Georgian Global Utilities LTD

Unaudited interim condensed consolidated financial statements

30 June 2019

Contents

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Report on Review of Interim Condensed Consolidated Financial Statements

To the Management and Board of Directors of
Georgian Global Utilities LTD

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Georgian Global Utilities LTD and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 June 2019 and the related interim consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Marchello Gelashvili
On behalf of EY LLC

Tbilisi, Georgia
22 August 2019

Interim consolidated statement of financial position

As at 30 June 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	30 June 2019 (unaudited)	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	5	614,264	586,207
Investment property	6	11,032	9,865
Right-of-use assets	3	450	–
Restructured trade receivables		173	204
Other non-current assets		2,901	2,161
Total non-current assets		628,820	598,437
Current assets			
Inventories		4,009	3,913
Trade and other receivables		19,758	19,499
Prepaid taxes other than income tax		9,980	1,465
Prepayments		2,350	1,647
Restricted cash		562	877
Cash and cash equivalents	7	29,901	13,772
Total current assets		66,560	41,173
Total assets		695,380	639,610
Equity			
Charter capital		2	2
Additional paid-in capital	15	14,863	10,657
Retained earnings		89,422	86,855
Other reserves	15	(9,313)	(7,545)
Revaluation reserve for property, plant and equipment		178,765	180,517
Total equity		273,739	270,486
Liabilities			
Non-current liabilities			
Borrowings	7	309,186	300,076
Deferred revenue	9	21,944	18,948
Lease liabilities	3	473	–
Other non-current liabilities		22	22
Total non-current liabilities		331,625	319,046
Current liabilities			
Borrowings	7	41,766	20,170
Advances received	9	8,309	8,424
Trade and other payables	8	24,609	13,929
Provisions for liabilities and charges		451	494
Deferred revenue	9	4,254	3,921
Derivative financial liabilities	13	840	1,777
Other taxes payable		9,787	1,363
Total current liabilities		90,016	50,078
Total liabilities		421,641	369,124
Total liabilities and equity		695,380	639,610

Approved for issue and signed on behalf of the Board of Directors on 22 August 2019:

Avtandil Namicheishvili
Director

Giorgi Vakhtangishvili
Director

The accompanying notes on pages 5 to 18 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	For the six months ended 30 June 2019 (unaudited)	For the six months ended 30 June 2018 (unaudited, not reviewed)
Revenue from water supply	10	62,843	61,753
Revenue from electric power sales		7,112	4,722
Other revenue	11	2,673	2,122
Total revenue		**72,628**	**68,597**
Salaries and other employee benefits		(9,936)	(9,480)
Electricity and transmission costs		(8,380)	(9,361)
Allowance for expected credit losses	12	(4,508)	(3,022)
Taxes other than income tax		(2,646)	(2,085)
General and administrative expenses		(1,755)	(1,762)
Professional fees		(1,389)	(1,186)
Raw materials, fuel and other consumables		(1,387)	(1,208)
Maintenance expenditure		(1,008)	(1,199)
Reversal of / (charge for) provisions and legal claims related expenses		43	(25)
Other operating expenses	14	(3,249)	(3,651)
Other income		826	1,603
		(33,389)	**(31,376)**
EBITDA		**39,239**	**37,221**
Interest income		535	222
Finance costs		(11,031)	(7,475)
Net foreign exchange (losses)/gains	13	(9,521)	4,391
Depreciation and amortisation	5	(16,018)	(12,084)
Non-recurring items, net	16	(2,389)	(5,484)
Profit before income tax expense		**815**	**16,791**
Income tax expense		–	–
Profit for the period		**815**	**16,791**
Other comprehensive income		–	–
Total comprehensive income for the period, net of tax		**815**	**16,791**

Interim consolidated statement of changes in equity

For the six months ended 30 June 2019

(Amounts expressed in thousands of Georgian Lari)

	Charter capital	*Additional paid-in capital*	*Other reserves*	*Retained earnings*	*Revaluation reserve for property, plant and equipment*	*Total*
Balance as at 31 December 2017	**2**	**2,783**	**(5,238)**	**89,465**	**180,774**	**267,786**
Effect from adoption of IFRS 9	–	–	–	(6,571)	–	**(6,571)**
Balance as at 1 January 2018	**2**	**2,783**	**(5,238)**	**82,894**	**180,774**	**261,215**
Profit for the period (unaudited, not reviewed)	–	–	–	16,791	–	**16,791**
Total comprehensive income for the period	**–**	**–**	**–**	**16,791**	**–**	**16,791**
Share-based payments (Note 15)	–	5,084	–	–	–	**5,084**
Transfers to parent under share-based compensation program (Note 15)	–	–	(779)	–	–	**(779)**
Realised revaluation reserve for property, plant and equipment (Note 5)	–	–	–	46	(46)	**–**
Balance as at 30 June 2018 (unaudited, not reviewed)	**2**	**7,867**	**(6,017)**	**99,731**	**180,728**	**282,311**
Balance as at 31 December 2018	**2**	**10,657**	**(7,545)**	**86,855**	**180,517**	**270,486**
Profit for the period (unaudited)	–	–	–	815	–	**815**
Total comprehensive income for the period	**–**	**–**	**–**	**815**	**–**	**815**
Share-based payments (Note 15)	–	4,206	–	–	–	**4,206**
Transfers to parent under share-based compensation program (Note 15)	–	–	(1,768)	–	–	**(1,768)**
Realised revaluation reserve for property, plant and equipment (Note 5)	–	–	–	1,752	(1,752)	**–**
Balance as at 30 June 2019 (unaudited)	**2**	**14,863**	**(9,313)**	**89,422**	**178,765**	**273,739**

The accompanying notes on pages 5 to 18 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of cash flows

For the six months ended 30 June 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	*For the six months ended 30 June 2019 (unaudited)*	*For the six months ended 30 June 2018 (unaudited, not reviewed)*
Cash flows from operating activities			
Profit before income tax		815	16,791
Adjustments for:			
Depreciation and amortisation	5	16,018	12,084
Allowance for expected credit losses		4,508	3,022
(Charge for) / reversal of provisions and legal claims related expenses		(43)	25
Net loss from disposal of property, plant and equipment	14	44	328
Net foreign exchange losses/(gains)		9,521	(4,391)
Finance income		(535)	(222)
Finance costs		11,031	7,475
Non-recurring transactions	16	(473)	–
Non-recurring tax expense	16	–	321
Share-based payment expense		3,453	5,163
Operating cash flows from working capital changes			
Change in inventories		(96)	376
Change in trade and other receivables		(4,708)	(4,826)
Change in prepaid taxes other than income tax		(8,515)	(8,735)
Change in prepayments		(703)	(644)
Change in trade and other payables		3,715	6,564
Change in deferred revenue		3,329	787
Change in advances received		(115)	(879)
Change in other tax payables		8,424	4,237
Change in restricted cash		329	3,510
Interest received		535	222
Interest paid		(11,785)	(9,709)
Change in current income tax		–	190
Net cash from operating activities		**34,749**	**31,689**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(37,005)	(88,597)
Proceeds from sale of property, plant and equipment		75	3
Proceeds from sale of investment property		–	1,455
Net cash used in investing activities		**(36,930)**	**(87,139)**
Cash flows from financing activities			
Proceeds from borrowings		29,260	27,522
Repayment of borrowings		(9,169)	(306)
Payment of lease liabilities		(93)	–
Transfers to parent under share-based compensation program	15	(1,768)	(779)
Net cash from financing activities		**18,230**	**26,437**
Effect of exchange rate changes on cash and cash equivalents		80	(2,454)
Net increase/(decrease) in cash and cash equivalents		**16,129**	**(31,467)**
Cash and cash equivalents at 1 January		13,772	61,963
Cash and cash equivalents at 30 June		**29,901**	**30,496**

The accompanying notes on pages 5 to 18 are an integral part of these interim condensed consolidated financial statements.

(Amounts expressed in thousands of Georgian Lari)

1. Corporate information

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

	Country of incorporation	*Date of incorporation*	*Date of acquisition*	*30 June 2019*	*31 December 2018*
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 2015	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 and operates hydroelectric power stations generating electricity for own use and for sale to electricity open market.

Georgian Water and Power LLC (the "Management company") renders management services to other entities within the Group.

The Company's registered address is at Skelton Bay Lot; Building #10, 1st Floor, P.O. Box 3169 PMB 103 Fish Bay, Tortola VG1110, British Virgin Islands.

As at 30 June 2019 and 31 December 2018, 100% of the Company's shares were owned by JSC Georgia Capital, the ultimate parent of which is Georgia Capital PLC ("GCAP").

2. Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2019 were prepared in accordance with International Accounting Standard (IAS 34), *Interim Financial Reporting*, and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2019 reporting.

The preparation of the interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the interim condensed consolidated financial statements. Although these estimates and assumptions are based on management's best estimates at the date of the interim condensed consolidated financial statements, actual results may differ from these estimates.

Assumptions and significant estimates in these interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018. The Group did not present interim financial information for six months ended 30 June 2018.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2018, signed and authorized for release on 17 April 2019.

These interim condensed consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise noted.

(Amounts expressed in thousands of Georgian Lari)

2. Basis of preparation (continued)

As at 30 June 2019, the Group's total current liabilities exceeded its total current assets by GEL 23,456. The excess resulted from the timing of certain payments that caused an increase in trade and other payables. Management believes the Group will be able to meet existing current obligations, as, based on past experience, operating cash flows generated in the second half of the year are considerably higher due to seasonality factor. The financial statements are prepared on the basis that the Group will continue to be a going concern. This basis of preparation presumes that the Group is going to repay its due obligations within 12 months and realize its assets and discharge its liabilities in the ordinary course of business.

3. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 *Leases*, and as required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of 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 recognises 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 are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees are 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 generally recognises 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 accounting under IAS 17. Lessors continues 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 requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

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

(Amounts expressed in thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

The effect of adoption IFRS 16 is as follows:

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

	1 January 2019
Right-of-use assets	223
Total right-of-use assets	**223**
Lease liabilities	223
Total lease liabilities	**223**

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

There is no impact on statement of cash flows, statement of profit or loss and other comprehensive income and statement of changes in equity.

The movements in right-of-use assets during the six months ended 30 June 2019 were as follows:

Balance as at 31 December 2018	**–**
The effect of adoption of IFRS 16	223
Balance as at 1 January 2019	**223**
Additions	339
Balance as at 30 June 2019	**562**
Accumulated depreciation	(112)
Right-of-use assets as at 30 June 2019	**450**

Impact on the interim consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2019:

	For the six months ended 30 June 2019 (unaudited)
Depreciation expense of right-of-use assets (Depreciation and amortization)	112
Interest expense on lease liabilities (Finance costs)	10
Rent expenses on short-term and low-value asset’s leases (Other operating expenses)	(99)
Net effect recognized in the interim consolidated statement of profit or loss and other comprehensive income	**23**

Summary of new accounting policies

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

Right-of-use assets

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

(Amounts expressed in thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Summary of new accounting policies (continued)

Lease liabilities

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

Short-term leases and leases of low-value assets

The Group elected to use the exemptions proposed by the standard and therefore not to record right-of-use assets and lease liabilities on lease contracts for which the lease terms ends within 12 months for leased vehicles and equipment and lease contracts for which the underlying asset is of low value.

Other standards and interpretations

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

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- Annual improvements to IFRSs 2015-2017 cycle: IAS 23 *Borrowing Costs*.

4. Segment information

The Group determines its operating segments based on the nature of their operations. Electricity generation segment owns hydroelectric power stations generating electricity for own consumption and for sale to external customers. Water supply and wastewater collection services segment provides water supply and wastewater collection services which is core activity of the Group.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on financial results measured on the same basis as in the consolidated financial statements. Management does not monitor total assets, total liabilities and non-current assets separately for each segment, however analyses these at the Group level.

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in six months ended 30 June 2019 and 2018.

(Amounts expressed in thousands of Georgian Lari)

4. Segment information (continued)

The following table present financial results information of the Group's operating segments for the six months ended 30 June 2019 (unaudited):

	Sub-note	*Electricity generation*	*Water supply and wastewater collection services*	*Intersegment transactions*	*Total*
Revenue from water supply	1	–	62,843	–	**62,843**
Revenue from electric power sales	1	8,982	–	(1,870)	**7,112**
Other revenue	1	–	2,673	–	**2,673**
Total revenue		**8,982**	**65,516**	**(1,870)**	**72,628**
Salaries and other employee benefits	2	(1,020)	(8,916)	–	**(9,936)**
Electricity and transmission costs	1	(47)	(10,203)	1,870	**(8,380)**
Allowance for expected credit losses		–	(4,508)	–	**(4,508)**
Taxes other than income tax		(69)	(2,577)	–	**(2,646)**
General and administrative expenses		(98)	(1,657)	–	**(1,755)**
Professional fees		(57)	(1,332)	–	**(1,389)**
Raw materials, fuel and other consumables		(30)	(1,357)	–	**(1,387)**
Maintenance expenditure		(4)	(1,004)	–	**(1,008)**
Reversal of provisions and legal claims related expenses		–	43	–	**43**
Other operating expenses		(401)	(2,848)	–	**(3,249)**
Other income		5	821	–	**826**
EBITDA		**7,261**	**31,978**	**–**	**39,239**
Finance income	3	785	(250)	–	**535**
Finance costs	3	(1,851)	(9,180)	–	**(11,031)**
Net foreign exchange losses		(2)	(9,519)	–	**(9,521)**
Depreciation and amortisation		(1,786)	(14,232)	–	**(16,018)**
Net non-recurring items	4	(2,128)	(261)	–	**(2,389)**
Profit before income tax expense		**2,279**	**(1,464)**	**–**	**815**
Income tax expense		–	–	–	**–**
Profit and other comprehensive income for the period		**2,279**	**(1,464)**	**–**	**815**

(Amounts expressed in thousands of Georgian Lari)

4. Segment information (continued)

The following table present financial results information of the Group's operating segments as at and for the six months ended 30 June 2018 (unaudited, not reviewed):

	Sub note	*Electricity generation*	*Water supply and wastewater collection services*	*Intersegment transactions*	*Total*
Revenue from water supply	1	–	61,753	–	**61,753**
Revenue from electric power sales	1	6,680	–	(1,958)	**4,722**
Other revenue	1	–	2,122	–	**2,122**
Total revenue		**6,680**	**63,875**	**(1,958)**	**68,597**
Salaries and other employee benefits	2	(922)	(8,558)	–	**(9,480)**
Electricity and transmission costs	1	(45)	(11,274)	1,958	**(9,361)**
Allowance for expected credit losses		–	(3,022)	–	**(3,022)**
Taxes other than income tax		(180)	(1,905)	–	**(2,085)**
General and administrative expenses		(57)	(1,705)	–	**(1,762)**
Professional fees		5	(1,191)	–	**(1,186)**
Raw materials, fuel and other consumables		(28)	(1,180)	–	**(1,208)**
Maintenance expenditure		(5)	(1,194)	–	**(1,199)**
Charge for provisions and legal claims related expenses		–	(25)	–	**(25)**
Other operating expenses		(926)	(2,725)	–	**(3,651)**
Other income		7	1,596	–	**1,603**
EBITDA		**4,529**	**32,692**	**–**	**37,221**
Finance income	3	20	202	–	**222**
Finance costs	3	(1,291)	(6,184)	–	**(7,475)**
Net foreign exchange (losses)/gains		(211)	4,602	–	**4,391**
Depreciation and amortisation		(1,606)	(10,478)	–	**(12,084)**
Net non-recurring items	4	(2,581)	(2,903)	–	**(5,484)**
Profit before income tax expense		**(1,140)**	**17,931**	**–**	**16,791**
Income tax expense		–	–	–	**–**
Profit and other comprehensive income for the period		**(1,140)**	**17,931**	**–**	**16,791**

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

1. **Revenue** − during the six months ended 30 June 2019 and 30 June 2018 the Group consumed electricity internally generated by Zhinvali HPP and Tetrikhevi HPP. For the purpose of segment disclosure in 2018 and 2019, the revenue from the internally used electricity was recorded at a regulated tariff set by GNERC (decree No. 50, dated 27 December 2017).
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 according to the amount of borrowings received for each segment.
4. **Net non-recurring items** include net amount of assets transferred to the Government and investment properties received from the Government under the share purchase agreement (Note 16) and employee share-based compensation. Assets transferred to the Government relate to electricity segment and assets received from the Government are attributable to water supply and wastewater collection services segment. Employee share-based compensation is allocated equally to each segment.

(Amounts expressed in thousands of Georgian Lari)

5. Property, plant and equipment

The movements in property, plant and equipment during the six months ended 30 June 2019 were as follows:

	Land plots	*Real estate*	*Infrastructure assets*	*Vehicles*	*Fixtures and fittings*	*Construction in progress*	*Total*
Revalued amount							
31 December 2018	**97,558**	**29,128**	**468,582**	**27,500**	**6,730**	**48,960**	**678,458**
Additions	–	–	7,208	16	15	37,456	**44,695**
Disposals	(695)	–	(289)	(708)	–	–	**(1,692)**
Transfers	1,350	4,504	16,290	1,384	113	(23,641)	**–**
30 June 2019 (unaudited)	**98,213**	**33,632**	**491,791**	**28,192**	**6,858**	**62,775**	**721,461**
Accumulated depreciation							
31 December 2018	**–**	**2,817**	**78,983**	**7,599**	**2,852**	**–**	**92,251**
Depreciation charge	–	385	13,503	1,267	411	–	**15,566**
Disposals	–	–	(262)	(358)	–	–	**(620)**
30 June 2019 (unaudited)	**–**	**3,202**	**92,224**	**8,508**	**3,263**	**–**	**107,197**
Net book value							
31 December 2018	**97,558**	**26,311**	**389,599**	**19,901**	**3,878**	**48,960**	**586,207**
30 June 2019 (unaudited)	**98,213**	**30,430**	**399,567**	**19,684**	**3,595**	**62,775**	**614,264**

The movements in property, plant and equipment during the six months ended 30 June 2018 were as follows:

	Land plots	*Real estate*	*Infrastructure assets*	*Vehicles*	*Fixtures and fittings*	*Construction in progress*	*Total*
Revalued amount							
31 December 2017	**97,170**	**20,958**	**311,855**	**25,937**	**5,036**	**48,695**	**509,651**
Additions	–	171	5,427	33	181	89,913	**95,725**
Disposals	–	(20)	(55)	(275)	(1)	–	**(351)**
Transfers	–	151	30,007	1,080	629	(31,867)	**–**
30 June 2018 (unaudited, not reviewed)	**97,170**	**21,260**	**347,234**	**26,775**	**5,845**	**106,741**	**605,025**
Accumulated depreciation							
31 December 2017	**–**	**2,305**	**58,669**	**4,943**	**2,172**	**–**	**68,089**
Depreciation charge	–	289	9,705	1,297	327	–	**11,618**
Disposals	–	–	(11)	(11)	(1)	–	**(23)**
30 June 2018 (unaudited, not reviewed)	**–**	**2,594**	**68,363**	**6,229**	**2,498**	**–**	**79,684**
Net book value							
31 December 2017	**97,170**	**18,653**	**253,186**	**20,994**	**2,864**	**48,695**	**441,562**
30 June 2018 (unaudited, not reviewed)	**97,170**	**18,666**	**278,871**	**20,546**	**3,347**	**106,741**	**525,341**

(Amounts expressed in thousands of Georgian Lari)

6. Investment property

The table below shows the composition and movements in investment property as of and during the six months ended 30 June 2019 and 2018:

	Land	*Buildings*	*Total*
As at 31 December 2018	**8,791**	**1,074**	**9,865**
Additions (Note 16)	1,167	–	**1,167**
As at 30 June 2019 (unaudited)	**9,958**	**1,074**	**11,032**

	Land	*Buildings*	*Total*
As at 31 December 2017	**10,253**	**1,033**	**11,286**
Disposals	(1,690)	–	**(1,690)**
As at 30 June 2018 (unaudited, not reviewed)	**8,563**	**1,033**	**9,596**

Investment properties are stated at fair value. Fair value represents the price that would be received in exchange for an asset in an arm's length transaction between market participants at the measurement date. The date of latest revaluation is 31 December 2018 and was carried out by accredited independent valuers. The Group concluded that no significant change in fair values of its investment properties occurred during the six months ended 30 June 2019 and, therefore, carrying value of the investment properties approximates its fair value.

7. Borrowings

	30 June 2019 (unaudited)		*31 December 2018*	
	Current liabilities	*Non-current liabilities*	*Current liabilities*	*Non-current liabilities*
Loans from international financial institutions	23,773	215,008	17,755	220,661
Loans from Georgian financial institutions	17,777	64,464	2,191	49,659
Debt securities issued	216	29,714	224	29,756
Total borrowings	**41,766**	**309,186**	**20,170**	**300,076**

During the six months ended 30 June 2019, the Group obtained a new loan from Georgian financial institution of GEL 28,000 to finance capital expenditures. The loan matures in 10 years and bears floating interest rate of the National Bank of Georgia ("NBG") refinancing rate plus 3.75% per annum.

As at 30 June 2019, the major part of the proceeds from borrowings was unutilized which caused the increase in cash and cash equivalents balance.

The fair value of floating rate borrowings was estimated to be equal to their carrying amount. The fair value of fixed interest rate borrowings (Level 2 of fair value hierarchy) was estimated based on the estimated future cash flows expected to be paid discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair values of fixed rate borrowings approximate the carrying values of the instruments.

(Amounts expressed in thousands of Georgian Lari)

8. Trade and other payables

	30 June 2019 (unaudited)	*31 December 2018*
Payables for non-current assets	12,108	5,437
Trade payables	6,671	4,603
Payables to employees	5,485	3,665
Other payables	345	224
Total trade and other payables	**24,609**	**13,929**

As at 30 June 2019, the Group temporarily deferred payments that led to significant increase in trade and other payables.

Management assessed that the fair values of trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

9. Contract assets and liabilities

The Group recognised GEL 72,066 revenue from contracts with customers during the six months ended 30 June 2019 (30 June 2018: GEL 68,294). The disaggregation of revenue from contracts with customers by types are presented in the interim consolidated statement of profit and loss and other comprehensive income for the period ended 30 June 2019 and in Notes 10 and 11.

Contract balances

The Group has recognised the following revenue-related contract balances:

	30 June 2019 (unaudited)	*31 December 2018*
Receivables		
Receivables, which are included in Trade and other receivables	15,863	17,876
Total	**15,863**	**17,876**
Contract liabilities		
Advances received	8,309	8,424
Deferred revenue	26,198	22,869
Total	**34,507**	**31,293**

The Group recognised GEL 1,956 revenue that relates to carried-forward contract liabilities and is included in the other revenue in interim consolidated statement of profit or loss and other comprehensive income.

10. Revenue from water supply

	For the six months ended 30 June 2019 (unaudited)	*For the six months ended 30 June 2018 (unaudited, not reviewed)*
Revenue from water supply to legal entities	43,336	42,151
Revenue from water supply to general population	19,507	19,602
Total revenue from water supply	**62,843**	**61,753**

Management assessed that the fair values of trade receivables approximate their carrying amounts largely due to the short-term maturities of these instruments.

(Amounts expressed in thousands of Georgian Lari)

11. Other revenue

	For the six months ended 30 June 2019 (unaudited)	*For the six months ended 30 June 2018 (unaudited, not reviewed)*
Revenue from connection service	1,610	1,306
Revenue from installation of water meters	502	513
Income from rent	330	291
Other revenue	231	12
Total other revenue	**2,673**	**2,122**

12. Allowance for expected credit losses

	For the six months ended 30 June 2019 (unaudited)	*For the six months ended 30 June 2018 (unaudited, not reviewed)*
Allowance for expected credit losses	4,508	3,022
Total allowance for expected credit losses	**4,508**	**3,022**

During six months period ended 30 June 2019, the Group performed detailed analysis of credit quality of receivables and updated its loss expectations for the most recent statistical data. As a result, the Group recognized additional charge on receivables from fines for illegal connections of GEL 915 and GEL 437 charge to certain corporate customers assessed on an individual basis.

13. Net foreign exchange (losses)/gains

	For the six months ended 30 June 2019 (unaudited)	*For the six months ended 30 June 2018 (unaudited, not reviewed)*
Foreign exchange (losses)/gains from trade and other payables	(336)	961
Foreign exchange gains/(losses) on cash and cash equivalents	94	(2,823)
Foreign exchange gains from trade and other receivables	27	4
Foreign exchange gains/(losses) from derivative financial liabilities	937	(3,456)
Foreign exchange (losses)/gains from borrowings	(10,243)	9,705
Total net foreign exchange (losses)/gains	**(9,521)**	**4,391**

Differences between NBG exchange rate on the certain transaction date and the NBG exchange rate on the final day of each month are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2018 and 2017 were 3.0701 and 3.1044 GEL to 1 EUR, respectively, and as at 30 June 2019 and 2018 were 3.2657 and 2.8537 GEL to 1 EUR, respectively. A significant part of the Group's borrowings is denominated in EUR. Foreign exchange losses on borrowings are resulted from devaluation of GEL against EUR in the six months ended 30 June 2019.

The Group is exposed to foreign currency risks relating to its ongoing business operations and it uses foreign currency forwards to manage the risk. The Group entered into a long forward contract with GCAP for EUR 9.3 million on 27 June 2018 maturing on 27 June 2019. Further, in 2019 the forward contract was amended by decrease the notional amount to EUR 7.0 million and its maturity was extending to 1 January 2020. The fair values of derivative financial liabilities included in Level 2 of fair value hierarchy.

(Amounts expressed in thousands of Georgian Lari)

14. Other operating expenses

	For the six months ended 30 June 2019 (unaudited)	*For the six months ended 30 June 2018 (unaudited, not reviewed)*
Bill processing expenses	856	871
Expenses related to sale of electricity	686	632
Insurance expense	640	633
Regulation fee	172	155
Fines and penalties	117	238
Rent expenses	103	375
Charity expenses	102	45
Cost of wastewater treatment	50	37
Net loss from disposal of property, plant and equipment and investment property	44	328
Net loss from sale of network and inventories	7	4
Other expenses	472	333
Total other operating expenses	**3,249**	**3,651**

During the six months 2019, two significant Group infrastructure accidents happened in Tbilisi, leading to floods and material damage to nearby residents, and the related liability of GEL 697. Pursuant to the agreement with an insurance company, the Group recognized insurance income, and the respective trade receivables of GEL 399 is included in Trade and other receivables in the interim statement of financial position. Aforementioned income was presented net of expenses incurred in relation to the flood compensation, and GEL 298 is included in Other expenses in the interim statement of profit or loss and other comprehensive income. The liability was fully satisfied as at 30 June 2019.

15. Share-based payments

In January 2019, the Executive Chairman of the Management company has resigned and remained entitled to previously awarded unvested shares, that will continue to vest according to the original schedule. The related share-based payment expense that has not been recognized in profit or loss as of the termination date (that otherwise would have been recognized for services received over the remainder of the vesting period) was accelerated and immediately expensed (Note 15).

The expense recognised for employee services received during the six months ended 30 June 2019 and 2018 and the respective increase in equity arising from equity-settled share-based payments is shown in the following table:

	For the six months ended 30 June 2019 (unaudited)	*For the six months ended 30 June 2018 (unaudited, not reviewed)*
Increase in equity arising from equity-settled share-based payments	4,206	5,084
Expense arising from equity-settled transactions	3,453	5,598

The Group does not have an obligation to settle the above awards but it is expected that the Group will transfer cash to the parent for the settlement of the Group's awards. During the six months ended 30 June 2019, the amount of such transfer was GEL 1,768 (30 June 2018: GEL 779).

(Amounts expressed in thousands of Georgian Lari)

16. Non-recurring items, net

	For the six months ended 30 June 2019 (unaudited)	*For the six months ended 30 June 2018 (unaudited, not reviewed)*
Employee share-based compensation (Note 15)	(2,862)	(5,163)
Net income from transfer of assets under exit from the share purchase agreement (Note 17)	473	–
Non-operating tax expenses	–	(321)
Total non-recurring items, net	**(2,389)**	**(5,484)**

17. Commitments and contingencies

Commitments

As at 30 June 2019, the guarantee and letters of credit issued for the construction in process amounts to GEL 17,941 (31 December 2018: GEL 14,530) out of which GEL 13,216 (31 December 2018: GEL 11,860) represents the guarantee issued by the Company as the guarantor for a related party. The remaining amount represents the letters of credit issued for the payables related to construction process of the Group and is partly presented in restricted cash balance.

Exit from the share purchase agreement

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

As a result of the exit from the SPA, the Group's subsidiaries further perfected (registered) their ownership title over all the assets (property, plant and equipment) that were possessed without registered title and also acquired certain other immovable assets (investment property) from the Government for a nominal consideration. At the same time, Georgian Water and Power LLC transferred certain immovable assets (property, plant and equipment), located in the Zhinvali village near Zhinvali Hydro Power Plant, to the Government free of charge. The net effect of these transactions of GEL 473 was included in Non-recurring items in the statement of profit or loss and other comprehensive income.

Environmental matters

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

(Amounts expressed in thousands of Georgian Lari)

18. 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.

The Parent company, JSC Georgia Capital, has an authority and responsibility for planning, directing and controlling the activities of the Group. Other related parties are represented by the members of GCAP Group as at 30 June 2019 and 31 December 2018, other than JSC Georgia Capital. Bank of Georgia Group entities are not considered to be related parties as at 31 December 2018 because of demerger on 29 May 2018.

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

	30 June 2019		***31 December 2018***	
	Parent company	***Other related parties***	***Parent company***	***Other related parties***
Trade and other receivables	–	1,160	–	181
Prepayments	–	158	–	403
Advances received	–	70	–	43
Trade and other payables	–	202	–	206
Derivative financial liabilities	840	–	1,777	–

	For the six months ended 30 June 2019 (unaudited)	***For the six months ended 30 June 2018 (unaudited, not reviewed) (A)[1]***	***For the six months ended 30 June 2018 (unaudited, not reviewed) (B)[1]***
Income and expenses[3]			
Revenue from electric power sales[2]	3,023	–	–
Revenue from water supply	898	817	141
Other income	586	5	4
Income from insurance cases	398	–	–
Professional fees	106	(7)	–
Finance cost expenses	–	(242)	(1,344)
Insurance expenses	(646)	(574)	–
Other operating expenses	(5)	(47)	(50)

1 On 29 May 2018, BGEO Group PLC completed demerger of its business activities into a London-listed banking business, Bank of Georgia Group PLC, and a London-listed investment business, Georgia Capital PLC. Column A includes income and expenses related to the entities of GCAP Group, column B includes income and expenses related to the entities of Bank of Georgia Group, which demerged from GCAP on 29 May 2018.

2 Since the beginning of 2019, the Group started selling electric power to Georgian Energy Trading Company LLC, a newly established subsidiary of GCAP, a trading platform, which sells electric power bought from the Group to third parties on the open market.

3 The Group does not have any income and expenses from the Parent during the periods ended 30 June 2019 and 2018. All amounts represent income and expenses from other related parties.

(Amounts expressed in thousands of Georgian Lari)

18. Related parties disclosures (continued)

Directors' compensation

The Group's key management personnel during the six months ended 30 June 2019 included non-executive Directors of the Company, executive Chairman of the Supervisory Board of the Management company and members of executive management board of the Management company. Compensation paid to key executive management personnel (including the executive Chairman of the Supervisory Board and 6 members of executive management board of the Management company) for their services in full time executive management positions is made up of salary, employee share-based compensations, performance bonuses depending on financial performance of the Group and other compensation in the form of reimbursement of housing, business trips, communication and other expenses. Total compensation paid to key management amounted to GEL 5,745 and GEL 7,975 for the six months ended 30 June 2019 and 2018, respectively as follows:

	For the six months ended 30 June 2019 (unaudited)	*For the six months ended 30 June 2018 (unaudited, not reviewed)*
Salaries and benefits	724	734
Bonuses	815	629
Employee share-based compensation, including amounts capitalized and accelerated expense	4,206	6,612
Total management compensation	**5,745**	**7,975**

19. Events after the reporting period

In July 2019, the Group obtained a loan from a Georgian financial institution of GEL 10,000 to finance capital expenditures. The loan matures in 10 years and bears floating interest rate of NBG refinancing rate plus 3.75% per annum.