and equipment and intangible assets: GEL 863 and GEL 253 of change in prepayments and payables for non-current assets respectively, capitalised accrued bonuses and employee share-based compensation amounting to GEL 3,549 and 1,504 respectively, and capitalised finance cost of GEL 1,328. (In 2020: GEL 1,143 and 186 of change in prepayments and payables for non-current assets respectively, capitalized accrued bonuses and employee share-based compensation amounting to GEL 1,534 and 1,242 respectively, and capitalized finance cost of GEL 1,534, Other 836).

The accompanying notes on pages 5 to 38 are an integral part of these consolidated financial statements.

(Amounts expressed in thousands of Georgian Lari)

1. Corporate information

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

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

In March 2020, Georgian Global Utilities LTD was liquidated.

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

Further, on 6 July 2020, in connection with GGU's Eurobonds offering (Note 13), Georgia Capital JSC contributed its 100% shareholdings in Svaneti Hydro JSC, Georgia Energy Holding LLC (the parent of Hydrolea LLC), Georgia Wind Company LLC (the parent of Qartli Wind Farm LLC) and Georgian Energy Trading Company LLC to GGU, which represented a business combination under common control. Subsequent to the contribution, Georgia Wind Company LLC and Georgia Energy Holding LLC were merged with the Company, and the Company became a 100% direct holder of controlling interests in Qartli Wind Farm LLC and Hydrolea LLC.

Following the re-domiciliation and reorganization, GGU is a holding parent company of the following entities (referred together with GGU as "the Group"):

	Country of incorporation	*Date of incorporation*	*Date of acquisition*	*31 December 2021*	*31 December 2020*
Subsidiaries of Georgian Global Utilities LTD as at 31 December 2021 and 2020					
Georgian Water and Power LLC ("GWP")	Georgia	25 June 1997	14 May 2008	100%	100%
Rustavi Water LLC ("RWC")	Georgia	31 August 1999	14 May 2008	100%	100%
Gardabani Sewage Treatment Plant LLC	Georgia	20 December 1999	14 May 2008	100%	100%
Georgian Engineering and Management Company LLC	Georgia	29 March 2011	29 March 2011	100%	100%
Saguramo Energy LLC	Georgia	11 December 2008	19 December 2015	100%	100%
Subsidiaries contributed to GGU in 2020					
Svaneti Hydro JSC ("SH")	Georgia	6 December 2013	20 April 2017	100%	100%
Hydrolea LLC ("HYDL")	Georgia	6 July 2012	28 October 2019	100%	100%
Qartli Wind Farm LLC ("QWF")	Georgia	10 September 2012	30 December 2019	100%	100%
Georgian Energy Trading Company LLC ("GETC")	Georgia	23 April 2019	15 December 2019	100%	100%

GGU has two main segments of business activities: water supply and wastewater collection services and electric power generation and sales. GGU is rendering water supply and wastewater collection services to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. GGU owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection. GGU also owns and operates hydroelectric and wind power stations generating electric power for own use and for sale. The Group also engages in electric power trading.

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

(Amounts expressed in thousands of Georgian Lari)

2. Operating environment

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

The COVID-19-induced shock made a significant negative impact on the Georgian economy in 2020. In response to COVID-19 outbreak, on 1 April 2020, the Government of Georgia announced a GEL 3.5 billion economy support initiative related to the utility sector. The initiative package includes, among other measures, coverage of March-May 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. On 30 October 2020, the Government of Georgia announced second part of support initiatives covering November, December 2020 and January-February 2021 utility expenses.

The Government of Georgia took significant steps at the early stage of the COVID-19 outbreak, imposing a range of restrictions like elsewhere around the world. Since February 2021, the economy has been fully reopened for the better part of the year. Despite new COVID-19 cases rising again periodically no new major restrictions have been imposed and economic recovery has sustained pace.

In 2021, the water utility business enjoyed a modest increase in the volume of water sales to commercial customers, which demonstrated fast recovery from the COVID-19 pandemic, and following the rebound in economic activities, the demand on water sales increased throughout the year, getting close to pre-pandemic levels by the end of 2021. There was no substantial impact of COVID-19 on the Group's renewable energy busines.

The Group continues monitoring impact of 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 management of the Group considered and assessed the effect of COVID-19 outbreak on these consolidated financial statements as follows:

Government support initiatives

The Government of Georgia released certain category of individuals, determined based on the certain threshold of electric power consumption for a respective period, from obligation to settle their water utility bills for March, April, May 2020 and from November 2020 till March 2021. Instead, the Government of Georgia provided a cash compensation to the Group in respect of the amounts that would have otherwise be billed to the exempt customers.

Additional subsidy program was initiated by the Government of Georgia, according to which utility bills of the socially vulnerable population was subsidized during the year 2021.

The Group determined that the compensation arrangement meets the definition of revenue from contracts with customers as defined by IFRS 15, *Revenue from Contracts with Customers,* which represents a significant judgment.

During 2021, the Government of Georgia paid GEL 2,594 (2020: 17,254) including VAT to the Group on behalf of the certain customers for January and February water supply services. Revenue generated from above mentioned customers was GEL 5,562 in 2021 (2020: 11,251). As of 31 December 2021, advances received from the Government of Georgia were fully utilized (31 December 2020: GEL 3,969).

Under subsidy program for the socially vulnerable population the Group additionally received GEL 2,323 including VAT and recognized revenue of GEL 2,405 in consolidated profit or loss for 2021.

Impairment of property, plant and equipment

The management of the Group concluded that COVID-19 outbreak did not have a material impact on recoverability of the electric power generation and sales segment assets. The terminal value of the electric power generation and sales segment assets were not significantly affected by the current economic downturn. The management assessed that no significant decrease in operating free cash flows from the energy business assets is expected that would result in their recoverable amount, at the level of individual assets or cash-generating unit, to be less than their carrying value as at 31 December 2021, except for the assets of Mestiachala 1, being physically damaged due to rock avalanche event (Note 8).

(Amounts expressed in thousands of Georgian Lari)

2. Operating environment (continued)

Impairment of property, plant and equipment (continued)

The management of the Group considered the effects of COVID-19 outbreak in assessment of whether impairment (or reversal of previously recognized impairment) of water supply and wastewater collection services segment assets was required as at 31 December 2021 and concluded that no impairment or recovery indicators existed. The key consideration and assumption of the management in making that assessment was that water supply tariff model in Georgia is designed in a way to provide the investor with predetermined return on regulatory asset base and operating expenditures, and is, as such, not sensitive, in the long term, to the fluctuations in water supply volumes. In December 2020, the Georgian National Energy and Water Supply Regulatory Commission (the "GNERC" or the "Regulator") approved water supply and sanitation ("WSS") tariffs (set per m3 of WSS services supplied) in Tbilisi, which have increased compared to the previous regulatory period of 2018-2020: i) from GEL 0.3 to GEL 0.5 for metered residential customers and ii) from GEL 4.4 to GEL 6.5 for commercial customers. Moreover, according to the regulatory tariff-setting methodology, every m3 of water that the Group was not able to sell in 2020 compared to the water sales volumes budgeted by the regulator (as well as respective time value of money component) and increase in operating and capital expenditure due to COVID-19, have been included in the tariff for the next, 2021-2023, regulatory period. The 2021-2023 tariff increase and the projected allowed revenue estimate were broadly in line with the management's estimates made for the purpose of determination of recoverable amount of the business in the prior periods.

Apart from that, the state subsidies for utility bills provide stable cash collection rates from water sales to individuals. Significant portion of revenue from water supply and related services from the legal entities is generated from budget organizations with constant water consumption characteristics. Therefore, management concluded that there are no indicators for impairment.

Expected credit losses on trade and other receivables and measurement of other financial instruments

Under IFRS 9 *Financial Instruments*, measurement of expected credit losses ("ECL") should be based on an unbiased, probability-weighted amount that is determined by evaluating the range of possible outcomes and reflecting time value of money, considering all reasonable and supportable information available about past events, current conditions and forecasts about future economic conditions.

The management of the Group considered that the specific effect of COVID-19 outbreak, as at 31 December 2021, was already incorporated into the Group's ECL models. The ratio of ECLs to gross receivables decreased from 68% as at 31 December 2020 to 57% as at 31 December 2021. The amount of ECLs recognized in the statement of profit or loss and other comprehensive income in respect of trade and other receivables amounted to GEL 6,089 for the year ended 31 December 2021 (2020: GEL 6,248) (Note 11).

Other than ECL on trade and other receivables, the management did not identify any other material effect of COVID-19 outbreak on other financial instruments held by the Group. No credit loss events were identified in respect of the Group's cash at bank as at 31 December 2021.

Valuation of investment properties

The Group measures fair value of its investment properties at the end of each reporting period. The real estate market in Georgia is relatively illiquid and inert, with market values tending to be stable over prolonged periods of time. Pricing of real estate in Georgia is often performed in US Dollars. As at 31 December 2021 upward revaluation of several major investment properties located in Mtskheta resulted in GEL 1,258 increase in the fair value of investment properties value (2020: GEL 1,113) (Note 9).

3. Basis of preparation

These consolidated financial statements of the Group for the year ended 31 December 2021 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 2021 reporting.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, financial assets held for trading and shares in relation to cash-settled share based awards that have been measured at fair value.

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies

Standards issued but not yet effective

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

- IFRS 17 *Insurance Contracts* – effective for reporting periods beginning on or after 1 January 2023*,* with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.
- Amendments to IAS 1: *Classification of Liabilities as Current or Non-current* – effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.
- Amendments to IFRS 3: *Reference to the Conceptual Framework* – effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.
- Amendments to IAS 16: *Property, Plant and Equipment: Proceeds before Intended Use* – effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.
- Amendments to IAS 37: *Onerous Contracts – Costs of Fulfilling a Contract* – effective for annual reporting periods beginning on or after 1 January 2022.
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a first-time adopter – effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.
- IFRS 9 *Financial Instruments* – Fees in the '10 per cent' test for derecognition of financial liabilities – effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.
- IAS 41 *Agriculture* – Taxation in fair value measurements – effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.
- *Definition of Accounting Estimates* – Amendments to IAS 8 – effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed
- *Disclosure of Accounting Policies* – Amendments to IAS 1 and IFRS Practice Statement 2 – are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted.

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

New or revised standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- *Covid-19-Related Rent Concessions beyond 30 June 2021*: Amendments to IFRS 16;
- *Interest Rate Benchmark Reform – Phase 2:* Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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

Business combinations under common control

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

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

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 27.

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

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

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

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

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

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets

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

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

For purposes of subsequent measurement, financial assets of the Group are classified as financial assets at amortised cost, which include trade and other receivables, 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.

Financial assets at fair value through profit or loss

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

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

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

Impairment of receivables

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

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

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

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

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

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

Note 11 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.

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.

(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:

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

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

Investment property

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

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

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

Contingencies

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Intangible assets

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

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

Taxation

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

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

Inventories

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

Prepayments

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

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

Cash at bank and restricted cash

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

Share capital

The amount of the Company’s authorized share capital is defined by the Company’s charter. The changes in the Company’s charter (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company’s shareholder. The authorized capital is recognised as share capital in the equity of the Company to the extent that it was paid.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Dividends

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

Value added tax

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

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from borrowings in foreign currency to the extent that they are regarded as an adjustment to interest costs. Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. The amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred on that borrowing during the period of respective property construction phase. The capitalization rate for borrowing costs was 8.28% in 2020 and 2021.

Provisions for liabilities and charges to provisions

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

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

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

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

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

EBITDA

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

Gain from sale of non-core assets

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Gain from sale of non-core assets (continued)

Changes in presentation

In 2021, the Group changed presentation of gain from sale of non-core assets, which was not included to EBITDA subtotal in financial statements for the year ended 31 December 2020. Comparative information in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 have been reclassified in accordance with current period presentation, resulting in increase in EBITDA for the year ended 31 December 2020 by GEL 1,120.

Non-recurring income and expenses

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

Offsetting

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

Functional currencies and foreign currency translation

The Group's consolidated financial statements are presented in Georgian Lari. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. For the Company and entities of electric power generation and sales, 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 recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2021 and 2020 were 3.5040 and 4.0233 GEL to 1 Euro, respectively. The official NBG exchange rates as at 31 December 2021 and 2020 were 3.0976 and 3.2766 GEL to 1 USD, respectively.

Until 30 July 2020, the functional currency of the Company was Georgian Lari. At the date of the Eurobonds transaction (Note 13), and following contribution of the electric power generation and sales subsidiaries to the Group (Note 1), the functional currency of the Company was reassessed and determined to be US Dollar (USD).

In making that assessment, the management considered existence of long-term USD-denominated debt, as well as expectations of further increase in share of revenue transactions denominated and settled in USD in the foreseeable future. Significant judgment was applied by the management in determination of appropriate functional currency and assessment of whether change in the underlying transactions, events and conditions warrant a change in the functional currency.

Change in functional currency was applied prospectively starting from 30 July 2020. At the date of change, the Company translated all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Functional currencies and foreign currency translation (continued)

The Company's presentation currency is different from its functional currency. The Company considers that Georgian Lari as presentation currency is common among Georgian reporters and thus it provides more relevant and appropriate information to the users of the financial statements.

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

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

Income and expense recognition

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

Revenue from water supply and related services

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

Revenue from water supply to legal entities includes amounts billed to the commercial customers based on the metered and estimated usage of water and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Group recognises revenue for unbilled amounts based on estimated usage of water based on the last billing through to the end of the financial year.

Revenue from water supply to general population for majority of the customers includes that compensated by the state according to the Government of Georgia support initiatives related to COVID-19 outbreak (Note 2).

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.

Penalty income on illegal connections services

Penalty income on illegal connections services includes fines billed to customers for illegal connections identified by reinforced activities. Amounts billed are defined based on respective tariffs set by GNERC. Penalty income on illegal connections services is included in other income in the consolidated statement of profit or loss and other comprehensive income (Note 21).

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

Business interruption reimbursement gain

Business interruption reimbursement gain is recognized based on insurance claim acts.

Electricity and transmission costs

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

Interest and similar income and expense

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

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

Employee benefits

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

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

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

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

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

Employee stock ownership plan

Share-based payment transactions

Senior executives of the Group receive share-based remuneration settled in equity instruments of GCAP. 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). Grants that the Group has the liability to settle in cash or in equity instruments of GCAP are accounted for as cash-settled transactions.

Equity-settled transactions

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Employee stock ownership plan (continued)

Cash-settled transactions

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

5. Related parties disclosure

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

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

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 2021		*31 December 2020*	
	The Parent	***Entities under common control***	***The Parent***	***Entities under common control***
Assets				
Trade and other receivables	–	2,282	–	1,311
Prepayments	–	654	–	113
Reimbursement asset (Note 8)	–	2,318	–	2,808
Financial assets held for trading(a)	8,122	–	–	–
Other non-current asset (Note 24)	–	–	1,614	–
Other current assets (Notes 10, 24)	2,594	–	268	–
Borrowings as at 1 January	**–**	**–**	**35,531**	**–**
Proceeds from borrowings and interest accrued during the year	–	2,245	2,580	2,565
Repayment of borrowing including interest during the year	–	–	(38,111)	(2,565)
Borrowings as at 31 December	**–**	**2,245**	**–**	**–**
Liabilities				
Advances received	–	527	–	471
Trade and other payables	–	187	–	146

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

(Amounts expressed in thousands of Georgian Lari)

5. Related parties disclosure (continued)

	2021	*2020*
Income and expenses-entities under common control		
Revenue from water supply	2,291	1,483
Other revenue	1,767	38
Business interruption reimbursement[1]	587	4,252
Other income	15	24
Loss from insurance reimbursement[2]	(2,464)	(988)
Finance cost capitalized	(134)	–
Maintenance expenditure	(59)	(55)
Finance cost	–	(2,384)
Finance income	390	–
Other operating expenses[3]	(2,110)	(2,086)

1 Business interruption reimbursement income in 2021 and 2020 represents the insurance claim for the business interruption caused by the insurance event.

2 Loss from insurance reimbursement in 2020 represents netting-off salvage value of written-off property with reimbursement asset from an insurance company under common control in the amount of GEL 575, together with GEL 413 reversal of insurance income.

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

3 Other operating expenses mostly comprises of insurance expense for the year.

Directors' compensation

The Group's key management personnel in 2021 and 2020 included non-executive Directors of GGU, executive Chairman of the Supervisory Board of GWP and members of executive management board of GWP. Compensation paid to key executive management personnel (including the executive Chairman of the Supervisory Board and 6 members of executive management board of GWP) for their services in full time executive management positions is made up of salary, employee share-based compensations and performance bonuses depending on financial performance of GWP. Total compensation paid to key management for the years ended 31 December 2021 and 2020 is as follows:

	2021	*2020*
Salaries and benefits	2,461	2,025
Bonuses	3,443	1,385
Employee share-based compensation (Note 24)	4,344	3,228
Termination-related cash-based employee compensation (Note 25)	1,530	–
Total management compensation	**11,778**	**6,638**

6. Significant accounting judgements and estimates

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

Fair value of investment property

The 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 9).

(Amounts expressed in thousands of Georgian Lari)

6. Significant accounting judgements and estimates (continued)

Impairment of property, plant and equipment

For the years ended 31 December 2021 and 2020, 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. During 2021, the Group wrote-off GEL 36,595 of property, plant and equipment related to the energy segment as impairment of property, plant and equipment due to physical damage sustained in 2019 rock avalanche event. The additional impairment resulted from Group's decision not to pursue rehabilitation of the damaged HPP made in 2021 following careful evaluation of the rehabilitation project risks and Group's investment alternatives.

In assessment of recoverable amount of water supply and wastewater collection services cash generating unit assets, and in subsequent assessment of whether indicators of impairment or recovery of previously recognized impairment exist, significant judgment is required in determination of appropriate discount rate and assessment of its subsequent changes, developing expectations in relation to water supply tariffs to be applied in subsequent periods (including assumptions about particular capital and operating expenditures eligible for incorporation to the tariff base, and regulatory weighted average cost of capital), expected water supply volumes and forecasted operating expenditures and maintenance capital expenditures, and other relevant impairment or recovery indicators (Note 2, Note 8).

Useful lives of property, plant and equipment

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

Expected credit losses in respect of trade and other receivables

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

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

At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and, in rare cases, of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future (Note 2, Note 11).

The amount of ECLs recognized in respect of trade and other receivables amounted to GEL 35,183 as of 31 December 2021 (2020: GEL 30,456) (Note 11).

Taxes on abnormal water losses

In accordance with Georgian Tax Code, any losses above the normative level (which is defined by Georgian National Energy and Water Supply Regulatory Commission (GNERC)) is defined as "shortage" and is subject to Value Added Tax (VAT) and Corporate Income Tax (CIT). The management of water utility business estimates the level of water losses using all available information annually, includes water losses above normative level, if any, in its tax declarations and pays VAT and CIT tax, respectively.

(Amounts expressed in thousands of Georgian Lari)

6. Significant accounting judgements and estimates (continued)

Taxes on abnormal water losses (continued)

In summer 2021, the management initiated city-wide zoning project, which targeted the review and update of water supply measurement system, mainly focusing on low elevation areas, which have not been a priority previously due to carrying low cost for the Group. The project was carried out from August 2021 to November 2021 and included full scale review of water flow measurement system, updating parameters of old meters and installing new water meters at large water distribution pipes to recalculate and determine water supply balances where necessary. During the process, the management identified additional volumes of water going into the network and as a result of final updated water supply maps and measurements, the management concluded the actual and potential water loss rates were higher than previously estimated.

In December 2021 GWP adjusted respective VAT and CIT returns and increased the tax liability for 2019 and 2020 by GEL 24,271. Further, GWP formed a settlement agreement with Revenue Service, by which total payable for 2019 and 2020 additional taxes was reduced to GEL 11,238, out of which GEL 1,238 was offset against GWP's pre-existing tax asset and the remaining GEL 10,000 was paid in cash (Note 25).

RWC also adjusted VAT and CIT returns and increased tax liability for the same period by GEL 321.

On 1 December 2021 GWP and RWC filed applications to GNERC, informing the Regulator about the newly identified water losses and requesting revision of the allowed water loss levels set for the years 2021, 2022 and 2023. GNERC amended the allowed water loss levels set before upon the request on 31 December 2021.

The management made a judgment that remeasurement of the water losses represent change in estimate. The information about water inflows that resulted in additional tax liability accrual was not available, and could not have been reasonably available, as at 30 June 2021, 31 December 2020 and 2019, as it originated from additional capital and operating expenditure incurred subsequent to those dates and associated with installation or relocation of new water meters. As revisions in accounting estimates are accounted for prospectively the Group recognized the remeasurement effect and additional taxes of GEL 11,559 fully in 2021 consolidated financial statements, presented in Non-recurring expenses, net (Note 25).

Based on the amendments made by GNERC regarding normative water losses, the Group does not expect further tax charge for the upcoming periods.

Implications from change in controlling shareholder

On 31 December 2021, Georgia Capital JSC signed a sale and purchase agreement (SPA) with FCC Aqualia ("Aqualia"), a Spanish-based multinational holding specialized in water business. According to the terms of the SPA, at the first stage of the transaction Georgia Capital JSC disposed 65% equity interest in the Group (representing an 80% economic interest in the water utility business) to Aqualia. The second stage of the transaction will follow the planned redemption in July 2022 of an existing bond issued by the Group that will be financed pro-rata to their interests in the Group by Aqualia and GCAP by way of a shareholder loan. Following the bond redemption and subsequent demerger of the operational renewable energy assets (Svaneti Hydro JSC, Qartli Wind Farm LLC, Hydrolea LLC and Hydrolea LLC's subsidiaries) via a statutory demerger, GCAP will obtain full ownership of the Group's such renewable energy assets, and Aqualia's ownership in the water utility business will be increased to 80%. The second stage of the transaction is expected to be completed by the end of September 2022. The first stage of the transaction, resulting in change in the Group's controlling shareholder from Georgia Capital to Aqualia was completed in February 2022 (Note 28).

As per the terms of the SPA and, as part of the second stage of the transaction, the Group plans to redeem its Eurobonds on 30 July 2022 or as soon as practicable to exercise of its call option. According to the terms and conditions of the Eurobonds, early redemption price during the redemption from 30 July 2022 till 30 July 2023 is 103.875% of the Eurobonds' principal plus accrued and unpaid interest, if any. As at previous annual and interim reporting dates, the Group estimated amortized cost of the Eurobonds assuming their redemption at maturity rather than through exercise of call option with respective premium paid. Change in timing of the payments and the amount to be paid due to expected early redemption was considered as a change in estimate under IFRS 9. Amortised cost of the Eurobonds as at 31 December 2021 was estimated considering the early redemption cash outflow discounted using the original effective interest rate. The adjustment resulting from such reassessment of future cash flows on the Eurobonds amounting to GEL 35,904 was recognised in profit or loss (Note 13), presented as a separate line in consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021.

Following the redemption of the Eurobonds and obtaining respective regulatory approvals/clearences, the Group intends to transfer its renewable energy business to Georgia Capital JSC through a statutory demerger of GGU, so that following the transfer Georgia Capital JSC's stake in the Group would reduce from 35% to 20%. The management considered that renewable energy business does not meet definition of a discontinued operation or a disposal group held for distribution as at 31 December 2021 under IFRS 5, as such distribution is conditional upon future events outside the control of the Group, such as early redemption of the Eurobonds and obtaining regulatory approvals/clearances.

(Amounts expressed in thousands of Georgian Lari)

6. Significant accounting judgements and estimates (continued)

Implications from change in controlling shareholder (continued)

As change in controlling shareholder results in immediate vesting of certain of the Group's share-based awards, the Group reflected the change in estimate related to an earlier vesting date through acceleration of share-based expense under such awards of GEL 1,702 recognized in consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 and presented within net non-recurring expenses.

7. 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 consolidated 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.

	GGU Water – Electric power generation and sales, 2021	*GGU Water – Water supply and wastewater collection services, 2021*	*GGU Water – Intersegment transactions, 2021*	*GGU Energy, 2021*	*Eliminations, 2021*	*Total, 2021*
Revenue from water supply and related services	–	172,322	–	–	–	**172,322**
Revenue from electric power sales[1]	31,570	–	(4,905)	43,309	(7,339)	**62,635**
Business interruption reimbursement gain	–	–	–	587	–	**587**
Other revenue	–	2,443	–	55	–	**2,498**
Total revenue (sub-note 1)	**31,570**	**174,765**	**(4,905)**	**43,951**	**(7,339)**	**238,042**
Electricity and transmission costs	(125)	(28,502)	4,905	(524)	931	**(23,315)**
Cost of electric power sales	(6,408)	–	–	–	6,408	**–**
Salaries and other employee benefits (sub-note 2)	(2,186)	(19,650)	–	(929)	–	**(22,765)**
Allowance for ECLs	–	(6,089)	–	–	–	**(6,089)**
Taxes other than income tax	(287)	(6,207)	–	(2,480)	–	**(8,974)**
General and administrative expenses	(254)	(3,040)	–	(329)	–	**(3,623)**
Professional fees	(98)	(1,747)	–	(732)	–	**(2,577)**
Raw materials, fuel and other consumables	(94)	(2,846)	–	(285)	–	**(3,225)**
Maintenance expenditure	(10)	(1,809)	–	(2,631)	–	**(4,450)**
Charge for provisions and legal claims related expenses	–	(388)	–	–	–	**(388)**
Other operating expenses	(1,621)	(4,149)	–	(1,963)	–	**(7,733)**
Gain from sale of non-core assets	–	4,151	–	–	–	**4,151**
Other income	21	3,176	–	–	–	**3,197**
EBITDA	**20,508**	**107,665**	**–**	**34,078**	**–**	**162,251**
Finance income (sub-note 3)	395	2,749	–	1,293	–	**4,437**
Finance costs (sub-note 3)	(2,931)	(35,939)	–	(24,873)	–	**(63,743)**
Foreign exchange gains	1,792	23,791	–	(25)	–	**25,558**
Depreciation and amortization	(2,782)	(33,819)	–	(12,580)	–	**(49,181)**
Impairment of property plant and equipment	–	–	–	(36,595)	–	**(36,595)**
Reassessment of estimates related to Eurobonds refinancing (sub-note 3)	–	(33,138)	–	(2,766)	–	**(35,904)**
Non-recurring expenses, net (sub-note 4)	(231)	(15,494)	–	(2,296)	–	**(18,021)**
Profit before income tax expense	**16,751**	**15,815**	**–**	**(43,764)**	**–**	**(11,198)**
Income tax expense	–	–	–	–	–	**–**
Profit (loss) for the year	**16,751**	**15,815**	**–**	**(43,764)**	**–**	**(11,198)**

[1] 52% of total revenue from electric power sales is generated from one customer.

(Amounts expressed in thousands of Georgian Lari)

7. Segment information (continued)

Water supply and wastewater collection services (continued)

Composition of selected items from consolidated statement of financial position items presented to chief operating decision maker as at 31 December 2021 was as follows:

	GGU Water 31 December 2021	*GGU Energy 31 December 2021*	*GGU Consolidated 31 December 2021*
Cash at bank	59,894	36,948	96,842
Total assets	**715,906**	**355,368**	**1,071,274**
Borrowings and bonds issued	525,628	307,328	832,956
Lease liability	364	1,309	1,673
Total liabilities	**600,671**	**310,780**	**911,451**
Total equity	**115,235**	**44,588**	**159,823**

	GGU Water – Electric power generation and sales, 2020	*GGU Water – Water supply and wastewater collection services, 2020* (Reclassified)*	*GGU Water - Intersegment transactions, 2020**	*GGU Energy, 2020*	*Eliminations, 2020*	*Total, 2020* (Reclassified)*
Revenue from water supply and related services	–	120,549	–	–	–	**120,549**
Revenue from electric power sales[2]	16,919	–	(3,802)	38,258	(7,220)	**44,155**
Business interruption reimbursement gain	–	–	–	4,252	–	**4,252**
Other revenue	–	1,080	–	–	–	**1,080**
Total revenue (sub-note 1)	**16,919**	**121,629**	**(3,802)**	**42,510**	**(7,220)**	**170,036**
Electricity and transmission costs	(100)	(21,490)	3,802	(221)	–	**(18,009)**
Cost of electric power sales	(7,220)	–	–	–	7,220	**–**
Salaries and other employee benefits (sub-note 2)	(1,863)	(18,503)	–	(1,063)	–	**(21,429)**
Allowance for ECLs	–	(6,248)	–	–	–	**(6,248)**
Taxes other than income tax	(290)	(5,513)	–	(2,536)	–	**(8,339)**
General and administrative expenses	(178)	(3,507)	–	(376)	–	**(4,061)**
Professional fees	(118)	(1,984)	–	(677)	–	**(2,779)**
Raw materials, fuel and other consumables	(146)	(3,138)	–	(55)	–	**(3,339)**
Maintenance expenditure	(9)	(1,440)	–	(2,801)	–	**(4,250)**
Charge for provisions and legal claims related expenses	–	(560)	–	–	–	**(560)**
Other operating expenses	(1,368)	(5,141)	–	(1,734)	–	**(8,243)**
Gain from sale of non-core assets	–	1,120	–	–	–	**1,120**
Other income	11	2,809	–	–	–	**2,820**
EBITDA	**5,638**	**58,034**	**–**	**33,047**	**–**	**96,719**
Finance income (sub-note 3)	269	1,780	–	355	–	**2,404**
Finance costs (sub-note 3)	(3,751)	(32,097)	–	(23,772)	–	**(59,620)**
Foreign exchange losses	(2,875)	(40,475)	–	(1,301)	–	**(44,651)**
Depreciation and amortization	(2,479)	(33,218)	–	(12,640)	–	**(48,337)**
Loss on extinguishment of financial liabilities	(843)	(10,059)	–	(10,002)	–	**(20,904)**
Non-recurring expenses, net (sub-note 4)	2	(1,003)	–	(575)	–	**(1,576)**
Loss before income tax expense	**(4,039)**	**(57,038)**	**–**	**(14,888)**	**–**	**(75,965)**
Income tax expense	–	–	–	–	–	**–**
Loss for the year	**(4,039)**	**(57,038)**	**–**	**(14,888)**	**–**	**(75,965)**

[2] 65% of total revenue from electric power sales is generated from one customer.

Composition of selected items from consolidated statement of financial position items presented to chief operating decision maker as at 31 December 2020 was as follows:

	GGU Water 31 December 2020	*GGU Energy 31 December 2020*	*GGU Consolidated 31 December 2020*
Cash at bank	55,577	63,262	118,839
Total assets	**653,220**	**436,701**	**1,089,921**
Borrowings and bonds issued	514,916	318,647	833,563
Lease liability	405	1,237	1,642
Total liabilities	**574,320**	**324,219**	**898,539**
Total equity	**78,900**	**112,482**	**191,382**

(Amounts expressed in thousands of Georgian Lari)

7. Segment information (continued)

Water supply and wastewater collection services (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 2021 and 2020, the Group consumed electric power generated by Zhinvali Hydro Power Plant (HPP) and Tetrikhevi HPP. For the purpose of segment disclosure in 2021, the revenue from the internally used electric power was recorded at a regulated tariff set by the GNERC (Decree No. 82, dated 29 December 2020). For the purpose of segment disclosure in 2020, the revenue from the internally used electricity was recorded at a regulated tariff set by GNERC (decree No. 50, dated 27 December 2017).
- **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.
- **Finance income, finance costs and reassessment of estimates related to Eurobonds refinancing** – Finance income and finance costs were allocated according to the amount of borrowings received for each segment. Reassessment of estimates related to Eurobonds refinancing was split between the segments by attributing to the water segment in full the present value of the call option premium to be paid, which will be financed by the way of shareholder loan from Aqualia. The remainder of the effect (such as acceleration of initial transaction costs amortization period) was split between segments pro rata to the initial bond proceeds allocation.
- **Non-recurring expenses, net** – In 2021, out of total non-recurring expenses Mestiachala 1 impairement, reassessment of insurance reimbursement asset and non-recurring expenses related to Kasleti flood are fully attributable to energy segment, while tax expenses on abnormal water losses (Note 6) is allocated entirely to water utility segment. Technical due diligence fees are allocated to the segments based on initial bond principal allocation ratio.

8. Property, plant and equipment

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

	Land plots	*Real estate*	*Water Infrastruc-ture assets*	*Energy Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost								
31 December 2020	**7,003**	**35,896**	**697,937**	**423,157**	**32,411**	**10,840**	**28,032**	**1,235,276**
Additions	–	–	16,013	3,428	135	90	71,650	**91,316**
Disposals	(19)	(414)	(479)	(2,043)	(613)	(25)	(84)	**(3,677)**
Transfers	926	4,937	62,377	1,022	1,823	820	(71,905)	**–**
Currency translation	(84)	–	–	(20,589)	(45)	(41)	(232)	**(20,991)**
31 December 2021	**7,826**	**40,419**	**775,848**	**404,975**	**33,711**	**11,684**	**27,461**	**1,301,924**
Accumulated depreciation and impairment								
31 December 2020	**378**	**9,982**	**246,407**	**30,851**	**13,409**	**5,623**	**1,572**	**308,222**
Depreciation charge	–	639	28,646	14,595	2,794	1,018	–	**47,692**
Disposals	(1)	(170)	(298)	4	(351)	(18)	–	**(834)**
Transfer	(25)	(61)	789	–	(67)	(35)	(601)	**–**
Impairment	–	–	–	36,595	–	–	–	**36,595**
Currency translation	–	–	–	(1,343)	(3)	(6)	(57)	**(1,409)**
31 December 2021	**352**	**10,390**	**275,544**	**80,702**	**15,782**	**6,582**	**914**	**390,266**
Net book value								
31 December 2020	**6,625**	**25,914**	**451,530**	**392,306**	**19,002**	**5,217**	**26,460**	**927,054**
31 December 2021	**7,474**	**30,029**	**500,304**	**324,273**	**17,929**	**5,102**	**26,547**	**911,658**

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment (continued)

The movements in property, plant and equipment in 2020 were as follows:

	Land plots	*Real estate*	*Water Infrastruc-ture assets*	*Energy Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost								
31 December 2019	**7,092**	**34,548**	**629,526**	**364,276**	**31,236**	**8,239**	**29,156**	**1,104,073**
Additions	12	52	14,808	9,037	464	1,484	61,821	**87,678**
Disposals	(318)	–	(279)	–	(1,567)	(7)	(609)	**(2,780)**
Transfers	51	1,296	53,882	3,908	2,197	1,065	(62,399)	**–**
Currency translation	166	–	–	45,936	81	59	63	**46,305**
31 December 2020	**7,003**	**35,896**	**697,937**	**423,157**	**32,411**	**10,840**	**28,032**	**1,235,276**
Accumulated depreciation and impairment								
31 December 2019	**423**	**9,396**	**218,841**	**15,647**	**11,525**	**4,729**	**1,480**	**262,041**
Depreciation charge	–	589	27,883	14,462	2,716	885	–	**46,535**
Disposals	(45)	(3)	(317)	–	(835)	(3)	–	**(1,203)**
Currency translation	–	–	–	742	3	12	92	**849**
31 December 2020	**378**	**9,982**	**246,407**	**30,851**	**13,409**	**5,623**	**1,572**	**308,222**
Net book value								
31 December 2019	**6,669**	**25,152**	**410,685**	**348,629**	**19,711**	**3,510**	**27,676**	**842,032**
31 December 2020	**6,625**	**25,914**	**451,530**	**392,306**	**19,002**	**5,217**	**26,460**	**927,054**

As at 31 December 2021 and 2020, the Group has no property, plant and equipment pledged as collateral for its borrowings.

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.

As at 31 December 2020, 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 2,808 in the consolidated statement of financial position with related business interruption reimbursement income of GEL 4,252 in the consolidated statement of comprehensive income included in Business interruption reimbursement gain.

During 2021, the Group remeasured the reimbursement assets previously recognized, based on revised agreement with the insurer. As a result of the amendment, the reimbursement assets in the amount of GEL 2,158 was written-off in non-recurring expenses. Remaining portion of reimbursement asset has been received by the Group during 2021. Hence, as at 31 December 2021, in relation to the mentioned loss event, no reimbursement assets were outstanding.

As for Mestiachala 1, the damage was much more severe. In line with the outcome of the comprehensive cost and feasibility assessment, the restoration process of the HPP has been suspended indefinitely. Hence, as at 31 December 2021, it was decided to impair the assets of Mestiachala 1 HPP, resulting in GEL 36,595 impairment charge.

In July 2021, flood event occurred in the valley of Kasleti river, causing damage to the Kasleti 2 HPP. As a result, to the flood event, Kasleti 2 stopped operating for one month, but resumed generations in September 2021. Currently, the negotiations with insurance company is ongoing. Although the Group has assessed the damage and provided accounting according to the insurance policy. As at 31 December 2021 the Group wrote-off the damaged items of property, plant and equipment with the net carrying amount of GEL 2,037. In relation to the loss event, the Group recognized a reimbursement asset (insurance claim receivable) from an insurance company, an entity under common control, in the amount of GEL 1,731. Respective net loss is included in non-recurring items in consolidated statement of profit or loss and comprehensive income for 2021.

The Group also recognized reimbursement asset and income related to the business interruption in the amount of GEL 587. As at 31 December 2021, reimbursement asset balance is fully attributable to the mentioned event.

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

(Amounts expressed in thousands of Georgian Lari)

9. Investment property

	Land	*Buildings*	*Total*
As at 31 December 2019	**7,528**	**1,113**	**8,641**
Net gain from fair value remeasurement	900	213	**1,113**
As at 31 December 2020	**8,428**	**1,326**	**9,754**
Disposals[1]	(2,907)	(723)	**(3,630)**
Net gain from fair value remeasurement	1,317	(59)	**1,258**
As at 31 December 2021	**6,838**	**544**	**7,382**

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

Fair value measurement

Investment properties are stated at fair value. The date of the latest valuation performed by an independent appraiser is 27 December 2021, the valuation methods used are in accordance with those recommended by the International Valuation Standards Committee, consistent with IFRS 13, *Fair Value Measurement*, and applied on a consistent basis.

Valuation method used for majority of investment property represents the market approach. Certain properties were appraised applying income approach by the independent valuator. The Group uses several properties in a manner that differs from its highest and best use, because Group intends to sell them and not make capital expenditures on projects that may differ from the Groups principal business activities, which are regulated by GNERC.

Market approach

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

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

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

Class of investment property	*Fair value as at 31 December 2020*	*Valuation technique*	*Significant unobservable inputs used*	*Value of input / range / weighted average / rent price per square meter*
Land plots		Income approach	Discount rate,	12.2%;
		Market approach	Price per square meter,	0.009-1.266 (0.06);
	8,428		Rent price per square meter	0.307
Buildings	1,326	Market approach	Price per square meter	0.231-2.658 (0.43)
Total investment property	**9,754**			

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

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

(Amounts expressed in thousands of Georgian Lari)

10. Other assets

As at 31 December 2021 other current assets of GEL 2,594 (31 December 2020: 268) comprise GCAP's shares purchased by the Group for the purpose of settlement of its share-based compensation scheme (Note 24). The shares are classified at fair value through profit or loss.

	31 December 2021	*31 December 2020*
Intangible assets	3,782	3,075
Prepayments for non-current assets	1,491	2,354
Other non-current assets	763	2,273
Total other non-current assets	**6,036**	**7,702**

Historical cost of intangible assets and accumulated amortisation and impairment as at 31 December 2021 amounted to GEL 11,155 and GEL 7,373, respectively (31 December 2020: GEL 9,236 and GEL 6,161).

Intangible assets amortisation charge, including software licenses, was GEL 1,212 in 2021 (2020: GEL 1,475).

11. Trade and other receivables

	31 December 2021	*31 December 2020*
Non-current		
Trade receivables for water supply services from general population	121	179
	121	**179**
Less allowance for expected credit losses	(38)	(126)
Total restructured trade receivables, net	**83**	**53**
Current		
Trade receivables for water supply services from general population	28,069	21,669
Trade receivables for water supply services from legal entities	19,671	13,946
Trade receivables for installation of water meters	325	107
Trade receivables for connection service	3,756	3,236
Trade receivables for electric power sales	3,876	2,276
	55,697	**41,234**
Less allowance for expected credit losses	(33,829)	(28,917)
Total current trade receivables, net	**21,868**	**12,317**
Other receivables	5,373	3,140
Less allowance for expected credit losses	(1,316)	(1,413)
Total other receivables, net	**4,057**	**1,727**
Total current trade and other receivables, net	**25,925**	**14,044**

As at 31 December 2021 Other receivables mainly relate to the income that is not in scope of IFRS 15, *Revenue from Contracts with Customers*, including GEL 941 of penalties on illegal connections and GEL 1,301 related to sale of non-core assets to third parties. As at 31 December 2020 the other receivables mainly comprise GEL 1,233 of penalties on illegal connections and GEL 861 related to sale of non-core assets to related parties (Note 5).

GEL 1,803 included in Other receivables as at 31 December 2021, relates to management services provided to the entities under common control (Note 5) and is in scope of IFRS 15 *Revenue from Contracts with Customers*.

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

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

(Amounts expressed in thousands of Georgian Lari)

11. Trade and other receivables (continued)

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

31 December 2021	*Contract assets*	*Current*	*Less than 30 days*	*30 to 60 days*	*61 to 90 days*	*Over 91 days*	*Total*
Expected credit loss rate	0.00%	0.00%	1.76%	30.11%	39.96%	96.06%	**57.50%**
Carrying amount at default	1,965	3,775	18,228	890	548	35,785	**61,191**
Expected credit loss	**–**	**–**	**320**	**268**	**219**	**34,376**	**35,183**

Aging analysis of trade and other receivables per classes as at 31 December 2020 is as follows:

31 December 2020	*Contract assets*	*Current*	*Less than 30 days*	*30 to 60 days*	*61 to 90 days*	*Over 91 days*	*Total*
Expected credit loss rate	0.00%	0.00%	5.10%	23.20%	45.70%	95.50%	**68.36%**
Carrying amount at default	1,133	2,509	8,348	974	729	30,860	**44,553**
Expected credit loss	**–**	**–**	**426**	**226**	**333**	**29,471**	**30,456**

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

	Non-current trade and other receivables	*Current trade and other receivables*	*Total*
31 December 2019	**54**	**25,274**	**25,328**
Allowance for expected credit losses	72	6,176	**6,248**
Bad debts written off	–	(1,120)	**(1,120)**
31 December 2020	**126**	**30,330**	**30,456**
Allowance for expected credit losses	(88)	6,177	**6,089**
Bad debts written off	–	(1,362)	**(1,362)**
31 December 2021	**38**	**35,145**	**35,183**

In 2021 and 2020 the Group wrote-off aged receivables arisen more than three years ago. Bad debt write-offs were conditioned by amendments of a decree regarding potable water supply and consumption issued by GNERC, pursuant to which customers were exempted from obligation to pay amounts older than three years. Written-off receivables have been previously fully provided for.

12. Equity

Share capital

As at 31 December 2021, share capital as presented in these consolidated financial statements comprised of GEL 84,666 (31 December 2020: GEL 104,666) representing 84,665,263 (31 December 2020: 104,665,263) ordinary shares of GGU with nominal value of GEL 1 (one) each.

	Number of ordinary shares	*Nominal amounts*
31 December 2019	**1,700**	**2**
Group reorganization	104,663,563	104,664
31 December 2020	**104,665,263**	**104,666**
Reduction of share capital	(20,000,000)	(20,000)
31 December 2021	**84,665,263**	**84,666**

(Amounts expressed in thousands of Georgian Lari)

12. Equity (continued)

Contributions from and distributions to the Immediate Parent

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. The Group reflected that transaction as acquisition of non-controlling interest in existing subsidiary in the consolidated statement of changes in equity resulting in decrease in equity attributable to non-controlling interests and increase in equity attributable to owners of the Immediate Parent by GEL 22,113.

In 2020, Svaneti Hydro JSC increased share capital in exchange for cash consideration from the shareholders of GEL 3,108.

In March 2020, Georgia Energy Holding LLC decreased its charter capital by distributing GEL 4,927 to the shareholder.

On 6 July 2020, GGU issued shares in relation to acquisition of renewable energy subsidiaries. Svaneti Hydro JSC, Georgia Energy Holding LLC and Georgian Wind Company LLC have transferred to GGU contributing capital of GEL 104,664.

Dividends

In 2021, no dividends were declared and paid (2020: GEL 15,000). In 2020, dividends per share amounted GEL 0.14.

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 24).

Before reorganization on 6 July 2020, additional paid-in capital included share capital of transferred subsidiaries, which was consequently transferred to share capital of GGU.

Other reserves

Other reserves reflect the transfers of cash to the Immediate Parent for the GCAP's shares granted to the employees of the Group (Note 24) and unrealised gains/(losses) from transactions with owners of non-controlling interests in existing subsidiaries, and foreign currency translation reserve.

Revaluation reserve

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

Management of capital

The Group's objectives when managing capital are:

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

To achieve these goals the Group performs a detailed analysis of capital structure considering the cost of borrowed funds and level of own capital available. The Group defines capital for capital management purposes as equity and borrowings and bonds issued recognized in the consolidated financial statements. There are no externally imposed capital requirements to which the Group is subject to. Equity as at 31 December 2021 and 2020 was GEL159,823 and GEL 191,382, respectively. Borrowings and bonds issued as at 31 December 2021 and 2020 were GEL 832,956 and GEL 833,563, respectively.

There were no changes in the objectives, policies or processes for managing capital in 2021 and 2020.

(Amounts expressed in thousands of Georgian Lari)

13. Borrowings and bonds issued

	31 December 2021		*31 December 2020*	
	Current liabilities	***Non-current liabilities***	***Current liabilities***	***Non-current liabilities***
Eurobonds issued	25,007	801,716	26,459	806,560
Loans from Georgian financial institutions	48	3,481	–	384
Loans from entities under common control	109	2,136	–	160
Other loans	25	434	–	–
Total borrowings and bonds issued	**25,189**	**807,767**	**26,459**	**807,104**

On 23 July 2020, the Company issued US Dollar 250 million green bonds. The senior unsecured US Dollar-denominated 7.75% green notes, with a 5-year non-call 2-year bullet maturity ("Eurobonds"), were settled on 30 July 2020. Eurobonds were issued and sold at par value. Eurobonds are listed on the Global Exchange Market of the Irish Stock Exchange and rated B+ (RWE) by Fitch and B (stable) by S&P. The proceeds of Eurobonds were used to refinance major existing loan arrangements of the Group and to finance capital expenditures in the water supply and wastewater collection services. The Group incurred loss on extinguishment of the financial liabilities, mostly related to the prepayment fees on the borrowings refinanced out of Eurobonds proceeds, in amount GEL 20,904, recognized in the consolidated statement of profit or loss and other comprehensive income in 2020.

As of 31 December 2021, the Group has USD-denominated Eurobonds issued of GEL 826,723 (2020: GEL 833,019).

As of 31 December 2021, borrowings comprise of EUR denominated loans of GEL 317 (2020: GEL 384), USD denominated loans of GEL 5,916 (2020: GEL 160) and GEL denominated loans of nil (2020: nil).

At 31 December 2021 and 2020, the Group does not have any undrawn borrowing facilities.

As of 31 December 2021, the Group's borrowings from entity under common control are denominated in USD with a fixed interest rate of 10% and with average maturity of 2 years (2020: fixed interest rate of 10% with average maturity of 2 years).

Borrowings and bonds issued matures on average in 4 years (2020: 5 years).

In 2021, the Group incurred borrowings costs of GEL 64,686 (2020: GEL 60,441) of which GEL 1,328 has been capitalized to property, plant and equipment (2020: GEL 1,242).

As one of the conditions to successful completion of the share sale transaction of the Group to Aqualia the management of the Group should redeem Eurobonds on or after 30 July 2022 (Note 6). The management intends to exercise call option and redeem Eurobonds on 30 July 2022 at the redemption price specified by the bond prospectus (expressed as percentages of principal amount), plus accrued and unpaid interest, if any, on Eurobonds redeemed. Redemption price for 30 July 2022 is 103.875%. The amortized cost of the Eurobonds as at 31 December 2021 reflects the expected cash payments, including the early redemption premium.

Changes in liabilities arising from financial activities

	Borrowings	***Eurobonds issued***	***Local bonds issued***	***Lease liabilities***	***Total***
Carrying amount at 31 December 2019	**622,755**	**–**	**30,611**	**1,311**	**654,677**
Foreign currency translation	39,104	49,637	–	–	**88,741**
Cash proceeds	56,495	770,164	–	–	**826,659**
Cash repayments	(720,376)	(2,259)	(30,000)	(445)	**(753,080)**
Interest accrued	30,252	27,009	2,188	171	**59,620**
Interest paid (classified as financing cash outflows)	(38,283)	–	(2,444)	(171)	**(40,898)**
Commission paid for loan prepayment	(12,422)	–	–	–	**(12,422)**
Loss on extinguishment of financial liabilities	20,904	–	–	–	**20,904**
Other	2,115	(11,532)	(355)	775	**(8,997)**
Carrying amount at 31 December 2020	**544**	**833,019**	**–**	**1,641**	**835,204**
Foreign currency translation	(465)	(46,264)	–	–	**(46,729)**
Cash proceeds	6,046	1,399	–	–	**7,445**
Cash repayments	(23)	–	–	(454)	**(477)**
Interest accrued	298	63,060	–	202	**63,560**
Interest paid (classified as financing cash outflows)	(18)	(61,898)	–	(202)	**(62,118)**
Reassessment of estimates related to Eurobonds refinancing	–	35,904	–	–	**35,904**
Other	(149)	1,503	–	485	**1,839**
Carrying amount at 31 December 2021	**6,233**	**826,723**	**–**	**1,672**	**834,628**

(Amounts expressed in thousands of Georgian Lari)

14. Contract assets and liabilities

The Group recognised GEL 236,721 of revenue from contracts with customers in 2021 (2020: GEL 164,704). The disaggregation of revenue from contracts with customers by types are presented in the consolidated statement of profit and loss and other comprehensive income for 2021 and in Notes 16, 17 and revenue from management services provided to the entities under common control included in Other revenue.

Contract balances

The Group recognised the following revenue-related contract balances:

	31 December 2021	*31 December 2020*
Receivables		
Trade receivables	21,951	12,370
Total	**21,951**	**12,370**
Contract liabilities		
Advances received	16,005	12,801
Deferred revenue	32,419	30,542
Total	**48,424**	**43,343**

The Group recognised GEL 5,201 of revenue that relates to carried-forward contract liabilities in 2021 (2020: GEL 4,764).

Change in advances received in 2021 was mostly caused by cash receipts from electric power sales. Change in trade receivable mostly relate to increase in water sales volumes as offset against ECL charges.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date and deferred as of 31 December 2021:

	In 2022	*In 2023*	*In 2024*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on contracts with customers	5,545	4,682	4,353	7,596	10,243	**32,419**

The 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 2020:

	In 2021	*In 2022*	*In 2023*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on contracts with customers	5,201	4,637	3,923	6,903	9,878	**30,542**

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.

15. Trade and other payables

	31 December 2021	*31 December 2020*
Trade payables	6,065	6,396
Payables for non-current assets	4,290	4,037
Payables to employees	5,619	2,490
Other payables	412	104
Total trade and other payables	**16,386**	**13,027**

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

(Amounts expressed in thousands of Georgian Lari)

16. Revenue from water supply and related services

	2021	*2020*
Revenue from water supply to legal entities	117,814	76,679
Revenue from water supply to general population	48,836	38,752
Total revenue from water supply before charges for related services	**166,650**	**115,431**
Charges for connection service	4,671	4,058
Charges for installation of water meters	1,001	1,060
Total revenue from water supply and related services	**172,322**	**120,549**

The Group recognized revenue from metered water supply of GEL 132,725 thousand in 2021 (2020: GEL 91,815).

17. Revenue from electric power sales

	2021	*2020*
Revenue from electric power sales to ESCO	32,596	28,766
Revenue from electric power sales to commercial customers	30,039	15,389
Total revenue from electric power sales	**62,635**	**44,155**

18. Salaries and other employee benefits

	2021	*2020*
Salaries	18,031	18,444
Bonuses	3,677	1,653
Employee share-based compensation	1,057	1,332
Total salaries and benefits	**22,765**	**21,429**

19. General and administrative expenses

	2021	*2020*
Security expenses	1,686	1,445
Utility expenses	915	1,099
Communication expenses	525	509
Office expenses	370	816
Advertising expenses	105	134
Representation expenses	13	34
Business trip expenses	9	24
Total general and administrative expenses	**3,623**	**4,061**

20. Professional fees

	2021	*2020*
Consulting expenses	2,163	2,232
Legal and other professional fees	414	547
Total professional fees	**2,577**	**2,779**

(Amounts expressed in thousands of Georgian Lari)

20. Professional fees (continued)

Auditor's remuneration

Remuneration of Group's auditor for the years ended 31 December 2021 and 2020 comprises (net of VAT):

	2021	*2020*
Fees for the audit of the Company's annual financial statements for the year ended 31 December	397	557
Fees for the audit of the Company's interim financial statements for the six months ended 30 June	120	169
Fees for the audit of the subsidiaries' stand alone financial statements for the year ended 31 December	236	213
Fees in connection with the Bonds issuance which was directly capitalized to the borrowings balance	–	1,566
Total auditor's remuneration	**753**	**2,505**

21. Other income

	2021	*2020*
Net gain (losses) from revaluation of investment property	1,258	1,113
Derecognition of unclaimed advances received and trade payables	539	409
Net share-based remeasurement income	346	247
Penalty income on illegal connection services	254	668
Net gain from sale of inventories	331	79
Other income	469	304
Total other income	**3,197**	**2,820**

22. Other operating expenses

	2021	*2020*
Insurance expense	3,688	3,396
Bill processing expenses	1,472	1,515
Compensation for damage	600	733
Fines and penalties	533	641
Regulation fee	399	312
Rent expenses	325	250
Net loss from disposal of property, plant and equipment	178	421
Maintenance expenditure	169	78
Charity expenses	77	37
Cost of wastewater treatment	71	79
Electricity production facilities utilization costs	31	15
Research and certification expenses	6	16
Other expenses	184	750
Total other operating expenses	**7,733**	**8,243**

23. Finance costs

	2021	*2020*
Interest expense on borrowings	63,358	59,199
Bank fees and charges	183	250
Interest expense on lease liabilities	202	171
Total finance costs	**63,743**	**59,620**

(Amounts expressed in thousands of Georgian Lari)

24. Share-based payments

In 2018, Georgia Capital PLC introduced GCAP's Executives' Equity Compensation Plan ("EECP"). Under the EECP, shares of GCAP were 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 ordinary shares of GCAP. The total amount of shares fixed to each executive was being 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 was determined at the grant date using available market quotations. The Group considered 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.

On 1 April 2020, compensation agreements were amended to transfer responsibility for payment of GCAP ordinary shares from JSC Georgia Capital to the Company. The amendment resulted in modification of the award from equity settle share-based payment to cash settled share-based payment from 1 April.

On 29 May 2021, compensation agreements were further amended and GCAP ordinary shares were substituted by phantom shares of the Company.

In accordance with the amendments, GCAP ordinary shares awarded in relation to financial years ended before 1 January 2021 are being vested according to the previous scheme, while phantom shares of the Company will be awarded in relation to financial year 2021 and beyond. The vesting period has not changed.

As a result of modification, the Group recognized increase in other current liabilities of GEL 561 and additional paid-in capital of GEL 281. The Group recognized share-based charge of GEL 99 in respect of the modified awards subsequent to the modification date as salaries and other employee benefits in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2021 and GEL 148 as cost capitalized to property, plant and equipment in the consolidated statement of financial position as of 31 December 2021. Remeasurement loss of GEL 33 is included in other operating expenses.

Following an expected transfer of control on water utility business to Aqualia (Note 6) based on the SPA signed on 31 December 2021, awarded but unvested shares under cash and equity settled share-based payment plans are expected to be fully vested upon the change of control in February 2022. Respectively, any unrecorded expense in relation to these shares were immediately recognized as expense in 2021. The Group recognized GEL 1,651 EECP acceleration effect in non-recurring expenses (Note 25). Additional shares may be awarded to executives in relation to their service for financial year 2021.

In addition to the EECP, the Group granted 6,400 shares of GCAP to the employees of the Group in 2019. Granted shares are accounted as cash settled share-based payments, which were also fully vested upon change of control. Effect is included in non-recurring expenses and amounts GEL 51 (Note 25).

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

	2021	*2020*
Shares outstanding at 1 January	**167,382**	**179,000**
Granted during the year	–	–
Forfeited during the year	(80,736)	–
Vested during the year	(11,162)	(11,618)
Shares outstanding at 31 December	**75,484**	**167,382**

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2020 3.4. No GCAP's shares were granted during the years 2021 and 2020. The weighted average fair value of shares vested during 2021 and 2020 was GEL 33.4.

In addition to GCAP's shares, executives are awarded phantom 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.

Certain members of Supervisory Board are awarded with GCAP shares. GCAP has obligation to settle those awards which are therefore treated as equity-settled in Group's consolidated financial statements.

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:

	2021	*2020*
Increase in equity arising from equity-settled share-based payments	3,087	2,356
Salary expense arising from equity-settled transactions	904	1,028
Non-recurring expenses from equity-settled transactions	827	–

(Amounts expressed in thousands of Georgian Lari)

24. Share-based payments (continued)

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

	2021	*2020*
Liability outstanding in relation to cash-settled share-based payment transactions	4,049	1,924
Salary expense arising from cash-settled transactions	153	304
Non-recurring expenses from cash-settled transactions	875	−

The Group has an obligation to settle cash-settled share based award granted to employees of an entity under common control. In 2021, the Group recognized GEL 1,048 (2020: 205) of share-based charge attributable to those employees directly in consolidated statement of changes in equity.

In 2021, cash transfers to Immediate Parent under the equity-settled and cash-settled share-based payment plans was GEL 414 (2020: GEL 1,365).

On 1 April 2020, the Group modified terms of certain share-based awards to its management settled in shares GCAP. At the date of modification, the Group assumed from its Parent the liability to settle the awards in amount of GEL 766 resulting from change of classification of those awards from equity-settled to cash-settled. At the modification date, the Group also recognized GEL 864 of shares issued by GCAP held in the employee benefit trust for the purpose of satisfaction of those awards as financial assets measured through fair value through profit or loss, with the difference between modification date carrying values of the assets recognized and share-based payments liability assumed of GEL 98 recognized in the consolidated statement of changes in equity.

As at 31 December 2020, the Group recognized in respect of the modified awards GEL 268 as current and GEL 973 non-current financial assets at fair value through profit or loss (Level 1 of fair value hierarchy) and cash-settled share-based payment liability of GEL 268 thousand as current and GEL 1,364 as non-current in the consolidated statement of financial position. The Group recognized share-based charge of GEL 173 in respect of the modified awards subsequent to the modification date as salaries and other employee benefits in the consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2020 and GEL 259 as cost capitalized to property, plant and equipment in the consolidated statement of financial position as at 31 December 2020. Remeasurement component of GEL 247 is included in Other income.

As at 31 December 2021 the Group recognized GEL 2,594 of shares issued by GCAP in other current assets in relation to cash-settled share-based payment transactions, granted with regards to executives and employees. Remeasurement component of GEL 346 is included in Other income.

25. Non-recurring expenses

	2021	*2020*
Tax expenses on abnormal water losses (Note 6)	11,559	247
Reassessment of insurance reimbursement asset (Note 8)	2,158	988
Employee share-based compensation acceleration (Note 24)	1,702	−
Termination-related cash-based employee compensation (a)	1,530	−
Charity expenses	−	75
Technical due diligence service fee	1,474	−
Income on grant related to Mestiachala 1 (b)	(794)	−
Non-recurring expenses related to Kasleti flood (Note 8)	306	−
Other non-recurring expenses	86	266
Total non-recurring expenses	**18,021**	**1,576**

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

(b) On 27 of December 2017, the Company received a grant from Oesterreichische Entwicklungsbank AG (“OEEB”), an Austrian government agency. The grant amounted to GEL 1,344 and GEL 1,422 as of 31 December 2021 and 2020, respectively and after meeting certain contractual conditions, reimbursed for amounts paid in relation to technical design of Mestiachala HPPs. Amount is recorded as deferred income and recognised as income in equal amounts over the expected useful life of the related asset. Due to impairment of Mestiachala 1, in 2021, the Company recognized non-recurring income in relation to grant related to Mestiachala 1 in the amount of GEL 794.

(Amounts expressed in thousands of Georgian Lari)

26. Commitments and contingencies

Commitments

As at 31 December 2021 and 2020, 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 eight 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.

Environmental matters

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

Taxation

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

27. Financial instruments

Financial instruments overview

Cash at bank

Cash at bank as at 31 December 2021 and 2020 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 2021 and 2020, the Group did not have any significant financial assets that are past due, except for trade and other receivables (Note 11).

Fair value measurement

Assets and liabilities measured at fair value in the consolidated statement of financial position as at 31 December 2021 include investment property with fair value of GEL 7,382 (Level 3 of fair value hierarchy) (31 December 2020: GEL 9,754), financial assets held for trading with fair value of GEL 8,122 (31 December 2020: nil) (Level 2 of fair value hierarchy) (Note 5), shares issued by GCAP in other current assets of GEL 2,594 (31 December 2020: GEL 268 and GEL 973 in other current and non-current assets respectively) (Level 1 of fair value hierarchy) in relation to cash-settled share-based payment transactions.

All financial instruments for which fair values are disclosed by the Group as at 31 December 2021 and 2020, 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 2021 and 2020.

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique or, in relation to shares and Eurobonds quoted on organized markets, with reference to their bid prices. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair values of fixed rate borrowings (Level 2 of fair value hierarchy) approximate the carrying values of the instruments. As of 31 December 2021, the fair value of fixed rate Eurobonds issued amounts to GEL 842,000 thousand, considering options exercise.

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

(Amounts expressed in thousands of Georgian Lari)

27. Financial instruments (continued)

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 2021 and 2020 currency risk arises from the USD denominated borrowings.

Currency	***Appreciation / depreciation in % 2021***	***Effect on profit 2021***
USD	15.00%	57,108
USD	-7.00%	(24,475)

Currency	***Increase/ decrease in % 2020***	***Effect on profit 2020***
USD	15.00%	70,702
USD	-7.00%	(32,994)

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 2021 and 2020, the Group has no other significant financial assets subject to credit risk except for:

- Cash at bank and restricted cash: as at 31 December 2021 out of total cash at bank of GEL 96,842 (2020: GEL GEL 118,839), GEL 75,148 (2020: GEL 118,796) 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 11).

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 2021 and 2020, 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.

(Amounts expressed in thousands of Georgian Lari)

27. Financial instruments (continued)

Risk arising from financial instruments (continued)

The table below shows financial liabilities as at 31 December 2021 and 2020 based on contractual undiscounted repayment obligations.

	Less than 1 year	*1-3 years*	*3-5 years*	*Over 5 years*	*Total*
As at 31 December 2021					
Long-term and short-term borrowings and bonds issued	60,531	121,056	838,176	2,400	**1,022,163**
Trade and other payables	16,386	–	–	–	**16,386**
Lease liabilities	315	391	224	3,648	**4,578**
Total future payments	**77,232**	**121,447**	**838,400**	**6,048**	**1,043,127**
As at 31 December 2020					
Long-term and short-term borrowings and bonds issued	49,376	152,029	945,336	219	**1,146,960**
Trade and other payables	13,027	–	–	–	**13,027**
Lease liabilities	286	409	193	3,960	**4,848**
Total future payments	**62,689**	**152,438**	**945,529**	**4,179**	**1,164,835**

In managing liquidity risk, the management of the Group considers the Group will be able to settle the liabilities falling due by applying cash proceeds from operations towards the upcoming coupon payments due on the Eurobonds (Note 13). As disclosed in Note 6, the Group expects to repay the Eurobonds in full in 2022, which is earlier than presented in the above table based on contractual cash flows. The Group's shareholders committed to provide shareholder loans for the Eurobonds refinancing (Note 6).

28. Events after the reporting period

Change in controlling shareholder

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

After the sales transaction, management of Aqualia has decided to change composition of the board of the Group, that resulted in changes of chief executive officer, chairman and members of the supervisory board.

War in Ukraine

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant depreciation of the Russian Ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Georgia. It is expected that the war will have a negative impact on the Georgian economy. As the war is still waging, it is impossible to reliably assess the impact this may have on the Group's business as there is uncertainty over the magnitude of the impact on the economy in general. The Group's management is monitoring the economic situation in the current environment. The Group considers the war in Ukraine to be a non-adjusting post balance sheet event.