Georgian Global Utilities LTD

Consolidated financial statements

for the year ended 31 December 2016
with independent auditor's report

Contents

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Independent auditor's report

To the Management and Shareholder of Georgian Global Utilities LTD

Opinion

We have audited the consolidated financial statements of Georgian Global Utilities LTD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of 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 financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Responsibilities of management and the Shareholder 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 Shareholder 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company 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.

We communicate with the Partner 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.

Marchello Gelashvili
For and on behalf of EY Georgia LLC

11 April 2017

Tbilisi, Georgia

Consolidated statement of financial position

As at 31 December 2016

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	8	329,300	287,578
Investment property	9	18,922	19,503
Restructured trade receivables	11	184	307
Restricted cash	25	5,094	2,545
Deferred income tax asset	23	–	279
Other non-current assets	10	2,359	2,568
Total non-current assets		**355,859**	**312,780**
Current assets			
Inventories		3,058	3,245
Trade and other receivables	11	21,337	17,073
Current income tax prepayments		795	1,340
Prepaid taxes other than income tax		2,809	5,284
Prepayments		289	345
Cash at bank	25	27,512	11,633
Total current assets		**55,800**	**38,920**
Total assets		**411,659**	**351,700**
Equity	12		
Charter capital		2	2
Retained earnings		98,157	74,774
Revaluation reserve for property, plant and equipment		180,923	153,955
Total equity		**279,082**	**228,731**
Liabilities			
Non-current liabilities			
Borrowings	13	83,786	45,733
Deferred income tax liability	23	–	28,437
Other non-current liabilities		22	9
Total non-current liabilities		**83,808**	**74,179**
Current liabilities			
Borrowings	13	22,481	28,330
Advances received		3,818	6,618
Trade and other payables	14	18,613	11,830
Provisions for liabilities and charges	15	706	1,318
Current income tax liability		330	–
Other taxes payable		2,821	694
Total current liabilities		**48,769**	**48,790**
Total liabilities		**132,577**	**122,969**
Total liabilities and equity		**411,659**	**351,700**

Approved for issue and signed on behalf of the Board of Directors on 11 April 2017:

Avtandil Namicheishvili
Director

Irakli Gilauri
Director

The accompanying notes on pages 5 to 32 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 2016

(Amounts expressed in thousands of Georgian Lari)

	Note	2016	2015
Revenue from water supply	16	109,402	104,757
Revenue from electric power sales		10,112	9,182
Other revenue	17	5,200	3,803
Total revenue		**124,714**	**117,742**
Salaries and other employee benefits	18	(16,680)	(20,981)
Electricity and transmission costs		(17,747)	(11,554)
Raw materials, fuel and other consumables		(2,856)	(5,634)
Maintenance expenditure		(2,860)	(4,144)
General and administrative expenses	19	(3,101)	(2,961)
Taxes other than income tax		(3,298)	(3,409)
Professional fees		(2,299)	(2,457)
Allowance for impairment of trade receivables	11	(2,198)	(433)
Charge for provisions and legal claims related expenses		(718)	(168)
Other income	20	2,073	946
Other operating expenses	21	(6,515)	(5,356)
		(56,199)	**(56,151)**
EBITDA		**68,515**	**61,591**
Interest income		220	180
Finance costs	22	(10,985)	(21,544)
Net foreign exchange losses		(462)	(217)
Depreciation and amortisation	8, 10	(17,842)	(17,846)
Profit before income tax expense		**39,446**	**22,164**
Income tax expense	23	(3,659)	(6,950)
Profit for the year		**35,787**	**15,214**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Effect of changes in tax legislation	23	27,572	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**27,572**	**–**
Other comprehensive income for the year, net of tax		**27,572**	**–**
Total comprehensive income for the year, net of tax		**63,359**	**15,214**

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016

(Amounts expressed in thousands of Georgian Lari)

	Charter capital	*Retained earnings*	*Revaluation reserve for property, plant and equipment*	*Total*
Balance as at 31 December 2014	**2**	**59,301**	**154,214**	**213,517**
Profit for the year	–	15,214	–	**15,214**
Total comprehensive income for the year	**–**	**15,214**	**–**	**15,214**
Realised revaluation reserve for property, plant and equipment, net of deferred tax	–	259	(259)	**–**
Balance as at 31 December 2015	**2**	**74,774**	**153,955**	**228,731**
Profit for the year	–	35,787	–	**35,787**
Other comprehensive income (Note 23)	–	–	27,572	**27,572**
Total comprehensive income for the year	**–**	**35,787**	**27,572**	**63,359**
Realised revaluation reserve for property, plant and equipment	–	604	(604)	**–**
Dividends declared (Note 12)	–	(13,008)	–	**(13,008)**
Balance as at 31 December 2016	**2**	**98,157**	**180,923**	**279,082**

Consolidated statement of cash flows

For the year ended 31 December 2016

(Amounts expressed in thousands of Georgian Lari)

	Note	*2016*	*2015*
Cash flows from operating activities			
Profit before income tax		**39,446**	**22,164**
Adjustments for:			
Depreciation and amortisation	8, 10	17,842	17,846
Allowance for impairment of trade receivables	11	2,198	433
Charge for provisions	15	718	168
Net loss from disposal of property, plant and equipment	21	230	141
Net foreign exchange losses		462	217
Interest income		(220)	(180)
Finance costs	22	10,985	21,544
Operating cash flows before working capital changes			
Change in inventories		187	420
Change in trade and other receivables		(6,339)	(8,284)
Change in prepaid taxes other than income tax		2,475	(3,204)
Change in prepayments		56	3,457
Change in trade and other payables		(225)	2,578
Change in advances received		(2,800)	(489)
Change in other tax payables		2,127	(926)
Change in restricted cash		(2,549)	(85)
Change in other non-current liabilities		13	(3)
Interest received		220	180
Interest paid		(10,803)	(7,118)
Income tax paid		(3,370)	(1,108)
Net cash from operating activities		**50,653**	**47,751**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(54,584)	(30,156)
Purchase of investment property		(31)	–
Proceeds from sale of property, plant and equipment		166	326
Proceeds from sale of investment property		925	–
Issue of loans		–	(27)
Net cash used in investing activities		**(53,524)**	**(29,857)**
Cash flows from financing activities			
Proceeds from borrowings		91,264	88,005
Repayment of borrowings		(59,012)	(107,375)
Dividend paid to the Group's owner	12	(13,008)	–
Net cash from / (used in) financing activities		**19,244**	**(19,370)**
Effect of exchange rate changes on cash and cash equivalents		(494)	(129)
Net decrease in cash and cash equivalents		**15,879**	**(1,605)**
Cash and cash equivalents at the beginning of year	25	11,633	13,238
Cash and cash equivalents at the end of year	25	**27,512**	**11,633**

(Amounts expressed in thousands of Georgian Lari)

1. Corporate information

Georgian Global Utilities LTD (formerly named as Multiplex Energy Limited) was incorporated in British Virgin Islands on 16 August 2007 as a private company with limited liability (the "Company" or "GGU"). The Company is a holding parent company of the following entities holding 100% interest in each of them:

	Country of incorporation	*Date of incorporation*	*Date of acquisition*	*31 December 2016*	*31 December 2015*
Georgian Water and Power LLC ("Management company")	Georgia	25 June 1997	14 May 2008	100%	100%
Rustavi Water LLC	Georgia	31 August 1999	14 May 2008	100%	100%
Mtskheta Water LLC	Georgia	1 September 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 2014	100%	100%

The Company together with its subsidiaries makes up a group of companies (the "Group").

The Group's principal business activities are rendering water supply and wastewater collection services to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. The Group owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection. The Group also owns hydroelectric power stations generating electricity for own use and for sale to electricity open market.

The Company's registered address is at 33 Porter Road, P.O. Box 3169 PMB103, Road Town, Tortola, British Virgin Islands.

As at 31 December 2016, 100% of the Company's shares are owned by JSC BGEO Investments, the ultimate parent of which is BGEO Group PLC ("BGEO"). BGEO is a premium listed company on London Stock Exchange; no individual shareholder owns more than 10% of the BGEO's shares.

As at 31 December 2015, 25% of shares of GGU were owned by BGEO (formerly known as Bank of Georgia Holdings PLC). The remaining 75% of shares were ultimately controlled by Mr. Andrey N. Rappoport.

2. Operating environment

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

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the developed countries.

3. Basis of preparation

These consolidated financial statements of the Group for the year ended 31 December 2016 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 2016 reporting.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and property, plant and equipment 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

Adoption of new or revised standards and interpretations

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2016 which had no significant impact on the financial position and performance of the Group or the disclosures in the consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. 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. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 25.

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.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Fair value measurement (continued)

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.

Fair value of assets included in Level 3 of the fair value hierarchy may be subject to change once and if observable relevant transactions are available.

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

Financial assets

All of the Group's financial assets including trade and other receivables, loans issued, restricted cash and cash at bank fall into loans and receivables measurement category.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include:

- Any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- The counterparty considers bankruptcy or a 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.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss in the allowance for impairment of trade receivables line with a negative sign as a reversal of impairment.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as class of receivable, number of overdue days and whether the Group got an ability to cooperate with energy suppliers for the purpose of debt collection or not.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).
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 impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. In addition, a customer may file an application with the regulator – Georgian National Energy and Water Supply Regulatory Commission ("GNERC") – for derecognition of a receivable overdue for more than 3 years. If such an application is approved by GNERC, the Group is required to derecognize respective receivable by law. Refer to Note 11 for further details on assessment and judgement applied in respect with impairment and write-off of trade 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 for installation of water meters from general population can be restructured. The restructuring is caused by the financial difficulties of the Group's counterparty, and is treated as a derecognition of the original financial asset and the recognition of a new financial asset, and the difference in the respective carrying amounts is recognised in the profit or loss.

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial instruments

Financial assets

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

- The rights to receive cash flows from the asset have expired; or
- The 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.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

The Group's borrowings comprise of debt securities issued and loans from Georgian financial institutions.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

Property, plant and equipment

Infrastructure assets comprise a network of systems consisting of raw water aqueducts, mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and initially recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset base is charged as an operating cost.

The Group's property, plant and equipment are stated at revalued amount less accumulated depreciation and provision for impairment, where required. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase of the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease of the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for property, plant and equipment in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. Any accumulated depreciation, aggregated with accumulated impairment losses, at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset. When the asset is derecognised the revaluation surplus is transferred directly to accumulated deficit.

Land, real estate and infrastructure assets are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. The Group charges deferred tax liabilities in respect of revaluation of property, plant and equipment directly to equity and in other comprehensive income.

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Useful lives in years
Real estate	50 years
Infrastructure assets	10-40 years
Fixtures and fittings	3 years
Vehicles	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. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 for future redevelopment before exact details of use are not yet determined.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The last revaluation of investment property was conducted by independent appraiser as at 1 January 2014. Subsequently the Group performed the assessment of investment property at their own.

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.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation. 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.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Georgian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (applicable to undistributed profits) and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

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

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 exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in restricted cash separately.

All cash at bank balances are classified as current and not impaired.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Charter capital

The amount of Company's authorised charter capital is defined by the Company's Article of Association. The changes in the Company's Article of Association (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's owners. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owners to the Company.

Dividends

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

Value added tax

Value added tax ("VAT") related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is recognised upon the receipt of a tax invoice from a supplier but is reclaimable against sales VAT only upon a payment of such invoice. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the end of the reporting period is recognised in the 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 foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur.

The amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred on that borrowing during the period of respective property development phase.

Provisions for liabilities and charges to provisions

Provisions for liabilities and charges to provisions 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.

EBITDA

The Group separately presents EBITDA on the face of consolidated statement of profit or loss and comprehensive income. EBITDA is not defined in IFRS but 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 and net foreign exchange losses.

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 recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Functional currencies and foreign currency translation

The Group's consolidated financial statements are presented in Georgian Lari, which is also the Company's functional currency. 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.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Functional currencies and foreign currency translation (continued)

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

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

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia (“NBG”) exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2016 and 2015 were 2.6468 and 2.3949 Georgian Lari to 1 US dollar, respectively.

Total amount of foreign exchange losses recognized in profit or loss and other comprehensive income for the year ended 31 December 2016 amounts to GEL 462 (2015: GEL 14,084), which consists of net foreign exchange losses related to borrowings in the amount of GEL nil (2015: GEL 13,867) included to finance costs and net foreign exchange losses related to other financial instruments in the amount of GEL 462 (2015: GEL 217) presented in the respective item of profit or loss and other comprehensive income.

Income and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognized:

Revenue from water supply to legal entities

Includes amounts billed to the customers based on the metered or estimated usage of water by legal entities 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 from the last billing through to the end of the financial year.

Revenue from water supply to 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 or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for general population.

Revenue from installation of water meters

Includes amounts billed to population according to the acting rules of Georgian National Energy and Water Supply Regulatory Commission. Revenue is recognised upon completion of works in respect of water meter installation services to the individual customers.

Revenue from electric power sales

Is recognised on the basis of metered electric power transferred.

Revenue from connection service

Is recognised based on the completion of works in respect to connection services to the individual customers.
In respect of long term contracts, revenue is recognised based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

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, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Employee benefits

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

Standards issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. New standards relevant to the Group's activities that may have any impact on the Group, or the impacts of which are currently being assessed, are as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date and is currently assessing its impact of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted.

The Group made IFRS 15 impact assessment and elected early adoption of new revenue recognition from 1 January 2017. The management performed the analysis and concluded that non-refundable connection and water meters installation fees are not distinct, shall be bundled with water supply services and respective connection and water supply contract shall be treated as one that includes one performance obligation. As a result, as of 1 January 2017 the Group will start recognizing non-refundable connection and water meters installation fees during the service period which is estimated to be 10 years. Possible effect from the respective change in revenue recognition policy as described above is expected to result in decrease of retained earnings of GEL 17,854 and recognition of deferred revenue of the same amount as at 1 January 2017.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 7 Disclosure Initiative – amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASBs *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of IFRS 16 on its consolidated financial statements.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This amendment is effective for annual periods beginning on or after 1 January 2018.

The Group is currently assessing the impact of Amendments to IAS 40 on its consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation is effective for annual periods beginning on or after 1 January 2018.

The Group is currently assessing the impact of IFRIC Interpretation 22 on its consolidated financial statements.

(Amounts expressed in thousands of Georgian Lari)

5. Reclassification of prior year balances

During 2016 the Group reconsidered the presentation of its consolidated statement of financial position for the purpose of more accurate presentation of certain accounts stated in the table below. The presentation of comparative figures has been adjusted to conform to the presentation of the current period amounts:

Consolidated statement of financial position as at 31 December 2015	***As previously reported***	***Reclassification***	***As reclassified***
Prepayments	2,746	(2,401)	345
Trade and other receivables	14,672	2,401	17,073

Consolidated statement of cash flows for the year ended 31 December 2015	***As previously reported***	***Reclassification***	***As reclassified***
Change in trade and other receivables	(5,883)	(2,401)	(8,284)
Change in prepayments	1,056	2,401	3,457

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:

Measurement of fair value of investment properties and property, plant and equipment

The fair value of investment properties and property, plant and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties and property, plant and equipment with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation, as well as valuation inputs and techniques are presented in Notes 8 and 9. The Group's certain properties are specialized in nature and spread across the different parts of the country. While secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Ownership and recognition of infrastructure assets

The Group's property, plant and equipment includes certain specific items, such like water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatisation transaction. Due to the lack of required documents and timing for registration, the Group was not able to obtain legal ownership title on certain fixed assets including infrastructure assets as at the date of these consolidated financial statements. However, based on the provisions of privatization agreement referred to in Note 1, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Group and could only be used by the Group (as a sole provider of water and water supply services in Tbilisi, Rustavi and Mtskheta) there is high probability that the Group will continue operation of infrastructure assets in future and will obtain legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Group or disputes on ownership, management recognised infrastructure assets as the Group's property, plant and equipment.

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.

(Amounts expressed in thousands of Georgian Lari)

6. Significant accounting judgements and estimates (continued)

Impairment of trade and other receivables

The impairment provision for accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. 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. Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the Group's historical collection experience for receivables of similar age. Provisions against trade receivables are made based on historical experience of levels of recovery from accounts in a particular ageing category. The value of the impairment provision is sensitive to the specific percentages applied.

The management's estimates can be further revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

7. Segment information

For management purposes, the Group is organised into two operating segments based on products and services as follows:

Electricity generation

The Group owns hydroelectric power stations generating electricity for own consumption and for sale to electricity market.

Water supply and wastewater collection services

The Group provides water supply and wastewater collection to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. It captures production, treatment, transportation, distribution of water and waste water collection. The Group owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection.

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 in the same manner as profit or loss in the consolidated financial statements. Management does not monitor total assets, total liabilities and non-current assets separately for each segment, but analyses it on the Group's level.

Transactions between operating segments are on an arm's length basis in a manner as with transactions with third parties.

The Groups's operations are concentrated in Georgia.

All non-current assets of the Group are located in Georgia.

(Amounts expressed in thousands of Georgian Lari)

7. Segment information (continued)

Water supply and wastewater collection services (continued)

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2016 or 2015.

	Sub note	*Electricity generation, 2016*	*Water supply and wastewater collection services, 2016*	*Intersegment transactions, 2016*	*Total, 2016*
Revenue from water supply		–	109,402	–	**109,402**
Revenue from electric power sales		15,032	–	(4,920)	**10,112**
Other revenue		–	5,200	–	**5,200**
Total revenue	1	**15,032**	**114,602**	**(4,920)**	**124,714**
Salaries and benefits	2	(612)	(16,068)	–	**(16,680)**
Electricity and transmission costs	1	(112)	(22,555)	4,920	**(17,747)**
Raw materials, fuel and other consumables		(129)	(2,727)	–	**(2,856)**
Maintenance expenditure		(124)	(2,736)	–	**(2,860)**
General and administrative expenses		(95)	(3,006)	–	**(3,101)**
Taxes other than income tax		(97)	(3,201)	–	**(3,298)**
Professional fees		(18)	(2,281)	–	**(2,299)**
Allowance for impairment of trade receivables		–	(2,198)	–	**(2,198)**
Charge for provisions		–	(718)	–	**(718)**
Other income		6	2,067	–	**2,073**
Other operating expenses		(769)	(5,746)	–	**(6,515)**
EBITDA		**13,082**	**55,433**	**–**	**68,515**
Interest income	3	115	105	–	**220**
Finance costs	3	(122)	(10,863)	–	**(10,985)**
Net foreign exchange losses		(270)	(192)	–	**(462)**
Depreciation and amortisation		(2,237)	(15,605)	–	**(17,842)**
Profit before income tax expense		**10,568**	**28,878**	**–**	**39,446**
Income tax expense	4	(497)	(3,162)	–	**(3,659)**
Profit and other comprehensive income for the year		**10,071**	**25,716**	**–**	**35,787**

(Amounts expressed in thousands of Georgian Lari)

7. Segment information (continued)

Water supply and wastewater collection services (continued)

	Sub note	*Electricity generation, 2015*	*Water supply and wastewater collection services, 2015*	*Intersegment transactions, 2015*	*Total, 2015*
Revenue from water supply		–	104,757	–	**104,757**
Revenue from electric power sales		18,359	(4,089)	(5,088)	**9,182**
Other revenue		–	3,803	–	**3,803**
Total revenue	1	**18,359**	**104,471**	**(5,088)**	**117,742**
Salaries and benefits	2	(1,448)	(19,533)	–	**(20,981)**
Electricity and transmission costs	1	(122)	(16,520)	5,088	**(11,554)**
Raw materials, fuel and other consumables		(105)	(5,529)	–	**(5,634)**
Maintenance expenditure		(67)	(4,077)	–	**(4,144)**
General and administrative expenses		(129)	(2,832)	–	**(2,961)**
Taxes other than income tax		(220)	(3,189)	–	**(3,409)**
Professional fees		(42)	(2,415)	–	**(2,457)**
Allowance for impairment of trade receivables		–	(433)	–	**(433)**
Charge for provisions		–	(168)	–	**(168)**
Other income		13	933	–	**946**
Other operating expenses		(284)	(5,072)	–	**(5,356)**
EBITDA		**15,955**	**45,636**	**–**	**61,591**
Interest income	3	19	161	–	**180**
Finance costs	3	(3,434)	(18,110)	–	**(21,544)**
Net foreign exchange losses		(39)	(178)	–	**(217)**
Depreciation and amortisation		(2,078)	(15,768)	–	**(17,846)**
Profit before income tax expense		**10,423**	**11,741**	**–**	**22,164**
Income tax expense	4	(2,864)	(4,086)	–	**(6,950)**
Profit and other comprehensive income for the year		**7,559**	**7,655**	**–**	**15,214**

The majority elements of revenue and costs were attributed to the relevant segments based on the actual results in the IFRS accounts. 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 provided below. In particular:

1. **Revenue** – during the year 2016 and 2015 the Group consumed electricity internally generated by Zhinvali HPP and Tetrikhevi HPP. For the purpose of the IFRS accounts, the revenue from the internally used electricity was recorded at a regulated tariff stated by Georgian National Energy and Water supply Regulatory Commission (decree No. 33, dated 4 December 2008). The respective cost of electricity for water supply and wastewater collection services segment is increased by the similar amount.
2. **Salaries and benefits** – the costs of salaries and other benefits except that of administrative staff were attributed directly to the appropriate segments based on actual expenditure. Salaries and benefits of the administrative staff were allocated proportionally based on the number of employees in each operating segment.
3. **Interest income and finance costs** were allocated to each segment proportionally based on the total revenue of each of the operating segment.
4. **Income tax expense** – income tax expense was apportioned between the segments proportionally based on the profit before income tax of each of the operating segment.

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment

The movements in property, plant and equipment during the year ended 31 December 2016 were as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Revalued amount							
31 December 2015	**89,232**	**16,486**	**191,990**	**7,577**	**2,243**	**12,021**	**319,549**
Additions	68	426	5,475	532	344	53,911	**60,756**
Disposals	–	(117)	(763)	(237)	(1)	(1,041)	**(2,159)**
Transfers	–	2,051	34,396	4,726	732	(41,905)	**–**
31 December 2016	**89,300**	**18,846**	**231,098**	**12,598**	**3,318**	**22,986**	**378,146**
Accumulated depreciation							
31 December 2015	**–**	**1,118**	**27,763**	**2,313**	**777**	**–**	**31,971**
Depreciation charge	–	619	14,700	1,179	692	–	**17,190**
Disposals	–	(9)	(142)	(164)	–	–	**(315)**
31 December 2016	**–**	**1,728**	**42,321**	**3,328**	**1,469**	**–**	**48,846**
Net book value							
31 December 2015	**89,232**	**15,368**	**164,227**	**5,264**	**1,466**	**12,021**	**287,578**
31 December 2016	**89,300**	**17,118**	**188,777**	**9,270**	**1,849**	**22,986**	**329,300**

The movements in property, plant and equipment during the year ended 31 December 2015 were as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Revalued amount							
31 December 2014	**89,071**	**15,682**	**156,716**	**6,347**	**1,647**	**22,288**	**291,751**
Additions	223	28	8,353	47	126	19,725	**28,502**
Disposals	(62)	–	(219)	(299)	(4)	(120)	**(704)**
Transfers	–	776	27,140	1,482	474	(29,872)	**–**
31 December 2015	**89,232**	**16,486**	**191,990**	**7,577**	**2,243**	**12,021**	**319,549**
Accumulated depreciation							
31 December 2014	**–**	**560**	**12,539**	**1,292**	**255**	**–**	**14,646**
Depreciation charge	–	558	15,315	1,166	523	–	**17,562**
Disposals	–	–	(91)	(145)	(1)	–	**(237)**
31 December 2015	**–**	**1,118**	**27,763**	**2,313**	**777**	**–**	**31,971**
Net book value							
31 December 2014	**89,071**	**15,122**	**144,177**	**5,055**	**1,392**	**22,288**	**277,105**
31 December 2015	**89,232**	**15,368**	**164,227**	**5,264**	**1,466**	**12,021**	**287,578**

The Group pledged its land plots and real estate property included to property, plant and equipment as collateral for its borrowings. The carrying amount of the land plots and real estate property pledged as at 31 December 2016 was GEL 7,727 (2015: GEL 3,697). Refer to Note 13.

If the property, plant and equipment were measured using the cost model, the carrying amounts of the property, plant and equipment as at 31 December 2016 and 2015 would be as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost as at 31 December 2016	**3,019**	**18,442**	**335,124**	**12,553**	**4,128**	**22,986**	**396,252**
Accumulated depreciation and impairment	(24)	(10,526)	(193,585)	(3,461)	(2,411)	–	**(210,007)**
Net book value as at 31 December 2016	**2,995**	**7,916**	**141,539**	**9,092**	**1,717**	**22,986**	**186,245**

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment (continued)

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost as at 31 December 2015	**3,137**	**14,562**	**314,128**	**9,658**	**3,588**	**12,021**	**357,094**
Accumulated depreciation and impairment	(194)	(8,389)	(202,978)	(4,816)	(2,334)	–	**(218,711)**
Net book value as at 31 December 2015	**2,943**	**6,173**	**111,150**	**4,842**	**1,254**	**12,021**	**138,383**

All Group's property, plant and equipment as at 31 December 2016 and 2015 is included in Level 3 fair measurement which techniques use unobservable inputs in valuation.

The valuation technique, inputs used in the fair value measurement for property, plant and equipment attributed to level 3 in the fair value hierarchy and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016 and 2015 respectively:

Class of property, plant and equipment	*Fair value as at 31 December 2016*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	89,300	Market approach	Price per square meter	0.002	Land	31,327,591	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 893
Real estate	17,118	Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.2%	Building	115,058	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 181; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 654
Infrastructure assets	188,777	Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.2%	Pipes and wells, equipment	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 1,979; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 7,156;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	9.1				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 10,1
Vehicles	9,270	Cost approach, Market approach	Prices of comparables, unit costs, technical parameters	14	Vehicles	N/a	±1%	1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 93
Fixtures and fittings	1,849	Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.2%	Fixtures and fittings	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 20; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 70;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	0.2				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 0.03
Total property, plant and equipment, excluding CIP and other	**306,314**							

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment (continued)

Class of property, plant and equipment	*Fair value as at 31 December 2015*	*Valuation technique*	*Significant unobservable Inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	89,232	Market approach	Price per square meter	0.002	Land	31,327,651	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 892
Real estate	15,368	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Building	114,052	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 31; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 250
Infrastructure assets	164,227	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Pipes and wells, equipment	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 328; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 2,677;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	3.6				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 5.3
Vehicles	5,264	Cost approach, Market approach	Prices of comparables, unit costs, technical parameters	14	Vehicles	N/a	±1%	1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 53
Fixtures and fittings	1,466	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Fixtures and fittings	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 3; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 24;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	0.2				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 0.1
Total property, plant and equipment, excluding CIP and other	**275,557**							

9. Investment property

The table below shows the composition and movements in investment property during 2016:

	2016		
	Land	***Buildings***	***Total***
As at 1 January	**16,125**	**3,378**	**19,503**
Additions	–	31	**31**
Disposals	(612)	–	**(612)**
As at 31 December	**15,513**	**3,409**	**18,922**

The Group pledged its investment property as collateral for its borrowings. The carrying amount of investment property pledged as at 31 December 2016 was GEL 7,413 (2015: GEL 16,526). Refer to Note 13.

(Amounts expressed in thousands of Georgian Lari)

9. Investment property (continued)

Fair value measurement

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest valuation performed by independent appraiser is 1 January 2014. The valuation was performed by an independent valuator. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Subsequently the Group performed the assessment of investment property at their own.

The method used represent the market approach.

Market approach

This method is based on the direct comparison of the subject property to another property object, which has been sold or has been entered on the sale registry. This method of evaluation is analogical either in relation to the vehicles or in relation to land plots. Adjustments to value are determined mainly based on the following considerations: 1) physical condition; 2) location; 3) pattern of use; 4) installation costs; 5) transportation coefficients (for vehicles).

The valuation technique, inputs used in the fair value measurement for investment property attributed to level 3 in the fair value hierarchy and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016 and 2015:

Class of investment property	*Fair value as at 31 December 2016*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	15,513	Market approach	Price per square meter	0.057	Land	272,142	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 155
Buildings	3,409	Market approach	Price per square meter	0.27	Building	12,637	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 34
Total investment property	**18,922**							

Class of investment property	*Fair value as at 31 December 2015*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	16,125	Market approach	Price per square meter	0.055	Land	295,625	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 161
Buildings	3,378	Market approach	Price per square meter	0.584	Building	5,781	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 34
Total investment property	**19,503**							

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2016 and 2015.

(Amounts expressed in thousands of Georgian Lari)

10. Other non-current assets

	31 December 2016	*31 December 2015*
Intangible assets	1,296	1,466
Prepayments for non-current assets	1,063	1,075
Loans issued	–	27
Total other non-current assets	**2,359**	**2,568**

Gross carrying amount of intangible assets and accumulated amortisation as at 31 December 2016 amounted to GEL 3,398 and GEL 2,102, respectively (2015: GEL 2,916 and GEL 1,450).

Amortisation charge during the year on intangible assets, including software licences, was GEL 652 in 2016 (2015: GEL 284).

11. Trade and other receivables

	31 December 2016	*31 December 2015*
Non-current		
Trade receivables for water supply services from general population	477	826
Trade receivables for installation of water meters from general population	–	34
	477	**860**
Less impairment loss provision	(293)	(553)
Total non-current trade and other receivables, net	**184**	**307**
Current		
Trade receivables for water supply services from general population	29,698	31,894
Trade receivables for water supply services from legal entities	17,848	11,110
Trade receivables for installation of water meters	1,434	1,817
Trade receivables for connection service	5,371	3,711
Trade receivables for electric power sales	1,168	357
	55,519	**48,889**
Less impairment loss provision	(35,945)	(35,405)
Total current trade receivables, net	**19,574**	**13,484**
Other receivables	1,763	3,589
Total current trade and other receivables, net	**21,337**	**17,073**

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

Analysis by credit quality of trade and other receivables is as follows:

	Neither past due nor impaired 31 December 2016	*Past due but not individually impaired 31 December 2016*	*Individually impaired 31 December 2016*	*Total 31 December 2016*
Non-current trade receivables	–	477	–	**477**
Current trade receivables	11,699	43,820	–	**55,519**
Other receivables	1,763	–	–	**1,763**
Total	**13,462**	**44,297**	**–**	**57,759**

(Amounts expressed in thousands of Georgian Lari)

11. Trade and other receivables (continued)

	Neither past due nor impaired 31 December 2015	*Past due but not individually impaired 31 December 2015*	*Individually impaired 31 December 2015*	*Total 31 December 2015*
Non-current trade receivables	–	860	–	**860**
Current trade receivables	6,197	42,482	210	**48,889**
Other receivables	3,589	–	–	**3,589**
Total	**9,786**	**43,342**	**210**	**53,338**

Included in past due but not individually impaired category are receivables that are past due at least one day and are not assessed for impairment on individual basis, but assessed for impairment on a collective basis.

Aging analysis of past due but not individually impaired loans per class of receivables is as follows:

31 December 2016	*Less than 30 days*	*30 to 90 days*	*91 to 180 days*	*181 to 360 days*	*Over 360 days*	*Total*
Non-current trade receivables	–	–	–	–	477	**477**
Current trade receivables	1,954	1,978	1,529	3,347	35,012	**43,820**
Total	**1,954**	**1,978**	**1,529**	**3,347**	**35,489**	**44,297**

31 December 2015	*Less than 30 days*	*30 to 90 days*	*91 to 180 days*	*181 to 360 days*	*Over 360 days*	*Total*
Non-current trade receivables	–	–	–	–	860	**860**
Current trade receivables	540	2,879	2,548	4,139	32,376	**42,482**
Total	**540**	**2,879**	**2,548**	**4,139**	**33,236**	**43,342**

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

	Non-current trade receivables	*Current trade receivables*	*Total*
31 December 2014	**281**	**36,496**	**36,777**
Charge	201	232	**433**
Utilised	71	(1,323)	**(1,252)**
31 December 2015	**553**	**35,405**	**35,958**
Charge	(260)	1,569	**1,309**
Utilised	–	(1,029)	**(1,029)**
31 December 2016	**293**	**35,945**	**36,238**

12. Equity

Charter capital

As at 31 December 2016 and 2015 the Group had fully contributed charter capital of GEL 2. As at 31 December 2016 and 2015, authorized common capital comprised 50,000, issued share capital comprised 1,000 ordinary shares, of which 1,000 were fully paid. As at 31 December 2016 each share has a nominal value of US dollar 1 (one).

Dividends

During 2016 dividends in the amount of GEL 13,008 were declared and paid in the proportion to the respective participation of the former shareholders.

(Amounts expressed in thousands of Georgian Lari)

12. Equity (continued)

Revaluation reserve for property, plant and equipment

The revaluation reserve for property, plant and equipment is used to record increases in the fair value of property, plant and equipment and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

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 met its internal minimal requirements to the capital structure in 2016 and 2015.

There are no externally imposed capital requirements to which the Group is subject to.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

13. Borrowings

	31 December 2016		*31 December 2015*	
	Current liabilities	*Non-current liabilities*	*Current liabilities*	*Non-current liabilities*
Loans from Georgian financial institutions	19,528	54,172	28,199	37,176
Debt securities issued	2,953	29,614	131	8,557
Total borrowings	**22,481**	**83,786**	**28,330**	**45,733**

In 2016, the Group completed the issuance of 5-year local bonds of GEL 30,000, out of which GEL 6,000 were used to refinance existing debt. The bonds were issued at par carrying floating coupon rates of NBG + 3.5% per annum, paid at maturity.

In 2015, the Group issued a 2-year local bonds of GEL 8,688. The bonds were issued at par carrying fixed and floating coupon rates of 12-14% and NBG + 7.5% per annum, paid at maturity.

As at 31 December 2016 borrowings include GEL denominated loans from Georgian financial institutions with fixed and floating rates of 19%, NBG + 4% and NBG + 8% respectively (2015: GEL denominated loans from Georgian financial institutions with fixed and floating rates of 18%, NBG + 4% and NBG + 7% respectively). Loans are maturing on average in 1,035 days (2015: 1,104 days).

At 31 December 2016, the Group has available GEL nil (2015: GEL 4,764) of undrawn borrowing facilities.

Some loans are received upon certain financial covenants, such as maintaining different limits for debt to EBITDA ratio, capital investments and others. As at 31 December 2016 and 2015 the Group complied with all these lender covenants.

Refer to Note 8 and Note 9 for the carrying amount of property, plant and equipment and investment property pledged as collateral for borrowings.

(Amounts expressed in thousands of Georgian Lari)

14. Trade and other payables

	31 December 2016	*31 December 2015*
Trade payables	9,285	8,287
Payables for non-current assets	7,454	1,776
Payables to employees	1,681	1,690
Other payables	193	77
Total trade and other payables	**18,613**	**11,830**

15. Provisions for liabilities and charges for provisions

Movements in provisions for legal claims and charges for provisions are as follows:

	Legal claims
Carrying amount as at 31 December 2014	**1,406**
Reversal recognized in profit or loss	(88)
Carrying amount as at 31 December 2015	**1,318**
Reversal recognized in profit or loss	(612)
Carrying amount as at 31 December 2016	**706**

In the normal course of business the Group is a party to legal actions. As at the reporting date, other than as presented above, 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 do not consider it feasible to accurately estimate when the provision will be fully utilised, given the varying levels 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 five 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.

16. Revenue from water supply

	2016	*2015*
Revenue from water supply to legal entities	78,139	74,587
Revenue from water supply to general population	31,263	30,170
Total revenue from water supply	**109,402**	**104,757**

17. Other revenue

	2016	*2015*
Revenue from connection service	4,589	3,173
Income from rent	573	477
Revenue from wastewater treatment	20	2
Revenue from installation of water meters	18	151
Total other revenue	**5,200**	**3,803**

(Amounts expressed in thousands of Georgian Lari)

18. Salaries and other employee benefits

	2016	*2015*
Salaries	15,628	19,108
Bonuses	1,052	1,873
Total salaries and benefits	**16,680**	**20,981**

19. General and administrative expenses

	2016	*2015*
Security expenses	988	985
Utility expenses	640	653
Office expenses	545	549
Communication expenses	314	262
Advertising expenses	248	107
Representation expenses	222	367
Business trip expenses	144	38
Total general and administrative expenses	**3,101**	**2,961**

20. Other income

	2016	*2015*
Derecognition of unclaimed advances received	1,667	–
Other income	406	946
Total other income	**2,073**	**946**

21. Other operating expenses

	2016	*2015*
Expenses related to sale of electricity	1,772	239
Bill processing expenses	1,760	1,539
Insurance expenses	793	313
Rent expenses	607	804
Regulation fee	255	534
Net loss from disposal of property, plant and equipment and investment property	230	141
Fines and penalties	137	246
Charity expenses	120	180
Cost of wastewater treatment costs	101	136
Other expenses	740	1,224
Total other operating expenses	**6,515**	**5,356**

22. Finance costs

	2016	*2015*
Interest expenses	10,526	7,572
Bank fees and charges	459	105
Net foreign exchange losses related to borrowings	–	13,867
Total finance costs	**10,985**	**21,544**

(Amounts expressed in thousands of Georgian Lari)

23. Income taxes

	2016	*2015*
Current tax	4,245	3,089
Deferred tax (reversal)/charge	(586)	3,861
Income tax expense	**3,659**	**6,950**

Statutory income tax rate applicable to the Company's income in 2016 and 2015 is 15%.

In May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status. The change has had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. The Company considered the new regime as substantively enacted effective June 2016 and thus has re-measured its deferred tax assets and liabilities as at 30 June 2016. Following the enactment of the amendments, as at 31 December 2016 the Company reversed in full its deferred tax assets and liabilities based on IAS 12 *Income Taxes* requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017.

The Company recognized income tax benefit resulting from reversal of deferred tax assets and liabilities in amount of GEL 586 in profit or loss, and benefit of GEL 27,572 resulting from reversal of deferred tax liabilities originated from the revaluation of property, plant and equipment in other comprehensive income (to the extent that it related to items previously recognised in other comprehensive income) for the year ended 31 December 2016.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2016 and 31 December 2015 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2016	*2015*
Profit before income tax	**39,446**	**22,164**
Statutory tax rate	15%	15%
Theoretical income tax charge at statutory rate	**(5,917)**	**(3,325)**
Georgian tax code change effect	586	–
Imputed tax payables for commercial loss	–	(167)
Unrecognised deferred tax related to recovery of bad debts	–	(4,235)
Non-taxable income	–	(1,713)
Tax effect of items which are not deductible	1,672	2,490
Income tax expense	**(3,659)**	**(6,950)**

24. Commitments and contingencies

Commitments

The Share Purchase Agreement (the "Agreement") was made on 14 May 2008 (and amended on 22 December 2009) by and between the Company, the Government of Georgia, the Ministry of Economic Development of Georgia and the Government of the City of Tbilisi on the purchase of 100% shares of Georgian Water and Power LLC, Rustavi Water LLC, Mtskheta Water LLC and Gardabani Sewage Treatment Plant LLC (collectively the "Subsidiaries").

According to the Agreement, the Company is obliged to perform certain technical obligations and invest not less than US dollar 220 million equivalent in GEL in performance of such technical obligations under the Agreement.

In accordance with the standby agreement dated 14 January 2010 with TBC Bank, the Group is liable towards the performance guarantee issued to the Government of Georgia in order to secure the execution of the commitments as per the Agreement. The performance guarantee as at 31 December 2016 amounts to GEL 7,940 (equivalent of US dollars 3 million) (2015: GEL 7,185 (US dollars 3 million), its fair value approximates zero as of 31 December 2016 and 2015.

(Amounts expressed in thousands of Georgian Lari)

24. Commitments and contingencies (continued)

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including termination of the loan agreement and withdrawal of loan amount or any part thereof. The Group was in compliance with covenants as at 31 December 2016 and 2015.

Environmental matters

The enforcement of environmental regulation in Georgia is evolving and the enforcement posture 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.

25. Financial instruments

Financial instruments overview

Restricted cash

Included in restricted cash as at 31 December 2016 and 2015 are funds blocked on the current account in a Georgian bank. The funds are pledged as collateral under the guarantee granted by the same bank. Refer to Note 24.

Cash at bank

Cash at bank as at 31 December 2016 and 2015 includes the funds placed on current accounts in Georgian banks.

As at 31 December 2016 and 2015 the Group did not have any significant financial assets that are past due but not impaired, except for trade and other receivables. Refer to Note 11.

Fair value measurement

All financial instruments other than loans issued, for which fair values are disclosed by the Group as at 31 December 2016 and 31 December 2015, are measured at fair value using a valuation technique with quoted prices in active markets and market observable inputs.

Loans issued by the Group as at 31 December 2016 and 31 December 2015 are attributed to level 3 in the fair value hierarchy.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2016 and 2015.

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

Risk arising from financial instruments

In the course of its ordinary activity the Group is exposed to interest rate, credit and liquidity risks. The Group's management oversees the management of these risks. The Group is not subject to currency risk as it does not have any significant foreign currency denominated financial instruments.

(Amounts expressed in thousands of Georgian Lari)

25. Financial instruments (continued)

Risk arising from financial instruments (continued)

Interest rate risk

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

Currency	***Increase/ decrease in % 2016***	***Effect on profit 2016***
GEL	-0.25%	(183)
GEL	+0.25%	183

Currency	***Increase/ decrease in % 2015***	***Effect on profit 2015***
GEL	-1.25%	(631)
GEL	+1.25%	631

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 2016 and 2015 the Group has no other significant financial assets subject to credit risk except for:

- Cash at bank and restricted cash: as at 31 December 2016 out of total cash at bank and restricted cash of GEL 32,606 (2015: 14,178), GEL 29,722 (2015: 8,817) 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;
- Non-current and current loans issued;
- Trade and other receivables (refer to Note 11).

The credit quality of all financial assets that are neither past due nor impaired is appropriate and is constantly monitored in order to identify any potential adverse changes in the credit quality. There are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

As at 31 December 2016 and 2015 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 amounts due to other banks, corporate and customer prepayments.

(Amounts expressed in thousands of Georgian Lari)

25. Financial instruments (continued)

Risk arising from financial instruments (continued)

The table below shows financial liabilities as at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations.

	Less than 1 year	*Over 1 year*	*Total*
As at 31 December 2016			
Long-term and short-term borrowings	29,398	108,247	**137,645**
Trade and other payables	18,613	–	**18,613**
Total future payments	**48,011**	**108,247**	**156,258**
As at 31 December 2015			
Long-term and short-term borrowings	29,093	64,019	**93,112**
Trade and other payables	11,830	–	**11,830**
Total future payments	**40,923**	**64,019**	**104,942**

26. Related parties disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control 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.

BGEO Group entities are represented by the members of BGEO Group.

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 2016	*31 December 2015*
	BGEO Group entities	*BGEO Group entities*
Cash and cash equivalents	**17,675**	**1,059**
Borrowings as at 1 January	**(22,229)**	**(78,600)**
Debt securities issued	(30,000)	(8,688)
Proceeds from borrowings and interest accrued during the year	(2,706)	(22,031)
Borrowing including interest repayments during the year	22,368	87,090
Borrowings as at 31 December	**(32,567)**	**(22,229)**

Interest expenses paid on borrowings from related parties amounted to GEL 2,702 and GEL 2,521 for the years ended 31 December 2016 and 2015, respectively.

Directors' compensation

Compensation paid to key management (includes the General Director and 4 members of the Management company, Georgian Water and Power LLC's management board) for their services in full time executive management positions is made up of salary, performance bonus depending on financial performance of the Management company and other compensation in form of reimbursement of housing, business trips, communication and other costs. Total compensation paid to key management amounted to GEL 2,188 and GEL 2,044 for the years ended 31 December 2016 and 2015, respectively.