Georgian Global Utilities LTD

Consolidated financial statements

for the year ended 31 December 2019
with independent auditor's report

Contents

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Independent auditor's report

To the Shareholder and Supervisory Board of Georgia Global Utilities JSC

Opinion

We have audited the consolidated financial statements of Georgian Global Utilities LTD and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Emphasis of matter

We draw attention to Note 30 "Events after the reporting period" to the consolidated financial statements, which discloses the fact that, as a result of the re-domiciliation process completed in March 2020, Georgian Global Utilities Ltd was liquidated and replaced by Georgian Global Utilities JSC, a Georgia resident entity, as the shareholder of Global Utilities LTD's subsidiaries. Our opinion is not modified in respect of this matter.

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Alexey Loza

On behalf of EY LLC

14 April 2020

Tbilisi, Georgia

Consolidated statement of financial position

As at 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	*31 December 2019*	*31 December 2018 (restated)**	*1 January 2018 (restated)**
Assets				
Non-current assets				
Property, plant and equipment	7	522,096	458,921	312,600
Investment property	8	8,641	9,865	11,286
Right-of-use assets	4	606	–	–
Restructured trade receivables	10	209	204	133
Other non-current assets	9	2,987	1,990	12,984
Total non-current assets		**534,539**	**470,980**	**337,003**
Current assets				
Inventories		3,799	3,913	3,787
Trade and other receivables	10	22,357	19,499	17,167
Current income tax prepayments		–	–	184
Prepaid taxes other than income tax		50	1,465	3,875
Prepayments		3,703	1,647	1,764
Derivative financial assets	24	–	–	450
Restricted cash	28	–	877	7,656
Cash at bank	28	26,588	13,772	61,963
Total current assets		**56,497**	**41,173**	**96,846**
Total assets		**591,036**	**512,153**	**433,849**
Equity				
Charter capital	11	2	2	2
Additional paid-in capital	11	16,538	10,657	2,783
Retained earnings		146,255	131,715	124,700
Other reserves	11	(9,313)	(7,545)	(5,238)
Revaluation reserve for property, plant and equipment	11	4,812	8,200	9,698
Total equity		**158,294**	**143,029**	**131,945**
Liabilities				
Non-current liabilities				
Borrowings	12	353,021	300,076	246,015
Deferred revenue	14	24,569	18,948	16,023
Lease liabilities		459	–	–
Other non-current liabilities		102	22	20
Total non-current liabilities		**378,151**	**319,046**	**262,058**
Current liabilities				
Borrowings	12	25,954	20,170	1,341
Advances received	14	6,242	8,424	8,562
Trade and other payables	13	12,053	13,929	24,195
Provisions for liabilities and charges		614	494	417
Deferred revenue	14	4,764	3,921	3,451
Lease liabilities		196	–	–
Derivative financial liabilities	24	1,919	1,777	–
Other taxes payable		2,849	1,363	1,880
Total current liabilities		**54,591**	**50,078**	**39,846**
Total liabilities		**432,742**	**369,124**	**301,904**
Total liabilities and equity		**591,036**	**512,153**	**433,849**

* *Certain amounts do not correspond to the 2018 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 4.*

Approved for issue and signed on behalf of Georgia Global Utilities JSC on 14 April 2020:

Giorgi Vakhtangishvili
General Director

Giorgi Gureshidze
Chief Financial Officer

The accompanying notes on pages 8 to 37 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 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	2019	2018* (restated)
Revenue from water supply and related services	15	137,855	135,578
Revenue from electric power sales	16	24,574	9,052
Other revenue	17	1,227	677
Total revenue		**163,656**	**145,307**
Electricity and transmission costs	4	(16,809)	(18,695)
Cost of electric power sales	4	(4,357)	–
Salaries and other employee benefits	18	(20,247)	(18,617)
Allowance for expected credit losses	10	(7,325)	(5,033)
Taxes other than income tax		(5,435)	(4,471)
General and administrative expenses	19	(3,519)	(3,735)
Professional fees	20	(2,703)	(3,052)
Raw materials, fuel and other consumables		(2,785)	(2,495)
Maintenance expenditure		(1,957)	(2,247)
Charge for provisions and legal claims related expenses		(120)	(231)
Other operating expenses	22	(7,177)	(6,858)
Other income	21	3,785	3,790
		(68,649)	**(61,644)**
EBITDA		**95,007**	**83,663**
Interest income		1,980	567
Finance costs	23	(26,164)	(15,159)
Net foreign exchange losses		(7,586)	(4,970)
Depreciation and amortisation	7, 9	(31,188)	(23,623)
Gain from sale of non-core assets	29	2,364	–
Non-recurring expenses, net	26	(1,261)	(6,121)
Profit before income tax expense		**33,152**	**34,357**
Income tax expense		–	–
Profit for the year		**33,152**	**34,357**
Other comprehensive income		–	–
Total comprehensive income for the year, net of tax		**33,152**	**34,357**

** Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the adjustments made for change in accounting policy and reclassifications as described in Note 4.*

Consolidated statement of changes in equity

For the year ended 31 December 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 (Note 4)	–	–	–	(6,571)	–	**(6,571)**
Change in accounting policy (Note 4)	–	–	–	41,806	(171,076)	**(129,270)**
Balance as at 1 January 2018	**2**	**2,783**	**(5,238)**	**124,700**	**9,698**	**131,945**
Profit for the year (restated) (Note 4)	–	–	–	34,357	–	**34,357**
Total comprehensive income for the year	**–**	**–**	**–**	**34,357**	**–**	**34,357**
Share-based payments (Note 25)	–	7,874	–	–	–	**7,874**
Transfers to parent under share-based compensation program (Note 25)	–	–	(2,307)	–	–	**(2,307)**
Realised revaluation reserve for property, plant and equipment	–	–	–	1,498	(1,498)	**–**
Dividends declared (Note 11)	–	–	–	(28,840)	**–**	**(28,840)**
Balance as at 31 December 2018 (restated)	**2**	**10,657**	**(7,545)**	**131,715**	**8,200**	**143,029**
Profit for the year	–	–	–	33,152	–	**33,152**
Total comprehensive income for the year	**–**	**–**	**–**	**33,152**	**–**	**33,152**
Share-based payments (Note 25)	–	5,881	–	–	–	**5,881**
Transfers to parent under share-based compensation program (Note 25)	–	–	(1,768)	–	–	**(1,768)**
Realised revaluation reserve for property, plant and equipment	–	–	–	3,388	(3,388)	**–**
Dividends declared (Note 11)	–	–	–	(22,000)	–	**(22,000)**
Balance as at 31 December 2019	**2**	**16,538**	**(9,313)**	**146,255**	**4,812**	**158,294**

Consolidated statement of cash flows

For the year ended 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	*2019*	*2018* (restated)*
Cash flows from operating activities			
Profit before income tax		**33,152**	**34,357**
Adjustments for:			
Depreciation and amortisation	7, 9	31,188	23,623
Allowance for expected credit losses	10	7,325	5,033
Reversal of provisions		120	231
Net (gain)/loss from disposal of property, plant and equipment, non-core assets and investment property		(2,188)	88
Revaluation gain on investment property	21	(988)	(269)
Net foreign exchange losses		7,586	4,970
Finance income		(1,980)	(567)
Finance costs	23	26,164	15,159
Net income from transfer of assets under exit from the share purchase agreement	26	(1,601)	–
Derecognition of unclaimed advances received and trade payables	21	(845)	(360)
Share-based payment expense		4,187	6,077
Operating cash flows before working capital changes			
Change in inventories		(964)	(126)
Change in trade and other receivables		(9,847)	(7,433)
Change in prepaid taxes other than income tax		1,415	2,410
Change in prepayments		418	117
Change in trade and other payables		(562)	458
Change in deferred revenue – current portion		843	470
Change in advances received		(1,860)	223
Change in other tax payables		1,547	(517)
Change in restricted cash		897	6,540
Interest received		1,980	567
Interest paid		(26,881)	(20,584)
Income tax paid		-	184
Operating cash flows after working capital changes		**69,106**	**70,651**
Change in deferred revenue – non-current portion		5,621	2,925
Net cash from operating activities		**74,727**	**73,576**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(91,440)	(162,102)
Proceeds from sale of property, plant and equipment		4,029	456
Proceeds from sale of investment property and non-core assets		2,742	1,455
Net cash used in investing activities		**(84,669)**	**(160,191)**
Cash flows from financing activities			
Payment of principal portion of lease liabilities	4	(170)	–
Proceeds from borrowings	12	138,435	71,772
Repayment of borrowings	12	(88,431)	(738)
Dividends paid to the Group’s owner	11	(22,000)	(28,840)
Contributions under share-based payment plan		(4,492)	(2,307)
Net cash from financing activities		**23,342**	**39,887**
Effect of exchange rate changes on cash and cash equivalents		(584)	(1,463)
Net change in cash and cash equivalents		**12,816**	**(48,191)**
Cash and cash equivalents at the beginning of year	28	13,772	61,963
Cash and cash equivalents at the end of year	28	**26,588**	**13,772**

**Certain amounts do not correspond to the 2018 financial statements as they reflect the adjustments made for change in accounting policy and reclassifications as described in Note 4.*

(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*	*31 December 2019*	*31 December 2018*
Georgian Water and Power LLC (the "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%
Georgian Energy and Trading Company LLC ("GETC")	Georgia	23 April 2019	15 December 2019	0%[1]	[N]N/A

[1] GETC is owned JSC Georgia Capital, the Company's parent. On 15 December 2019, a tri-party agreement was conducted among JSC Georgia Capital, GGU and the Management Company. Under the terms of the agreement, JSC Georgia Capital irrevocably assigned GGU and the Management Company with the power and rights to direct relevant activities of GETC in exchange for variable consideration linked to the GETC's net profit and revenue. GGU assessed that the terms of the agreement provide the Company with the control over GETC. GGU consolidated GETC under the pooling of interests' method since its incorporation, 23 April 2019. Consolidation of GETC had no material effect on the consolidated financial statements. (Note 5)

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. The Group engages in electric power trading.

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

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

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

On 29 May 2018, BGEO Group PLC ("BGEO") 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. As a result, GCAP became the ultimate parent of the Group.

2. Operating environment

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

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

(Amounts expressed in thousands of Georgian Lari)

3. Basis of preparation

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

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

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

4. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

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

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

IFRS 16 Leases

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

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

Transition to IFRS 16

The Group is a lessee of a limited number of real estate leases. The Group's lease arrangement usually do not include any variable component, are conclude for the period from 1 to 5 years and are denominated in GEL or US Dollar ("USD").

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

The effect of adoption IFRS 16 is as follows:

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

The adoption had no impact on the shareholder equity.

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

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

	Real Estate
Balance as at 31 December 2018	–
The effect of adoption of IFRS 16	223
Balance as at 1 January 2019	223
Additions	602
Balance as at 31 December 2019	**825**
Depreciation charge for the period	(219)
Right-of-use assets as at 31 December 2019	**606**

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

At 1 January 2019	**223**
Additions	602
Interest expense on lease liabilities	63
Payment of principal portion of lease liabilities	(170)
Payment of lease interest	(63)
At 31 December 2019	**655**

Impact on the consolidated statement of profit or loss and other comprehensive income for 2019:

Depreciation expense of right-of-use assets (Depreciation and amortization)	219
Interest expense on lease liabilities (Finance costs)	63
Rent expenses on short-term leases (Other operating expenses)	164
Net effect recognized in the consolidated statement of profit or loss and other comprehensive income	**446**

Total lease payments, including low-value and short-term leases, during the year ended 31 December 2019 were GEL 397.

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)

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

Short-term leases and leases of low-value assets

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

Other standards and interpretations

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

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019 Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

Business combinations under common control

Combinations of businesses under common control of the ultimate controlling party are accounted for using the pooling of interest method. Under this method, amounts are presented in the financial statements after the business combination as combined amounts of the two entities from the beginning of the earliest period presented. Assets and liabilities of an acquired entity are recognised in the financial statements of a combined entity similarly to consolidation of the corresponding items of a subsidiary in the financial statements of a parent company after eliminating all intergroup balances and transactions. Any difference between the consideration transferred in a common control business combination and the carrying value of the transferred assets and liabilities determined under the pooling of interest method is recognised as changes in equity. No goodwill arises on the combination of businesses under common control accounted for under the pooling of interest method.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Fair value measurement

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

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

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

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

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

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

Financial assets

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

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

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

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

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

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

Derivative financial instruments

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

Impairment of receivables

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

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

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

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

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

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

Uncollectible assets are written off against the related ECL 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 10 for further details on assessment and judgement applied in respect with ECL 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 from penalties for illegal connections can be restructured. The restructuring is caused by the financial difficulties of the Group's counterparty, and is treated as a modification original financial asset, and the difference in the respective carrying amounts, calculated using original effective interest rate, is recognised in the profit or loss as a modification gain or loss.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

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.

Derecognition of financial instruments

Financial assets

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

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

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

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

Financial liabilities

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

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

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's base is charged as an operating cost.

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

Change in accounting policy

In the second half of 2019, the Group changed its accounting policy with respect to property, plant and equipment. The Group applied the cost model, where assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change in policy, the Group applied the revaluation model, where property, plant and equipment were carried at the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group believes that cost model provides more reliable and more meaningful presentation for investors as it enhances comparability for the investors as the application of cost model is a market practice across utility industry and it more closely aligns the accounting with the business activities around these asset categories.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The change of accounting policy has been accounted for retrospectively. The cost model has been applied by restating each of the affected financial statement line items for the prior periods, as follows:

Consolidated statement of financial position

	1 January 2018		
	As previously reported	***Change in accounting policy***	***As restated***
Assets:			
Property, plant and equipment	441,556	(128,956)	312,600
Other non-current assets:			
Intangible assets	2,026	(314)	1,712
Total non-current assets	**466,273**	**(129,270)**	**337,003**
Total assets	**563,119**	**(129,270)**	**433,849**
Equity:			
Retained earnings	82,894[1]	41,806	124,700
Revaluation reserve for property, plant and equipment	180,774	(171,076)	9,698
Total equity	**261,215**	**(129,270)**	**131,945**

	31 December 2018		
	As previously reported	***Change in accounting policy***	***As restated***
Assets:			
Property, plant and equipment	586,207	(127,286)	458,921
Other non-current assets:			
Intangible assets	1,299	(171)	1,128
Total non-current assets	**598,437**	**(127,457)**	**470,980**
Total assets	**639,610**	**(127,457)**	**512,153**
Equity:			
Retained earnings	86,855	44,860	131,715
Revaluation reserve for property, plant and equipment	180,517	(172,317)	8,200
Total equity	**270,486**	**(127,457)**	**143,029**

Consolidated statement of profit or loss and other comprehensive income

	2018		
	As previously reported	***Change in accounting policy***	***As restated***
Other operating expenses:			
Net loss from disposal of property, plant and equipment and investment property	(378)	290	(88)
EBITDA	**83,373**	**290**	**83,663**
Depreciation and amortization	(25,392)	1,769	(23,623)
Finance cost	(14,913)	(246)	(15,159)
Profit before income tax expense	**32,544**	**1,813**	**34,357**
Profit for the year	**32,544**	**1,813**	**34,357**
Total comprehensive income for the year, net of tax	**32,544**	**1,813**	**34,357**

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Consolidated statement of cash flows

	2018		
	As previously reported	***Change in accounting policy***	***As restated***
Cash flows from operating activities			
Profit before income tax	32,544	1,813	34,357
Depreciation and amortisation	25,392	(1,769)	23,623
Net loss from disposal of property, plant and equipment	378	(290)	88
Finance cost	14,913	246	15,159
Net cash from operating activities	**73,576**	**–**	**73,576**

[1] *Retained earnings balance includes IFRS 9 adoption effect of GEL 6,571.*

Following change in accounting policy, all categories of property, plant and equipment are accounted for at cost less accumulated depreciation and impairment.
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.

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 estimated useful lives. Existing useful lives applicable for several classes of property, plant and equipment are:

	Useful lives
Real estate	60 years
Infrastructure assets	8-45 years
Fixtures and fittings	5-10 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.

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 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.

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

Contingencies

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Intangible assets

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

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

Taxation

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

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

Inventories

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

Prepayments

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

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

Cash at bank and restricted cash

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

Charter capital

The amount of the 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 participant. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was paid.

Dividends

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

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. The capitalization rate for borrowing costs was 8.5% in 2019 (2018: 5.5%).

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.

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

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

EBITDA

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

Gain from sale of non-core assets

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

Changes in presentation

In 2019, the Group changed presentation of its consolidated statement of profit and loss and other comprehensive income, separately presenting gains from sales of non-core assets.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Non-recurring expenses

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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.

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

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

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

Income and expense recognition

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

Revenue from water supply

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

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

Revenue from water supply to general population includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied. For the residential customers having no meters, revenue is recognized based on the number of individual persons registered by the respective city municipality per each residential address by application of the relevant per capita tariff on a monthly basis.

Charges for installation of water meters includes amounts billed to residential customers under GNERC rules.
The performance obligations under such contracts are satisfied over time as the Group supplies water to respective customer and the revenue is recognised during the service period. The estimated service period for the meters is considered to be 10 years. The revenue is recognized over the respective time period.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

Charges for connection service includes non-refundable amounts billed upfront for connecting customers to water system and providing them with the access to water supply. Charges from connection is recognized as revenue from water supply over the time in line with the satisfaction of performance obligation to supply water to respective customer over the life of water meters.

In 2019, the Group changed presentation of charges for connection and water meters installation and presented it within revenue from water supply and related services, as it considered such presentation to be aligned with the nature of performance obligation under respective contracts. Comparative consolidated statement of profit or loss and other comprehensive income was amended to comply with current period classification as follows:

	2018		
	As previously reported	***Change in presentation***	***As reclassified***
Revenue from water supply and related services	131,815	3,763	135,578
Other revenue	4,440	(3,763)	677

Revenue from electric power sales

Revenue from electric power sales is recognised on the basis of metered electric power transferred and by application of the fixed price according to the agreement formed with customers. Customers are usually obliged to pay the respective balances by a following month end.

Penalty income on illegal connections services

Penalty income on illegal connections services includes fines billed to customers for illegal connections identified by reinforced activities. Amounts billed are defined based on respective tariffs set by GNERC.

Electricity and transmission costs

Electricity and transmission costs include payments for guaranteed power, for transit and dispatching of electricity and for sustainability of stations.

Cost of electric power sales

The Group purchases electric power from JSC Georgian Renewable Power Company (“GRPC”), a related party, and sells electric power to the open market.

Interest and similar income and expense

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

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

Employee benefits

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

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Employee stock ownership plan

Share-based payment transactions

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

Equity-settled transactions

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

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

Standards issued but not yet effective

Up to the date of approval of the 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. Standards issued but not yet effective are:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform

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

5. 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:

Control over GETC

The Group consolidated GETC under the pooling of interests' method as, according to the irrevocable contractual arrangements, the Group has the power and rights to direct relevant activities of GETC in exchange for variable consideration linked to the GETC's net profit and revenue (Note 1).

Measurement of fair value of investment property

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

5. Significant accounting judgements and estimates (continued)

Measurement of property, plant and equipment

As at 1 January 2018, concurrently with the voluntary change in accounting policy for property, plant and equipment (Note 7), the Group performed impairment test and recognized GEL 50,836 impairment of assets of water cash generating unit. There was no impairment of energy cash generating unit as of that date.

The Group regularly performs impairment indicators analysis according to IAS 36 *Impairment of Assets.* For the years ended 31 December 2019 and 2018, the Group analysed impairment or recovery indicators and found no indications of potential impairment of property, plant and equipment nor recovery of previously recognized impairment.

Useful lives of property, plant and equipment

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

Expected credit losses in respect of trade and other receivables

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

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

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

The amount of ECL recognized in respect of trade and other receivables as at 31 December 2019 amounted to GEL 25,327 (2018: GEL 19,290) (Note 10).

6. Segment information

Management has decided to organize the Group into the following two operating segments based on products sold and services rendered:

Electricity generation and sales

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

Water supply and wastewater collection services

The Group 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, as explained below, is measured according to IFRS standards in the same manner as profit or loss in the consolidated financial statements.

Transactions between segments are accounted for at actual transaction prices.

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

(Amounts expressed in thousands of Georgian Lari)

6. Segment information (continued)

Water supply and wastewater collection services (continued)

	Sub-note	*Electricity generation, 2019*	*Water supply and wastewater collection services, 2019*	*Intersegment transactions, 2019*	*Total, 2019*
Revenue from water supply and related services		–	137,855	–	**137,855**
Revenue from electric power sales[1]		28,349	–	(3,775)	**24,574**
Other revenue		–	1,227	–	**1,227**
Total revenue	1	**28,349**	**139,082**	**(3,775)**	**163,656**
Electricity and transmission costs	2	(87)	(20,497)	3,775	**(16,809)**
Cost of electric power sales	1	(4,357)	–	–	**(4,357)**
Salaries and other employee benefits		(2,070)	(18,177)	–	**(20,247)**
Allowance for impairment of trade receivables		–	(7,325)	–	**(7,325)**
Taxes other than income tax		(136)	(5,299)	–	**(5,435)**
General and administrative expenses		(149)	(3,370)	–	**(3,519)**
Professional fees		(99)	(2,604)	–	**(2,703)**
Raw materials, fuel and other consumables		(78)	(2,707)	–	**(2,785)**
Maintenance expenditure		(24)	(1,933)	–	**(1,957)**
Reversal of provisions and legal claims related expenses		–	(120)	–	**(120)**
Other operating expenses		(2,314)	(4,863)	–	**(7,177)**
Other income		10	3,775	–	**3,785**
EBITDA		**19,045**	**75,962**	**–**	**95,007**
Finance income	3	–	1,980	–	**1,980**
Finance costs	3	(4,173)	(21,991)	–	**(26,164)**
Foreign exchange gains/(losses)		(671)	(6,915)	–	**(7,586)**
Depreciation and amortization		(2,087)	(29,101)	–	**(31,188)**
Gain from sale of non-core assets		–	2,364	–	**2,364**
Non-recurring expenses, net	4	(1,431)	170	–	**(1,261)**
Profit before income tax expense		**10,683**	**22,469**	**–**	**33,152**
Income tax expense		–	–	–	**–**
Profit and other comprehensive income for the year		**10,683**	**22,469**	**–**	**33,152**

[1]*63% of total revenue from electric power sales is generated from one customer.*

(Amounts expressed in thousands of Georgian Lari)

6. Segment information (continued)

Water supply and wastewater collection services (continued)

	Sub note	*Electricity generation, 2018*	*Water supply and wastewater collection services, 2018*	*Intersegment transactions, 2018*	*Total, 2018[1]*
Revenue from water supply and related services		–	135,578	–	**135,578**
Revenue from electric power sales		13,051	–	(3,999)	**9,052**
Other revenue		–	677	–	**677**
Total revenue	1	**13,051**	**136,255**	**(3,999)**	**145,307**
Electricity and transmission costs	1	(91)	(22,603)	3,999	**(18,695)**
Salaries and other employee benefits	2	(1,882)	(16,735)	–	**(18,617)**
Allowance for impairment of trade receivables		–	(5,033)	–	**(5,033)**
Taxes other than income tax		(361)	(4,110)	–	**(4,471)**
General and administrative expenses		(118)	(3,617)	–	**(3,735)**
Professional fees		(74)	(2,978)	–	**(3,052)**
Raw materials, fuel and other consumables		(61)	(2,434)	–	**(2,495)**
Maintenance expenditure		(5)	(2,242)	–	**(2,247)**
Reversal of provisions and legal claims related expenses		–	(231)	–	**(231)**
Other operating expenses	5	(2,054)	(4,804)	–	**(6,858)**
Other income		13	3,777	–	**3,790**
EBITDA		**8,418**	**75,245**	**–**	**83,663**
Finance income	3	39	528	–	**567**
Finance costs	3	(2,224)	(12,935)	–	**(15,159)**
Foreign exchange gains/(losses)		–	(4,970)	–	**(4,970)**
Depreciation and amortization		(1,502)	(22,121)	–	**(23,623)**
Non-recurring expenses, net	4	(2,581)	(3,540)	–	**(6,121)**
Profit before income tax expense		**2,150**	**32,207**	**–**	**34,357**
Income tax expense		–	–	–	–
Profit and other comprehensive income for the year		**2,150**	**32,207**	**–**	**34,357**

[1] *Other operating expenses, finance costs and depreciation and amortization do not reconcile with 2018-year segment report as they reflect the adjustments made for change in accounting policy as described in Note 4.*

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** – in 2019 and 2018 the Group consumed electricity internally generated by Zhinvali HPP and Tetrikhevi HPP. For the purpose of segment disclosure in 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. **Non-recurring expenses, net** include non-operating tax expenses and net income from transfer of assets upon exit from the share purchase agreement (Note 27), both are directly attributable to the Water supply and wastewater collection services segment, and employee share-based acceleration expense and termination benefits, both are allocated equally to each segment.

(Amounts expressed in thousands of Georgian Lari)

7. Property, plant and equipment

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

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost 31 December 2018 (restated)	**4,092**	**31,616**	**568,366**	**27,458**	**7,519**	**50,076**	**689,127**
Additions	–	2	14,033	65	84	80,979	**95,163**
Disposals	(78)	(927)	(313)	(1,464)	(3)	(361)	**(3,146)**
Transfers	1,905	3,857	90,708	4,750	495	(101,715)	**–**
31 December 2019	**5,919**	**34,548**	**672,794**	**30,809**	**8,095**	**28,979**	**781,144**
Accumulated depreciation and impairment							
31 December 2018 (restated)	**417**	**9,191**	**205,710**	**9,902**	**3,867**	**1,119**	**230,206**
Depreciation charge	–	569	26,541	2,386	778	–	**30,274**
Disposals	–	(372)	(266)	(795)	1	–	**(1,432)**
Transfers	6	8	268	13	1	(296)	**–**
31 December 2019	**423**	**9,396**	**232,253**	**11,506**	**4,647**	**823**	**259,048**
Net book value							
31 December 2018 (restated)	**3,675**	**22,425**	**362,656**	**17,556**	**3,652**	**48,957**	**458,921**
31 December 2019	**5,496**	**25,152**	**440,541**	**19,303**	**3,448**	**28,156**	**522,096**

The movements in property, plant and equipment in 2018 (restated) (Note 4) were as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost 1 January 2018 (restated)	**3,639**	**20,291**	**416,713**	**26,305**	**5,817**	**47,887**	**520,652**
Additions	75	23	15,007	70	191	154,126	**169,492**
Disposals	(4)	(163)	(808)	(3)	(39)	–	**(1,017)**
Transfers	382	11,465	137,454	1,086	1,550	(151,937)	**–**
31 December 2018 (restated)	**4,092**	**31,616**	**568,366**	**27,458**	**7,519**	**50,076**	**689,127**
Accumulated depreciation and impairment							
1 January 2018 (restated)	**410**	**8,811**	**184,813**	**7,563**	**3,252**	**3,203**	**208,052**
Depreciation charge	–	351	19,558	2,324	622	–	**22,855**
Disposals	–	(95)	(575)	(1)	(30)	–	**(701)**
Transfers	7	124	1,914	16	23	(2,084)	**–**
31 December 2018 (restated)	**417**	**9,191**	**205,710**	**9,902**	**3,867**	**1,119**	**230,206**
Net book value							
1 January 2018 (restated)	**3,229**	**11,480**	**231,900**	**18,742**	**2,565**	**44,684**	**312,600**
31 December 2018 (restated)	**3,675**	**22,425**	**362,656**	**17,556**	**3,652**	**48,957**	**458,921**

The Group did not have any pledged property, plant and equipment as collateral for its borrowings as at 31 December 2019. The carrying amount of the land plots and real estate pledged as at 31 December 2018 was GEL 5,665 (Note 12).

(Amounts expressed in thousands of Georgian Lari)

8. Investment property

The table below shows the composition and movements in investment property in 2019 and 2018:

	Land	*Buildings*	*Total*
As at 31 December 2017	**10,253**	**1,033**	**11,286**
Disposals	(1,690)	–	**(1,690)**
Net gain from fair value remeasurement	228	41	**269**
As at 31 December 2018	**8,791**	**1,074**	**9,865**
Additions	1,547	83	**1,630**
Disposals	(3,842)	–	**(3,842)**
Net gain from fair value remeasurement	1,032	(44)	**988**
As at 31 December 2019	**7,528**	**1,113**	**8,641**

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

Fair value measurement

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

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

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 to the sale registry. Adjustments to value are determined mainly based on the following considerations: (1) physical condition, (2) location, (3) highest and the best use, and (4) property liens.

The valuation technique and inputs used in the fair value measurement of the investment property attributed to Level 3 in the fair value hierarchy. The elated sensitivity to reasonably possible changes in inputs are as follows at 31 December 2019 and 2018, respectively:

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

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

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

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

(Amounts expressed in thousands of Georgian Lari)

9. Other non-current assets

	31 December 2019	*31 December 2018 (restated)*
Intangible assets	1,954	1,128
Prepayments for non-current assets	835	862
Other non-current assets	198	–
Total other non-current assets	**2,987**	**1,990**

Historical cost of intangible assets and accumulated amortisation and impairment as at 31 December 2019 amounted to GEL 6,505 and GEL 4,551, respectively (2018: GEL 4,984 and GEL 3,856).

Amortisation charge during the year on intangible assets, including software licenses, was GEL 695 in 2019 (2018: GEL 768).

10. Trade and other receivables

	31 December 2019	*31 December 2018*
Non-current		
Trade receivables for water supply services from general population	263	408
	263	**408**
Less allowance for expected credit losses	(54)	(204)
Total restructured trade receivables, net	**209**	**204**
Current		
Trade receivables for water supply services from general population	20,697	16,184
Trade receivables for water supply services from legal entities	17,110	17,013
Trade receivables for installation of water meters	85	100
Trade receivables for connection service	3,000	3,161
Trade receivables for electric power sales	3,480	700
	44,372	**37,158**
Less allowance for expected credit losses	(24,200)	(18,938)
Total current trade receivables, net	**20,172**	**18,220**
Other receivables[1]	3,259	1,426
Less allowance for expected credit losses	(1,074)	(147)
Total other receivables, net	**2,185**	**1,279**
Total current trade and other receivables, net	**22,357**	**19,499**

[1] *Other receivables include the receivables from penalties on illegal connections and other trade and other receivables.*

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

As at 31 December 2019, the Group has recognised GEL 3,259 of trade and other receivables, which relates to the income that is not in scope of IFRS 15, *Revenue from Contracts with Customers* (2018: GEL 1,426), mainly receivables from the penalties on illegal connection services.

The Group does not have internal credit grading system to evaluate credit quality of its trade and other receivables and assesses credit risk based on days past due information.

(Amounts expressed in thousands of Georgian Lari)

10. Trade and other receivables (continued)

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

31 December 2019	*Contract assets*	*Current*	*Less than 30 days*	*30 to 60 days*	*61 to 90 days*	*Over 91 days*	*Total*
Expected credit loss rate	0.00%	0.00%	4.75%	26.11%	40.50%	94.32%	52.88%
Carrying amount at default	2,993	4,285	13,582	804	496	25,734	**47,894**
Expected credit loss	**–**	**–**	**645**	**210**	**201**	**24,272**	**25,328**

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

31 December 2018	*Contract assets*	*Current*	*Less than 30 days*	*30 to 60 days*	*61 to 90 days*	*Over 91 days*	*Total*
Expected credit loss rate	0.00%	0.00%	1.39%	20.00%	32.30%	91.01%	49.47%
Carrying amount at default	3,346	3,747	9,680	782	870	20,567	**38,992**
Expected credit loss	**–**	**–**	**135**	**156**	**281**	**18,717**	**19,289**

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

	Non-current trade and other receivables	*Current trade and other receivables*	*Total*
31 December 2017	**240**	**35,718**	**35,958**
IFRS 9 transition effect	–	6,571	**6,571**
Charge	51	4,982	**5,033**
Bad debts written off[11]	(87)	(28,186)	**(28,273)**
31 December 2018	**204**	**19,085**	**19,289**
Provision/Reversal for expected credit losses	(150)	7,475	**7,325**
Bad debts written off[1]	–	(1,286)	**(1,286)**
31 December 2019	**54**	**25,274**	**25,328**

[1] The Group has written off aged receivables arisen more than three years ago. Considerably large bad debt write-off in 2018 were conditioned by amendments of a decree regarding potable water supply and consumption issued by GNERC, pursuant to which customers were exempted from obligation to pay amounts arisen more than three years ago. Written off receivables have been previously fully provided for..

11. Equity

Charter capital

As at 31 December 2019 and 2018, the Group had fully contributed charter capital of GEL 2. As at 31 December 2019 and 2018, authorized common shares comprised 50,000 psc, issued share capital comprised 1,000 ordinary shares, of which 1,000 were fully paid. As at 31 December 2019 and 2018, each share has a nominal value of US dollar 1 (one).

Dividends

In 2019, dividends in the amount of GEL 22,000 were declared and paid to the shareholder (2018: GEL 28,840).

Additional paid-in capital

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

Other reserves

Other reserves reflect the transfers of cash to the parent for the shares granted to the employees of the Group (see Note 25).

(Amounts expressed in thousands of Georgian Lari)

11. Equity (continued)

Revaluation reserve

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

Management of capital

The Group's objectives when managing capital are:

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

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

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

12. Borrowings

	31 December 2019		*31 December 2018*	
	Current liabilities	***Non-current liabilities***	***Current liabilities***	***Non-current liabilities***
Loans from international financial institutions	20,567	189,516	17,755	220,661
Loans from Georgian financial institutions	5,131	133,150	2,191	49,659
Debt securities issued	256	30,355	224	29,756
Total borrowings	**25,954**	**353,021**	**20,170**	**300,076**

As at 31 December 2019, borrowings from international financial institutions include GEL denominated loans from Nederlandse Financierings-Maatschappij Voor Ontwikkelingsanden N.V ("FMO Entrepreneurial Development Bank") of GEL 86,841 (2018: GEL 96,329); EUR denominated loans from Deutsche Investitions – Und Entwicklungsgesellschaft MBH ("DEG") of GEL 123,242 (2018: GEL 76,856);

The EUR denominated loan from European Investment Bank ("EIB") of GEL 65,231 was refinanced during 2019.

As at 31 December 2019, borrowings from Georgian financial institutions include GEL denominated loans of GEL 115,507 (2018: GEL 31,325); EUR denominated loan of GEL 22,774 (2018: GEL 20,525).

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

Debt matures on average in 12 years (2018: 10 years).

At 31 December 2019, the Group has GEL 44,933 of undrawn borrowing facilities (2018: no undrawn borrowing facilities).

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

Certain property, plant and equipment and investment property were pledged as collateral for borrowings as at 31 December 2018 (Notes 7, 8). No assets were pledged as at 31 December 2019.

Material non-cash transactions

In 2019, the Group incurred borrowings costs of GEL 28,692 (2018: GEL 20,921) of which GEL 2,709 has been capitalized to property, plant and equipment (2018: GEL 6,354).

(Amounts expressed in thousands of Georgian Lari)

12. Borrowings (continued)

Changes in liabilities arising from financial activities

	Borrowings	*Debt securities issued*	*Lease liabilities*	*Total*
Carrying amount at 31 December 2017	**217,410**	**29,946**	**–**	**247,356**
Foreign currency translation	1,394	–	–	**1,394**
Cash proceeds	71,772	–	–	**71,772**
Cash repayments	(738)	–	–	**(738)**
Interest accrued	18,325	3,188	–	**21,513**
Interest paid (classified as operating cash outflows)	(17,396)	(3,188)	–	**(20,584)**
Other	(501)	34	–	**(467)**
Carrying amount at 31 December 2018	**290,266**	**29,980**	**–**	**320,246**
Foreign currency translation	6,602	–	–	**6,602**
Cash proceeds	138,435	–	–	**138,435**
Cash repayments	(88,431)	–	(170)	**(88,601)**
Interest accrued	25,685	3,125	63	**28,873**
Interest paid (classified as operating cash outflows)	(23,725)	(3,093)	(63)	**(26,881)**
Other	(468)	599	825[1]	**956**
Carrying amount at 31 December 2019	**348,364**	**30,611**	**655**	**379,630**

[1] *Includes IFRS 16 adoption and lease liability additions.*

13. Trade and other payables

	31 December 2019	*31 December 2018*
Payables for non-current assets	4,223	5,437
Trade payables	3,845	4,603
Payables to employees	3,742	3,665
Other payables	243	224
Total trade and other payables	**12,053**	**13,929**

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

14. Contract assets and liabilities

The Group has recognised GEL 162,429 of revenue from contracts with customers in 2019 (2018: GEL 144,630). The disaggregation of revenue from contracts with customers by types are presented in the consolidated statement of profit and loss and other comprehensive income for 2019 and in Notes 15, 16.

Contract balances

The Group recognised the following revenue-related contract balances:

	31 December 2019	*31 December 2018*
Receivables		
Receivables, presented in Trade and other receivables	20,382	17,876
Total	**20,382**	**17,876**
Contract liabilities		
Advances received	6,242	8,424
Deferred revenue	29,333	22,869
Total	**35,575**	**31,293**

(Amounts expressed in thousands of Georgian Lari)

14. Contract assets and liabilities (continued)

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

Increase in receivables is conditioned by postponed receipts related to electric power sales.

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

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

Transaction price allocated to the remaining performance obligations

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

	In the year ending 31 December 2020	*In the year ending 31 December 2021*	*In the year ending 31 December 2022*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on contracts with customers	4,764	4,610	4,046	6,353	9,560	**29,333**

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

	In the year ending 31 December 2019	*In the year ending 31 December 2020*	*In the year ending 31 December 2021*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on contracts with customers	3,921	3,659	3,505	5,168	6,616	**22,869**

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

15. Revenue from water supply and related services

	2019	*2018 (reclassified)*
Revenue from water supply to legal entities	93,556	92,230
Revenue from water supply to general population	39,728	39,585
Total revenue from water supply before charges for related services	**133,284**	**131,815**
Charges for connection services	3,566	2,741
Charges for installation of water meters	1,005	1,022
Total revenue from water supply and related services	**137,855**	**135,578**

16. Revenue from electric power sales

	2019	*2018*
Revenue from electric power sales to legal entities	23,714	8,814
Revenue from electric power sales to government-related entities	860	238
Total revenue from electric power sales	**24,574**	**9,052**

(Amounts expressed in thousands of Georgian Lari)

17. Other revenue

	2019	*2018 (reclassified)*
Income from rent	661	631
Other revenue	566	46
Total other revenue	**1,227**	**677**

18. Salaries and other employee benefits

	2019	*2018*
Salaries	16,514	15,585
Bonuses	2,408	2,118
Employee share-based compensation	1,325	914
Total salaries and benefits	**20,247**	**18,617**

19. General and administrative expenses

	2019	*2018*
Security expenses	1,219	964
Utility expenses	814	843
Office expenses	796	753
Communication expenses	430	455
Advertising expenses	143	432
Business trip expenses	60	148
Representation expenses	57	140
Total general and administrative expenses	**3,519**	**3,735**

20. Professional fees

	2019	*2018*
Consulting expenses	2,049	2,460
Legal and other professional fees	654	592
Total professional fees	**2,703**	**3,052**

21. Other income

	2019	*2018*
Penalty income on illegal connection services	1,028	1,896
Net gain (losses) from revaluation of investment property	988	269
Derecognition of unclaimed advances received and trade payables	845	360
Other income	924	1,265
Total other income	**3,785**	**3,790**

(Amounts expressed in thousands of Georgian Lari)

22. Other operating expenses

	2019	*2018 (restated)*
Bill processing expenses	1,697	1,710
Insurance expense	1,526	1,305
Electricity production facilities utilization costs	1,302	1,425
Compensation for damage	657	309
Regulation fee	322	288
Charity expenses	234	251
Net loss from disposal of property, plant and equipment	176	88
Rent expenses	164	660
Fines and penalties	136	537
Research & Certification Expenses	109	28
Cost of wastewater treatment	96	91
Other expenses	758	166
Total other operating expenses	**7,177**	**6,858**

23. Finance costs

	2019	*2018 (restated)*
Interest expenses on borrowings	25,983	14,567
Bank fees and charges	118	592
Interest expenses on lease liabilities	63	–
Total finance costs	**26,164**	**15,159**

24. Derivative financial liabilities

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

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

	2019		***2018***	
	Notional Amount	***Liability***	***Notional Amount***	***Liability***
Forward - domestic	22,467	1,919	28,579	1,777
Derivative financial assets/liabilities	22,467	1,919	28,579	1,777

25. Share-based payments

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

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

(Amounts expressed in thousands of Georgian Lari)

25. Share-based payments (continued)

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

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

	2019	2018
Shares outstanding at 1 January	**525,000**	**–**
Granted during the year	6,400	525,000
Forfeited during the year	(239,000)	–
Vested during the year	(113,400)	–
Shares outstanding at 31 December	**179,000**	**525,000**

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

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

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

	2019	*2018*
Increase in equity arising from equity-settled share-based payments	5,881	7,874
Expense arising from equity-settled transactions	4,187	6,077

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

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

The Group does not have an obligation to settle the above awards, but it is expected that the Group will transfer cash to the Parent to compensate it for the settlement of the Group's awards.

26. Non-recurring expenses

	2019	*2018*
Termination benefits	2,862	–
Demerger-related share-based acceleration expense	–	5,163
Non-operating tax expenses	–	958
Net income from transfer of assets upon exit from the share purchase agreement (Note 27)	(1,601)	–
Total non-recurring expenses	**1,261**	**6,121**

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.

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

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

(Amounts expressed in thousands of Georgian Lari)

27. Commitments and contingencies

Commitments

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

Exit from the share purchase agreement

On 15 April 2019, an agreement on termination of 2008 Privatization Agreement (the "SPA") was concluded 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 Wastewater Treatment Plant and investment of not less that USD 220 million equivalent in GEL in performance of obligations under the SPA) have been fulfilled and 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. In addition, the Group also acquired certain other immovable assets (investment property) from the Government for a nominal consideration. At the same time, Georgian Water and Power LLC transferred certain immovable assets (property, plant and equipment), located in the Zhinvali village near Zhinvali Hydro Power Plant, to the Government free of charge. The net effect of these exchange transactions of GEL 1,601 was included in Non-recurring items in the statement of profit or loss and other comprehensive income.

Environmental matters

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

28. Financial instruments

Financial instruments overview

Restricted cash

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

Cash at bank

Cash at bank as at 31 December 2019 and 2018 includes the funds placed on current accounts in Georgian banks. All cash at bank balances are classified as current and not impaired. As at 31 December 2019 and 2018, the Group did not have any significant financial assets that are past due but not impaired, except for trade and other receivables (Note 10).

Fair value measurement

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

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

(Amounts expressed in thousands of Georgian Lari)

28. Financial instruments (continued)

Risk arising from financial instruments

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

Currency risk

Currency risk is the risk that the value or a cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The management of the Group monitors open currency positions in each material currency and enters into foreign currency derivatives transactions as necessary.

As at 31 December 2019 and 2018, currency risk arises from the EUR denominated borrowings and derivative financial liabilities.

Currency	***Increase/ decrease in % 2019***	***Effect on profit 2019***
EUR	11.00%	16,153
EUR	-6.00%	(8,811)

Currency	***Increase/ decrease in % 2018***	***Effect on profit 2018***
EUR	11.00%	17,950
EUR	-11.00%	(17,950)

Interest rate risk

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

Currency	***Increase/ decrease in % 2019***	***Effect on profit 2019***
GEL	-2.00%	(2,891)
GEL	2.00%	2,891

Currency	***Increase/ decrease in % 2018***	***Effect on profit 2018***
GEL	0.75%	460
GEL	-0.75%	(460)
EUR	0.020%	13
EUR	-0.020%	(13)

Credit risk

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

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

- Cash at bank and restricted cash: as at 31 December 2019 out of total cash at bank and restricted cash of GEL 26,588 (2018: 14,649), GEL 26,453 (2018: 5,957) was kept with banks having ratings of "BB-/bb-" from Standard & Poor's, "B1/NP" (FC) & "Ba3/NP" (LC) from Moody's and "BB-/bb-" from Fitch Ratings;
- Trade and other receivables (Note 10).

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

(Amounts expressed in thousands of Georgian Lari)

28. Financial instruments (continued)

Risk arising from financial instruments (continued)

Liquidity risk

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

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

	Less than 1 year	*1-3 years*	*3-5 years*	*Over 5 years*	*Total*
As at 31 December 2019					
Long-term and short-term borrowings	58,626	152,425	121,571	222,593	**555,215**
Trade and other payables	12,053	–	–	–	**12,053**
Lease liabilities	196	459	–	–	**655**
Derivative financial liabilities	1,919	–	–	–	**1,919**
Total future payments	**72,794**	**152,884**	**121,571**	**222,593**	**569,842**
As at 31 December 2018					
Long-term and short-term borrowings	42,363	133,908	90,999	175,425	**442,695**
Trade and other payables	13,929	–	–	–	**13,929**
Derivative financial liabilities	1,777	–	–	–	**1,777**
Total future payments	**58,069**	**133,908**	**90,999**	**175,425**	**458,401**

29. Related parties disclosures

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

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

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

	31 December 2019		*31 December 2018*	
	Parent Company	*Entities under common control*	*Parent Company*	*Entities under common control*
Assets:				
Trade and other receivables	–	1,822	–	181
Prepayments[1]	2,474	420	–	403
Liabilities:				
Advances received	–	106	–	43
Trade and other payables	–	216	–	206
Derivative financial liabilities	1,919	–	1,777	–

[1] Prepayments towards the Parent represents advances made in compensation of settlement of share-based payment awards

(Amounts expressed in thousands of Georgian Lari)

29. Related parties disclosures (continued)

	Entities under common control	*Entities under common control*	
	2019	***2018***	***2018[1]***
Income and expenses			
Revenue from water supply	1,745	1,704	141
Revenue from technical support	47	249	–
Other revenue	7	216	–
Other income	1,032	5	4
Gain from sale of non-core assets[2]	2,364	–	–
Cost of electric power sales	(4,357)	–	–
Finance cost	(36)	–	(1,344)
Other operating expenses	(636)	(1,256)	(50)

[1] *Figures include income and expenses generated before demerger (Note 1) by the companies not included in GCAP Group entities as at 31 December 2018.*

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

Directors' compensation

The Group's key management personnel in 2019 and 2018 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 and performance bonuses depending on financial performance of the Management company. Total compensation paid to key management amounted to GEL 9,244 and GEL 11,432 for the years ended 31 December 2019 and 2018, respectively as follows:

	2019	***2018***
Salaries and benefits	1,936	2,300
Bonuses	1,323	1,258
Employee share-based compensation	3,123	7,874
Termination payments towards executive management personnel (Note 26)	2,862	–
Total management compensation	**9,244**	**11,432**

30. Events after the reporting period

In the beginning of 2020, the Group implemented a planned de-offshorisation (re-domiciliation) process, pursuant whereto change has been made to the Group's shareholding structure. GGU (a British Virgin Islands resident company,) has been replaced by a Georgian resident Joint Stock Company Georgia Global Utilities (100% owned by JSC Georgia Capital). Other than the referred replacement of the direct shareholder of the subsidiaries (substitution of a non-resident company with a Georgian resident company), no changes have been introduced to the Group structure. At the date of authorization for issue of these consolidated financial statements, Georgian Global Utilities Ltd (British Virgin Islands) has been liquidated.

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

In response to those developments, on 1 April 2020 the government of Georgia announced GEL 2 billion economy support initiative. The initiative package includes, among other measures, coverage of March-May 2020 water supply services payments by the government on behalf of the certain categories of individuals that account for the majority of the Group's individual customer's base.
The management of the Group considers coronavirus (COVID-19) outbreak to be a non-adjusting post balance sheet event, but it is still assessing its impact on the financial position and performance of the Group.