Georgian State Electrosystem JSC

Consolidated Financial Statements for 2019

Contents

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Independent Auditors' Report

To the Supervisory Board of Georgian State Electrosystem JSC

Opinion

We have audited the consolidated financial statements of Georgian State Electrosystem JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 (IFRS).

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement of Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the Management Report and we will not express any form of assurance conclusion thereon.

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

When we read the Management Report, we conclude whether the other information:

- is consistent with the consolidated financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' 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 scepticism 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 auditors' 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 auditors' 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 those charged with governance 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.

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

KPMG Georgia LLC
24 June 2020

’000 GEL	**Note**	**2019**	**2018**
ASSETS			
Non-current assets			
Property and equipment	9	1,011,132	983,872
Intangible assets		5,656	2,486
Prepayments for non-current assets		6,244	20,787
Trade and other receivables	10	1,211	6,140
Total non-current assets		**1,024,243**	**1,013,285**
Current assets			
Inventories		14,753	12,944
Trade and other receivables	10	29,749	27,961
Prepayments to suppliers		1,747	4,759
Cash and cash equivalents	11	101,430	71,016
Total current assets		**147,679**	**116,680**
Total assets		**1,171,922**	**1,129,965**
EQUITY AND LIABILITIES			
Equity			
Share capital	12 (a)	645,065	642,677
Unregistered capital		11,259	11,259
Foreign currency translation reserve		430	473
Addition paid in capital	12(e)	11,680	-
Accumulated deficit		(751,016)	(781,491)
Equity attributable to owners of the Company		**(82,582)**	**(127,082)**
Non-controlling interest		300	-
Total equity		**(82,282)**	**(127,082)**
Non-current liabilities			
Loans and borrowings	14	967,792	481,410
Restructured liabilities	15	23,113	36,874
Grants related to assets	16	102,736	105,579
Total non-current liabilities		**1,093,641**	**623,863**
Current liabilities			
Loans and borrowings	14	82,525	556,458
Trade and other payables	17	55,936	54,760
Restructured liabilities	15	19,267	17,000
Grants related to assets	16	2,835	4,966
Total current liabilities		**160,563**	**633,184**
Total liabilities		**1,254,204**	**1,257,047**
Total equity and liabilities		**1,172,922**	**1,129,965**

* The Group has initially applied IFRS 16 at 1 January 2019, however the effect is immaterial. Under the transition methods chosen, comparative information is not restated. See Note 5.

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

'000 GEL	Note	2019	2018
Revenue	6	235,010	227,050
Other income		7,648	9,767
Wages and salaries		(31,089)	(27,565)
Depreciation and amortization		(45,121)	(46,924)
Impairment of property and equipment	9	(5,038)	(42,705)
Other operating expenses	7	(64,408)	(53,878)
Results from operating activities		**97,002**	**65,745**
Finance income	8	14,595	7,779
Finance costs	8	(81,122)	(26,739)
Net finance costs		**(66,527)**	**(18,960)**
Profit before income tax		**30,475**	**46,785**
Income tax expense		-	-
Profit for the year		**30,475**	**46,785**
Other comprehensive income/(loss)			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		(43)	(42)
Total comprehensive profit for the year		**30,432**	**46,743**
Profit attributable to:			
Owners of the Company		30,475	46,785
Non-controlling interests		-	-
		30,475	**46,785**
Total comprehensive income attributable to:			
Owners of the Company		30,432	46,743
Non-controlling interests		-	-
		30,432	**46,743**

* The Group has initially applied IFRS 16 at 1 January 2019, however the effect is immaterial. Under the transition methods chosen, comparative information is not restated. See Note 5.

These consolidated financial statements were approved by management on 24 June 2020 and were signed on its behalf by:

Ucha Uchaneishvili
Rehabilitation Manager

Mamuka Skhiladze
Member of Management Board

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

'000 GEL	**Share capital**	**Unregistered capital**	**Translation reserve**	**Accumulated deficit**	**Additional paid-in capital**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2018	639,052	11,259	515	(828,276)	-	(177,450)	-	(177,450)
Total comprehensive income for the year								
Profit for the year	-	-	-	46,785	-	46,785	-	46,785
Other comprehensive loss								
Foreign currency translation differences for foreign operations	-	-	(42)	-	-	(42)	-	(42)
Total other comprehensive loss for the year	**-**	**-**	**(42)**	**-**	**-**	**(42)**	**-**	**(42)**
Total comprehensive income for the year	**-**	**-**	**(42)**	**46,785**	**-**	**46,743**	**-**	**46,743**
Contributions by owners								
Owner contributions – cash	1,900	-	-	-	-	1,900	-	1,900
Owner contributions – non-cash (see note 9)	1,725	-	-	-	-	1,725	-	1,725
Total contributions by owners (see note 12(a))	**3,625**	**-**	**-**	**-**	**-**	**3,625**	**-**	**3,625**
Balance at 31 December 2018	**642,677**	**11,259**	**473**	**(781,491)**	**-**	**(127,082)**	**-**	**(127,082)**
Balance at 1 January 2019	642,677	11,259	473	(781,491)	-	(127,082)	-	(127,082)
Total comprehensive income for the year								
Profit for the year	-	-	-	30,475	-	30,475	-	30,475
Other comprehensive loss								
Foreign currency translation differences for foreign operations	-	-	(43)	-	-	(43)	-	(43)
Total other comprehensive loss for the year	**-**	**-**	**(43)**	**-**	**-**	**(43)**	**-**	**(43)**
Total comprehensive income for the year	**-**	**-**	**(43)**	**30,475**	**-**	**30,432**	**-**	**30,432**
Contributions by owners								
Modification effect on related party loan from Ministry of Finance (note 13)	-	-	-	-	11,680	11,680	-	11,680
Owner contributions - non-cash (see note 9)	2,388	-	-	-	-	2,388	-	2,388
Total contributions by owners (see note 12(a))	**2,388**	**-**	**-**	**-**	**11,680**	**14,068**	**-**	**14,068**
Changes in ownership interests								
Formation of a subsidiary with non-controlling interests (see note 22)	-	-	-	-	-	-	300	300
Total changes in ownership interests	**-**	**-**	**-**	**-**	**-**	**-**	**300**	**300**
Balance at 31 December 2019	**645,065**	**11,259**	**430**	**(751,016)**	**11,680**	**(82,582)**	**300**	**(82,282)**

* The Group has initially applied IFRS 16 at 1 January 2019. Under the transition methods chosen, comparative information is not restated. See Note 5.

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

’000 GEL	Note	2019	2018
Cash flows from operating activities			
Profit before income tax		30,475	46,785
Adjustments for:			
Depreciation and amortization		45,121	46,924
Impairment loss on property and equipment	9	5,038	42,705
Loss from disposal and write-off of property and equipment		4,751	7,441
Net finance costs	8	66,527	18,960
Income from amortization of grants	16	(4,988)	(4,970)
		146,924	**157,845**
Changes in:			
Inventories		(1,056)	(6,315)
Trade and other receivables		3,014	(6,176)
Grants related to assets	16	15	2,788
Prepayments to suppliers		2,961	(456)
Trade and other payables		457	12,330
Cash flows from operations before interest paid		**152,315**	**160,016**
Interest paid		(32,240)	(21,246)
Net cash from operating activities		**120,075**	**138,770**
Cash flows from investing activities			
Interest received		14,595	6,636
Acquisition of property and equipment and intangible assets		(62,826)	(88,458)
Net cash used in investing activities		**(48,231)**	**(81,822)**
Cash flows from financing activities			
Proceeds from borrowings		15,815	32,381
Repayment of restructured liabilities		(17,000)	(15,000)
Repayment of borrowings		(40,502)	(52,628)
Proceeds from issue of share capital	12 (a)	-	1,900
Net cash used financing activities		**(41,687)**	**(33,347)**
Net increase in cash and cash equivalents		**30,157**	**23,601**
Cash and cash equivalents at 1 January		71,016	47,295
Effect of exchange rate fluctuations on cash and cash equivalents		257	120
Cash and cash equivalents at 31 December	11	**101,430**	**71,016**

* The Group has initially applied IFRS 16 at 1 January 2019. Under the transition methods chosen, comparative information is not restated. See Note 5.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

1. Reporting entity

(a) Organisation and operations

Georgian State Electrosystem JSC (the “Company”) and its subsidiaries (the “Group”) comprise Georgian joint stock and limited liability companies as defined in the Law of Georgia on Entrepreneurs and a joint stock company located and registered in the Republic of Turkey. See note 22.

The Company is a joint stock company established under the laws of Georgia on 12 November 2002 by the means of the merger of Electrogadatsema JSC and Electrodispetcherizatsia-2000 LLC and is their legal successor in title.

The Company’s registered office is 2 Baratashvili Street, Tbilisi 0105, Georgia. The Company’s registration number is # 5/4-3396.

The principle activities of the Group are electricity transmission and dispatching over the entire territory of Georgia that are regulated by the Law on Electricity and Natural Gas. EnergoTrans LLC, the major subsidiary of the Company, was established as a state-owned enterprise in 2002. The principal activity of EnergoTrans LLC is electricity transmission, including export and transit of electricity, via the 500 kW Vardzia and Zekari energy transmission lines and the 400 kW Meskheti interconnection line with Turkey, constructed as part of the “Black Sea Transmission Network Project” (the “BSTN”). The BSTN provides an additional security to Georgia’s transmission network by adding a second west-east 500 kW link and creates energy export capacity to Turkey. The BSTN project was completed by the end of 2013. The Group operates under the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission (“GNERC”) for unlimited period.

At 31 December 2019 and 2018 the parent and ultimate parent of the Group is the Partnership Fund JSC (the “Owner”). The ultimate controlling party of the Group is the Government of Georgia. Related party transactions are disclosed in note 21.

(b) Georgian business environment

The Group’s operations are primarily located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

(b) Going concern of significant subsidiary (EnergoTrans LLC)

As at 31 December 2019 management of EnergoTrans LLC have analyzed the overall financial results, positive cash flows from operating activities, considered the mitigating factors listed below and concluded that EnergoTrans LLC will have sufficient liquidity to meet its liabilities when due and that the management’s going concern assumption as at the reporting date is appropriate.

As at 31 December 2019 EnergoTrans LLC incurred net loss of GEL 26,426 thousand (2018: net loss of GEL 27,815 thousand), had net current liability of GEL 50,322 thousand (2018: net current liability of GEL 402,570 thousand).

The management's above assumption is based on the following facts and estimates:

- The loans and borrowings of GEL 585,559 thousand are due to the Ministry of Finance of Georgia, out of the total loans and borrowings balance, GEL 564,903 thousand represent sub-loan agreements of the Ministry of Finance's obligation towards the financial institutions (EBRD, KfW and EIB, see note 13), and the balance of GEL 20,656 thousand is due to the Ministry of Finance.
- A support letter has been obtained from the Ministry of Economy and Sustainable Development of Georgia (ultimate controlling party), where the Ministry of Economy and Sustainable Development expressed its intention and ability to provide further financial and other support to EnergoTrans LLC, if necessary, to permit EnergoTrans LLC meet its financial obligations as they fall due. EnergoTrans LLC's ability to continue as a going concern and to settle its obligations when they fall due, is highly dependent on a support, which was obtained in past, and management believes that will be obtained in future from the Government of Georgia (ultimate controlling party).
- Management of EnergoTrans LLC believes that tariffs for transmitting electricity will increase from 2021 that affects EnergoTrans LLC's revenue and cash flow subsequently. Management expects that electricity transmit activities will increase due to overall increase in consumption, which will stipulate further increase in tariffs and respectively revenues of EnergoTrans LLC. Increase in consumption has been growing during recent periods and management anticipates that this tendency will continue further.
- In addition, EnergoTrans LLC maintains a VAT recoverable of GEL 5,699 thousand (2018: GEL 9,220 thousand) as at 31 December 2019 that can be offset against EnergoTrans LLC's tax liabilities.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. The functional currency of each of the Group entities is the currency of the primary economic environment in which the entity operates.

All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

— Note 2(b) – EnergoTrans LLC - economic dependence upon the ultimate controlling party;
— Note 14 – fair value of loans and borrowings at initial recognition;
— Note 22 – consolidation: whether the Group has control over an investee; and
— Note 24(g)(iv) – useful lives of property and equipment.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following note:

— Note 9(c) – impairment test for property, and equipment: key assumptions underlying recoverable amounts, including the recoverability of property, and equipment.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the determination of fair values for financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

— *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
— *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
— *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in note 18(a) - fair values of financial assets and liabilities.

5. Changes in significant accounting policies

The Group has initially adopted IFRS 16 *Lease*s from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees, which means that a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There was no change to the lessor accounting as a result of adoption of IFRS 16. IFRS 16 has replaced existing leases guidance, including 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*.

As at 1 January 2019 and 31 December 2019 adoption of IFRS 16 has not effect on the Group's consolidated financial statements.

A number of other new interpretations and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements.

6. Revenue

’000 GEL	**2019**	**2018**
Revenue from contracts with customers		
Revenue from transmission of electricity	182,438	181,778
Revenue from dispatching of electricity	44,143	32,756
Revenue from exporting electricity	5,221	12,264
Revenue from transit	1,680	202
Other revenue	1,528	50
Total revenues	**235,010**	**227,050**

Revenue from export includes both revenue from transmission and dispatching of electricity.

The revenue is calculated based on the transmission and dispatch tariffs established by GNERC. The tariffs have not been changed since 2018.

(a) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by the primary geographical markets, the major revenue streams and timing of revenue recognition.

’000 GEL	**2019**	**2018**
Primary geographical markets		
Domestic	233,330	226,848
Foreign	1,680	202
Total revenues	**235,010**	**227,050**

(b) Contract balances

The following table provides information about receivables, contract assets and contract liabilities form contract with customers.

’000 GEL	**2019**	**2018**
Receivables, which are included in ‘trade and other receivables’	26,537	23,554

Due to the nature of the business operations, there are no contract balances from the contracts with customers.

(c) Performance obligations and revenue recognition policies

The Group recognises revenue when it transfers control over a good or service to a customer, see note 24(b).

7. Other operating expenses

’000 GEL	**2019**	**2018**
Lost electricity cost*	29,561	22,157
Fines on non-repayment of loans (Note 14 (b))	8,337	4,961
Taxes other than on income	5,675	6,509
Security expenses	2,894	2,704
Audit and consultation expenses	2,308	7,002
Transportation costs	1,858	1,753
Business trip expenses	1,776	1,579
Insurance expenses	1,654	1,196
Maintenance and repair expenses	1,304	750
Penalties	769	1,424
Other	8,272	3,843
	64,408	**53,878**

*On 4 May 2018, Ministry of Economy and Sustainable Development of Georgia issued an order, according to which the Group is obliged to reimburse the cost of lost electricity during transmission process to Electricity Market Operator ESCO.

8. Finance income and finance costs

’000 GEL	**2019**	**2018**
Recognised in profit or loss		
Interest income on bank balances	14,595	6,636
Net foreign exchange gain	-	1,143
Finance income	**14,595**	**7,779**
Interest expense on loans and borrowings	(20,804)	(20,940)
Unwinding of discount on restructured liabilities	(4,825)	(5,799)
Net foreign exchange loss	(55,493)	-
Finance costs	**(81,122)**	**(26,739)**
Net finance costs recognised in profit or loss	**(66,527)**	**(18,960)**

In 2019 the Group capitalised interest on loans and borrowings of GEL 6,813 thousand (2018: GEL 5,521 thousand), note 9(b).

9. Property and equipment

’000 GEL	**Land, buildings and constructions**	**Power transmission lines**	**Equipment, vehicles and other**	**Under construction**	**Total**
Cost or deemed cost					
Balance at 1 January 2018	128,684	455,727	821,212	194,763	1,600,386
Additions	1,430	-	2,323	75,489	79,242
Disposals/write off	(28)	-	(6,527)	(7,281)	(13,836)
Transfers	1,970	3,538	10,107	(15,615)	-
Balance at 31 December 2018	**132,056**	**459,265**	**827,115**	**247,356**	**1,665,792**
Balance at 1 January 2019	132,056	459,265	827,115	247,356	1,665,792
Additions	2,391	-	814	78,579	81,784
Disposals/write off	(11)	-	(120)	(5,498)	(5,629)
Transfers	2,859	3,142	51,952	(57,953)	-
Balance at 31 December 2019	**137,295**	**462,407**	**879,761**	**262,484**	**1,741,947**
Depreciation and impairment loss					
Balance at 1 January 2018	(38,723)	(205,390)	(339,543)	(14,552)	(598,208)
Depreciation for the year	(3,628)	(14,737)	(28,053)	-	(46,418)
Disposals	10	-	5,344	57	5,411
Impairment loss	(2,419)	(11,990)	(25,673)	(2,623)	(42,705)
Balance at 31 December 2018	**(44,760)**	**(232,117)**	**(387,925)**	**(17,118)**	**(681,920)**
Balance at 1 January 2019	(44,760)	(232,117)	(387,925)	(17,118)	(681,920)
Depreciation for the year	(3,522)	(12,490)	(27,924)	-	(43,936)
Disposals	3	-	17	59	79
Impairment loss	(282)	(1,418)	(3,000)	(338)	(5,038)
Balance at 31 December 2019	**(48,561)**	**(246,025)**	**(418,832)**	**(17,397)**	**(730,815)**
Carrying amounts					
At 1 January 2018	**89,961**	**250,337**	**481,669**	**180,211**	**1,002,178**
At 31 December 2018	**87,296**	**227,148**	**439,190**	**230,238**	**983,872**
At 31 December 2019	**88,734**	**216,382**	**460,929**	**245,087**	**1,011,132**

During 2019 immediate parent contributed to the Company’s capital land plots, comprising GEL 2,388 thousand (2018: GEL 1,725 thousand of land plots, transmission line and related equipment) in the form of an increase in share capital. At the contribution dates nominal value of the contributed assets approximated to their fair values.

(a) Security

At 31 December 2019 items of property and equipment (land plots with power-transmission lines and related technical equipment) with a carrying amount of GEL 48,090 thousand (2018: GEL 55,980 thousand) are pledged as a security against loans and borrowings from and restructured liabilities to the Ministry of Finance of Georgia (see notes 14 and 15).

(b) Under construction

Construction in progress amounting GEL 245,087 thousand as at 31 December 2019 (2018: GEL 230,238 thousand), include GEL 22,665 thousand (2018: GEL 37,769 thousand) spare parts and stand-by equipment held to support the operations of property and equipment, GEL 222,422 thousand (2017: GEL 186,948 thousand) construction in progress. Capitalized borrowing costs related to the construction and enhancement of Ksani electricity transmission lines and substations, transmission grid strengthening project, as well as other transmission network rehabilitation projects amounted GEL 6,813 thousand (2018: GEL 5,521 thousand thousand), with a capitalisation rate of 2.78% (2018: 2.69%)

(c) Impairment test for property and equipment

At 31 December 2019 the management identified an indicator that the Group’s subsidiary, EnergoTrans LLC’s property and equipment (referred as “the CGU”) may be impaired due to the fact, that in 2019 EnergoTrans LLC’ net operating cash inflows were lower than projected, which was mainly driven by the shortfall from budgeted cash flows from the transit of electricity. The recoverable amount of the CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU.

The carrying amount of the CGU of GEL 223,695 thousand was determined to be higher than its recoverable amount of GEL 218,658 thousand and the respective impairment loss of GEL 5,038 thousand was recognized in the impairment loss during 2019, which was allocated to the CGU on the pro-rata basis.

The following key assumptions are used in the estimation of the recoverable amount:

Cash flows are projected for 26 years. Management believes that using 26 years is justified as the period represents the weighted average remaining useful life of the CGU, to account for reimbursement of investments in the CGU and the required rate of return of the investors, as defined by tariff setting methodology approved by the Georgian National Energy and Water Supply Regulatory Commission (GNERC);

- The load factor for the 400kW energy transmission line projected in the forecasted period of 17.53%. The load factor is calculated as the net projected export/import figure divided by the potential capacity of the transmission line.
- Cash inflows are expected from two main streams of revenue: transmission and export of electricity;
- Revenue from transmission and export of electricity is projected based on actual operating results and EnergoTrans LLC’s five-year business plan, which is developed according to the ten-year development plan of the Georgian energy-transmission network, approved by the Government of Georgia;
- Due to the significant shortfall from budgeted amounts and external market information available, revenue from transit of electricity is assumed to be equal to nil.
- A pre-tax discount rate of 14.04% (2018: 13.6%) is applied in determining the present value of the future cash flows. The discount rate reflects the nominal required rate of return for the cash flows on the invested capital of the companies denominated in GEL.

The above estimates are particularly sensitive towards change in the discount rate. An increase of 1% point in the discount rate would have resulted in an increase in the impairment loss of approximately GEL 9,072 thousand.

10. Trade and other receivables

’000 GEL	**2019**	**2018**
Non-current receivables		
Taxes receivable	1,211	6,140
Current receivables		
Trade receivables	40,194	38,808
Impairment allowance on trade receivables	(16,908)	(15,254)
Trade receivables, net of impairment allowance	**23,286**	**23,554**
Taxes receivable	5,910	3,717
Other receivables	1,845	2,868
Receivable from owner	846	-
Impairment allowance on other receivables	(2,138)	(2,178)
	29,749	**27,961**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 18.

11. Cash and cash equivalents

’000 GEL	**2018**	**2018**
Bank balances	101,430	71,016
Cash and cash equivalents in the consolidated statements of financial position and cash flows	**101,430**	**71,016**

No cash and cash equivalents are impaired or past due.

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 18.

12. Equity

(a) Share capital

	Ordinary shares	
Number of shares unless otherwise stated	**2019**	**2018**
Par value	GEL 1	GEL 1
On issue at 31 December, fully paid	**645,065,000**	**642,677,000**

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

During 2019 the general meeting of shareholders of the Company approved the issue of 2,388 thousand ordinary shares at a price of GEL 1 per share The issued shares were paid by non-cash contribution in form of land plots, please refer to Note 9.

During 2018 issued 3,625,121 ordinary shares at par value of GEL1 per share, out of which 1,900,000 ordinary shares were paid in cash and 1,725,000 ordinary shares: by property and equipment (Note 9).

(b) Unregistered capital

The unregistered capital comprises contributions of assets made by shareholders which are in the ownership of the Company but have not been registered in the Company's charter and any difference between the registered amount of share capital and the fair value of the assets contributed by the shareholders.

(c) Dividends

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with International Financial Reporting Standards.

(d) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(e) Additional paid in capital

Additional paid in capital is related to the modification of the loan from Ministry of Finance of Georgia to EnergoTrans LLC.

On 13 September 2019 new repayment schedule was agreed between EnergoTrans LLC and the Ministry of Finance of Georgia, according to which loan maturity is extended till 2029. Original maturity was 30 December 2020. The difference between the net present value of amended and original cash outflows is accounted as an additional paid in capital (note 14).

13. Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs as well as the main objectives of the Rehabilitation Plan (see note 15). This is achieved with efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows as well as loans and borrowings.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

14. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 18.

'000 GEL	**2019**	**2018**
Non-current liabilities		
Unsecured loans from financial institutions	944,164	460,278
Secured loan from related party	10,600	-
Secured loans from financial institutions	13,028	21,132
	967,792	**481,410**
Current liabilities		
Current portion of unsecured loans from financial institutions	62,613	516,294
Current portion of secured loans from financial institutions	9,856	9,524
Current portion of secured loan from related party	10,056	30,640
	82,525	**556,458**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2019		31 December 2018	
’000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loans from financial institutions:							
Ministry of Finance of Georgia – KfW	EUR	KfW reference rate +4%	2027	253,047	253,047	247,322	247,322
Ministry of Finance of Georgia - KfW	EUR	2.20%	2025	73,937	73,937	73,869	73,869
Ministry of Finance of Georgia - EIB	EUR	Euribor+0.75%	2033	203,514	203,514	198,907	198,907
Ministry of Finance of Georgia - EBRD	EUR	Euribor+1%	2025-2028	162,850	162,850	164,494	164,494
Ministry of Finance of Georgia - KfW	EUR	1%-1.5%	2025-2037	43,974	43,974	45,879	45,879
Ministry of Finance of Georgia – ADB	USD	1%-1.5%	2044	124,929	124,929	116,604	116,604
Ministry of Finance of Georgia – IBRD	USD	World Bank's lending treasury rates	2038	139,711	139,711	125,367	125,367
Ministry of Finance of Georgia - IBRD	EUR	Variable interest rate	2044	496	496	-	-
Loan from MOF (KfW New)	EUR	0.25%-0.05%	2032	4,318	4,318	4,130	4,130
Secured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	4%	2021	4,841	4,841	6,947	6,947
Ministry of Finance of Georgia - IDA	USD	World Bank's lending treasury rates	2022	18,044	18,044	23,709	23,709
Secured loan from related party:							
Ministry of Finance of Georgia	EUR	7.50%	2029	32,336	20,656	30,640	30,640
Total interest-bearing liabilities				**1,061,997**	**1,050,317**	**1,037,868**	**1,037,868**

At 31 December 2019 items of property and equipment (land plots with power-transmission lines and related technical equipment) with a carrying amount of GEL 48,090 thousand (2018: GEL 55,980 thousand) are pledged as a security against loans and borrowings from and restructured liabilities to the Ministry of Finance of Georgia (note 15).

Breach of financial covenant

In relation to the loans received from EIB, EBRD and KfW on EnergoTrans LLC’s level, in accordance with the loan and related project implementation agreements, the Group should maintain a Debt Service Coverage ratio of not less than 1.1.

The covenant has been permanently waived for EIB, as for EBRD and KfW, respected waivers have been received in December of 2019.

The management calculates the above financial covenant at the end of each year based on both, stand-alone financial information of the Company and consolidated financial statements of the Group prepared in accordance with IFRSs.

As at 31 December 2018 the Group was in breach of the financial covenant as the ratio of current assets to current liabilities based on consolidated financial statement of the Group prepared in accordance with IFRSs was less than 1. As at 31 December 2018 the loan with the amount of GEL 125,367 thousand was classified as current in the consolidated statement of financial position.

(b) Changes of contractual terms

According to the addendums formed on 13 September 2019 between EnergoTrans LLC and the Ministry of Finance of Georgia, principal amounts due in 2020 were postponed to 2027, 2028 and 2029, in case of EBRD, EIB and Ministry of Finance of Georgia, respectively. As a result of addendum, maturity dates are extended in case of loans from EBRD and Ministry of Finance of Georgia.

Extension of maturity of the loan from Ministry of Finance of Georgia till 2029 resulted in significant modification of contractual terms as a result of which the modification gain calculated between the original and new cash flows of financial instrument is recognized as an additional paid in capital at amount of GEL 11,475 thousand. (note 12(e)).

EnergoTrans LLC agreed with the Ministry of Finance of Georgia to repay the principal amounts due in 2019 till the end of 2020; As a result of restructuring of loan terms with the Government of Georgia, there are no breach of contractual terms as at 31 December 2019.

Late payment penalty of GEL 8,337 thousand (2018: GEL 4,961 thousand), imposed by the Ministry of Finance of Georgia, is included in other expenses.

During 2018, due to the cash shortage, the contractual amounts falling due under Subsidiary Loan Agreements (KfW, EBRD) concluded between EnergoTrans LLC and the Government of Georgia were not repaid on time. EnergoTrans LLC failed to negotiate restructuring of loan terms with the Government of Georgia in 2018, accordingly no formal consent for postponement of payments falling due in 2018 were obtained from the Government of Georgia. The breach of contractual terms represents the Event of Default under the Subsidiary Loan Agreements (KfW, EBRD) which gives the Government of Georgia an unconditional right to request an immediate repayment of loans and borrowings of GEL 385,287 thousand as at 31 December 2018 (see note 18 (b)(iii)). As at31 December 2018 the loans were reclassified as current on the statement of financial position of the Group.

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities	Liabilities	Equity	
’000 GEL	**Loans and borrowings**	**Restructured liability**	**Share capital**	**Total**
Balance at 1 January 2019	**1,037,868**	**53,874**	**642,677**	**1,734,419**
Proceeds from borrowings	15,815	-	-	15,815
Repayment of borrowings	(40,502)	-	-	(40,502)
Repayment of restructured liabilities	-	(17,000)	-	(17,000)
Total changes from financing cash flows	**(24,687)**	**(17,000)**	**-**	**(41,687)**
The effect of changes in foreign exchange rates	**53,439**	**681**	**-**	**54,120**
Interest expense	20,804	-	-	20,804
Capitalized borrowing cost	6,813	-	-	6,813
Unwinding of discount	-	4,825	-	4,825
Interest paid	(32,240)	-	-	(32,240)
Modification of gain on loan	(11,680)	-	-	(11,680)
Owner’s contribution non-cash	-	-	2,388 -	2,388
Total other changes	**(16,303)**	**4,825**	**2,388**	**(9,090)**
Balance at 31 December 2019	**1,050,317**	**42,380**	**645,065**	**1,737,762**

	Liabilities	Liabilities	Equity	
’000 GEL	**Loans and borrowings**	**Restructured liability**	**Share Capital**	**Total**
Balance at 1 January 2018	**1,054,283**	**62,875**	**639,052**	**1,756,210**
Proceeds from borrowings	32,381	-	-	32,381
Repayment of borrowings	(52,628)	-	-	(52,628)
Repayment of restructured liabilities	-	(15,000)	-	(15,000)
Owner’s contribution cash	-	-	1,900	1,900
Total changes from financing cash flows	**(20,247)**	**(15,000)**	**1,900**	**(33,347)**
The effect of changes in foreign exchange rates	**(1,383)**	**200**	**-**	**(1,183)**
Interest expense	20,940	-	-	20,940
Capitalized borrowing cost	5,521	-	-	5,521
Unwinding of discount	-	5,799	-	5,799
Interest paid	(21,246)	-	-	(21,246)
Owner’s contribution non-cash	-	-	1,725	1,725
Total other changes	**5,215**	**5,799**	**1,725**	**12,739**
Balance at 31 December 2018	**1,037,868**	**53,874**	**642,677**	**1,734,419**

15. Restructured liabilities

’000 GEL	**2019**	**2018**
Payables to the State budget	19,207	35,029
Trade payables	29,538	28,936
Loans and interest accrued	1,473	2,572
	50,218	**66,537**
Amortized cost adjustment	(7,838)	(12,663)
Balance at 31 December	**42,380**	**53,874**
Current liabilities	19,267	17,000
Non-current liabilities	23,113	36,874
Balance as at 31 December	**42,380**	**53,874**

Restructured liabilities represent the amounts originated before 2006, the repayments of which have been deferred due to the financial difficulties of the Group. According to the Rehabilitation Plan, drawn-up initially in 2006 through court proceedings and agreed with the majority of creditors, the repayments of these debts have been deferred until 2011, thereafter the amounts will be repaid by instalments until 2023, the end of the rehabilitation period.

The Rehabilitation Plan sets out the strategic targets of the Group for the 15 years, as well as defines the main operating and financial objectives of the Group. According to the Rehabilitation Plan, the Rehabilitation Manager has been appointed to undertake the governance of the Group throughout the entire rehabilitation period. The main creditor of the Group is the Ministry of Finance of Georgia. The amounts payable to the Ministry of Finance of Georgia are taxes and duties, as well as loans and interest accrued. Restructured liabilities are presented at discounted amounts. Following the approval of the new Rehabilitation Plan in 2008, the Group has estimated the fair value of deferred payables, to effect the amendments in the repayment terms. The fair value of these liabilities on the Rehabilitation Plan approval date has been determined by discounting future cash flows at an average market interest rate of 9.57 %.

16. Grants related to assets

’000 GEL	**2019**	**2018**
Balance at 1 January	110,544	112,728
Credited to other income in profit and loss	(4,988)	(4,971)
Received during the year	15	2,788
Balance at 31 December	**105,571**	**110,545**
Non-current	102,736	105,579
Current	2,835	4,966
	105,571	**110,545**

In 2019 new tranche of grant has not been received from KfW.

In 2018, KfW provided a grant related to the construction of the 500/220 KW Jvari substation comprising GEL 1,476 thousand. In addition, GEL 1,312 thousand was received in 2018 from KfW for a feasibility study for the Extension of the Transmission Network.

The financial contribution is not repayable unless the Group misuses the funds received or seriously jeopardizes the implementation of the project.

17. Trade and other payables

’000 GEL	**2019**	**2018**
Payables for construction works performed	30,039	32,365
Other payables	12,811	12,337
Prepayments received	13,086	10,058
	55,936	**54,760**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

18. Fair values and risk management

(a) Fair values of financial assets and liabilities

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Group has determined the fair values of financial assets and liabilities using valuation techniques. The objective of the valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the fair values of the Group’s financial assets and liabilities approximate their carrying amounts.

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

— credit risk – note 18 (b)(ii);
— liquidity risk – note 18 (b)(iii);
— market risk – note 18 (b)(iv).

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(i) Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Management Board is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Management Board.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and bank balances.

The carrying amount of financial assets represents the maximum credit risk exposure.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically, the credit risk is concentrated mainly in Georgia.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Approximately 45% (2018: 42%) of the Group's revenue is attributable to sales transactions with a single customer.

More than 70% of the Group's customers have been transacting with the Group for over five years.

No collateral in respect of trade and other receivables is generally required.

The Group establishes an allowance for impairment that represents its estimate of expected losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. The major part of the credit losses are older than 3 years.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
’000 GEL	**2019**	**2018**
Domestic	**23,286**	**23,554**

Impairment losses

The aging of trade receivables at the reporting date was:

’000 GEL	**Gross 2019**	**Impairment 2019**	**Gross 2018**	**Impairment 2018**
Not past due	23,286	-	23,554	-
Past due more than one year	16,908	16,908	15,254	15,254
	40,194	**16,908**	**38,808**	**15,254**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

’000 GEL	**Individual impairments**	
	2019	**2018**
Balance at beginning of the year	15,254	15,157
Bad debt allowance	1,654	97
Balance at end of the year	**16,908**	**15,254**

The allowance account in respect of trade receivables is used to record impairment losses until all possible opportunities for recovery have been exhausted; at that point the amounts are written off against the financial asset directly.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables.

Cash and cash equivalents

The cash and cash equivalents are held with bank, which is rated B based on rating agency Fitch ratings.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group manages liquidity requirements by the use of both short-term and long-term projections. Management regularly monitors monthly forecasts of the Group’s cash flows. The Company has established an annual budgeting process with the Owner. The budget is reviewed by the Supervisory Board and approved by the Owner. The budget is updated on a monthly basis based on the actual results. The Group aims to maintain the level of cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities over the next 60 days.

As at 31 December 2019 the Group has sufficient liquidity to meet its liabilities, as there is significant increase in net cash flows from operating activities in 2019. As tariff change has not been applicable throughout 2019, there are negotiations undergoing between GNERC and EnergoTrans LLC regarding possible tariff increase. Management expects that electricity transmit activities will increase due to overall increase in consumption, which will stipulate further increase in tariffs and respectively revenues of the Group. Increase in consumption has been growing during recent periods and Management anticipates that this tendency will continue further.

The Group has contractual commitments to purchase property and equipment of GEL 138,656 thousand (see note 18). Capital commitments are attributable to various project-related construction works and will be funded by undisbursed loan facilities from international financial institutions. Undisbursed loan facilities as at 31 December 2019 amounted to GEL 465,387 thousand.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, include estimated interest payments and exclude the impact of netting agreements.

31 December 2019

’000 GEL	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	Over 5 years
Non-derivative financial liabilities					
Unsecured loans from financial institutions	1,006,777	1,163,646	67,868	432,178	663,600
Secured loans from financial institutions	22,884	24,190	10,380	13,810	-
Secured loans from related party	20,656	32,945	10,056	-	22,889
Restructured liabilities	42,380	50,218	19,000	31,218	-
Trade and other payables	42,850	42,850	42,850	-	-
	1,135,547	**1,313,849**	**150,154**	**477,206**	**686,489**

31 December 2018

’000 GEL	Carrying amount	Contractual cash flows	Up to 1 year	1-5 years	Over 5 years
Non-derivative financial liabilities					
Unsecured loans from financial institutions	976,572	1,065,652	557,263	165,457	342,932
Secured loans from financial institutions	30,656	33,932	10,433	23,499	-
Secured loans from related party	30,640	32,586	32,586	-	-
Restructured liabilities	53,874	66,537	17,000	49,537	-
Trade and other payables	44,702	44,702	44,702	-	-
	1,136,444	**1,243,409**	**661,984**	**238,493**	**342,932**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group’s exposure to the risk of changes in foreign exchange rates relates primarily to the financial liabilities denominated in foreign currencies.

The Group does not hedge its exposure to currency risk.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 GEL	**USD-denominated 2019**	**EUR-denominated 2019**	**USD-denominated 2018**	**EUR-denominated 2018**
Trade and other receivables	1,313	59	433	19
Cash and cash equivalents	12,264	3	8,045	11
Loans and borrowings	(282,684)	(767,633)	(265,680)	(772,188)
Trade and other payables	(12,043)	(17,378)	(7,213)	(21,313)
Restructured liabilities	(2,242)	(1,009)	(2,340)	(1,302)
Net exposure	**(283,392)**	**(785,958)**	**(266,755)**	**(794,773)**

The following significant exchange rates applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2019	**2018**	**2019**	**2018**
USD 1	2.8192	2.5345	2.8677	2.6766
EUR 1	3.1553	2.9913	3.2095	3.0701

Sensitivity analysis

A strengthening/weakening of the GEL, as indicated below, against the USD and EUR at 31 December would have increased (decreased) profit or loss by the amounts shown below. There would have been no impact on other comprehensive income or directly on equity. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

The analysis is performed on the same basis for 2018.

'000 GEL	**Strengthening**	**Weakening**
	Profit	**(Loss)**
31 December 2019		
USD (10% movement)	28,339	(28,339)
EUR (10% movement)	78,596	(78,596)
31 December 2018		
USD (10% movement)	26,676	(26,676)
EUR (10% movement)	79,477	(79,477)

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 GEL	Carrying amount	
	2019	**2018**
Fixed rate instruments		
Financial assets	101,430	71,016
Financial liabilities	(272,655)	(278,069)
	(171,225)	**(207,053)**
Variable rate instruments		
Financial liabilities	(777,662)	(759,799)
	(777,662)	**(759,799)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2018.

	Profit or (loss)	
'000 GEL	**100 bp increase**	**100 bp decrease**
2019		
Variable rate instruments	7,776	(7,776)
Cash flow sensitivity (net)	**7,776**	**(7,776)**
2018		
Variable rate instruments	7,598	(7,598)
Cash flow sensitivity (net)	**7,598**	**(7,598)**

19. Capital commitments

As at 31 December 2019 the Group had long-term contractual commitments to purchase equipment for the construction and rehabilitation of energy-transmission lines for GEL 138,656 thousand (2018: GEL 154,353 thousand).

Capital commitments are attributable to various project-related construction works and will be funded by undisbursed loan facilities from international financial institutions.

20. Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

In the ordinary course of business, the Group is subject to legal actions, litigations and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

21. Related party transactions

(a) Control relationships

The Company's immediate and ultimate parent company is Partnership Fund JSC and the Company's ultimate controlling party is the Government of Georgia. Partnership Fund JSC produces publicly available financial statements in accordance with IFRSs which are available on the entity's website.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in wages and salaries:

'000 GEL	**2019**	**2018**
Salaries and bonuses	**2,248**	**2,120**

(c) Transactions with Government related entities

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence of the Government of Georgia. The Group has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

All of the Group’s loans and borrowings and interest expense on loans and borrowings are payable to the Ministry of Finance of Georgia. The Group’s grants related to assets are mainly received in the transactions where the Government of Georgia acted as an intermediary. The Group’s restructured liabilities mainly consist of payables to the Government of Georgia or Government bodies.

Approximately 24% of the Group’s revenue (2018: 23%) is from three entities significantly influenced or controlled by the Government of Georgia.

22. Subsidiaries

Subsidiary	Country of incorporation	2019 Ownership/voting	2018 Ownership/voting
EnergoTrans LLC	Georgia	100%	100%
Karcal Energy JSC	Turkey	100%	100%
Georgian Energy Exchange JSC	Georgia	50%	50%

Georgian Energy Exchange JSC was established in December 2019, with 50% participation of the Company. Georgian Energy Exchange JSC is an operator of organized electricity markets and ensures establishment of daily markets and operation though software services of Nord Pool Consulting Company. During 2019, the Company made investment of GEL 1,541 thousand for purchase/installation of software required for subsidiary's operations.

As at 31 December 2019 the Company has consolidated balances of Georgian Energy Exchange JSC as management has determined, based on the terms of agreements under which this entity was established, that the Group controls Georgian Energy Exchange JSC.

23. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

24. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets at the acquisition date.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Revenue

(i) Services

The Group recognizes revenue when it transfers control over a good or service to a customer. The Group primarily derives revenue from transmission of electric power. Revenue is recognized over time as services are provided, based on the monthly volume of transmitted and dispatched electricity and the tariff set by the Regulator. The agreements with counterparties do not have discounts and the invoices are payable on a monthly basis.

The measure of progress is based on the actual volume of transmitted and dispatched electricity. In case of transit of electricity, tariffs for the services are provided in agreements with counterparties.

(ii) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(c) Finance income and costs

The Group’s finance income and finance costs include:

• interest income on funds invested;
• interest expense on financial liabilities measured at amortized cost;
• the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised using the effective interest method. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(d) Foreign currency transactions

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to GEL at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to GEL at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and are presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

(e) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(f) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(g) Income tax

Income tax expense comprises current and deferred tax. It is recognized in the profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.
Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of the net distribution.

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Group considers the taxation of such transaction as outside of the scope of IAS 12 Income Taxes and accounts for the tax on such items as taxes other than on income.

(ii) Deferred Tax

Due to the nature of the new taxation system described above, the entities registered in Georgia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

Tax losses accrued in the prior periods cannot be utilized against the future taxable profits.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Property and equipment

(i) Recognition and measurement

Items of property and equipment, except for land, are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is measured at cost less any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment for the current and comparative periods are as follows:

- buildings and constructions 15-25 years;
- power transmission lines 20-35 years;
- equipment 10-25 years;
- vehicles and other 5-7 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Financial instruments

The Group applies IFRS 9 Financial Instruments for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

i) Recognition and initial measurement

Trade receivables are initially recognized when they are originated.

All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii) Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group’s financial assets comprise trade and other receivables as presented in note 10 and cash and cash equivalents as presented in note 11 and are classified into the financial assets at amortised cost category. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Cash and cash equivalents comprised bank balances with maturities of three months or less from the acquisition date that were subject to insignificant risk of changes in their fair value.

iii) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it meets the definition of held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss (except for the part of the fair value change that is due to changes in the Group’s own credit risk, that is recognised in other comprehensive income).

Other financial liabilities, which comprise loans from related parties and trade and other payables presented in note 14 and note 17, accordingly, are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Group measures all of its financial liabilities at amortized cost.

iv) ***Modification of financial assets and financial liabilities***

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature)

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the key rate of National Bank of Georgia, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

— change the currency of the financial liability;
— change in collateral or other credit enhancement;
— inclusion of conversion option;
— change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

v) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group currently has a legally enforceable right to set off and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in note 10 and cash and cash equivalents as presented in note 11.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances with original maturities of three months or less.

Non-derivative financial liabilities - measurement

The Company classifies non-derivative financial liabilities into the other financial liabilities' category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(l) Impairment

(i) Non-derivative financial assets

Financial instruments

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
– the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 90 days past due;
– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
– it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(m) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

– fixed payments, including in-substance fixed payments;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– amounts expected to be payable under a residual value guarantee; and
– the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

25. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

– *Amendments to References to Conceptual Framework in IFRS Standards.*
– *Definition of a Business (Amendments to IFRS 3).*
– *Definition of Material (Amendments to IAS 1 and IAS 8).*
– *IFRS 17 Insurance Contracts.*

26. Subsequent events

Change in ultimate parent company

According to the decision issued on 28 February 2020 by the Government of Georgia, the Company's immediate parent company Partnership Fund JSC's shares will be cancelled. Partnership Fund JSC will be replaced by Ministry of Economy and Sustainable Development of Georgia. According to this decision, the Company's ultimate parent company is the Government of Georgia, under the name of Ministry of Economy and Sustainable Development of Georgia

Outbreak of COVID-19

On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 coronavirus pandemic. The first case in Georgia was officially reported on 26 February 2020. As measures against spreading of the virus, Government of Georgia imposed various restrictions over activities within the country. The restrictions imposed at various times include ban on all cross-border travel, restriction over all travel within the country during specific hours, closing of all public transport, stopping all commercial activity except those which can be done distantly from home as well as except specific business (groceries, pharmacies, commercial banks, gas stations, post offices etc.).

The outbreak of COVID-19 and its rapid spread in the world, has caused substantial impact and changes to the business environment in all countries over the world, including Georgia, which resulted in announcement of the State of Emergency, on the basis of Decree of the President of Georgia dated 21 March 2020. As per the Decree the State of Emergency shall last until 21 April 2020; which is further prolonged till 22 May 2020.

The restrictions imposed by Government of Georgia do not apply to any of the Group's operations.