Partnership Fund JSC

Consolidated Financial Statements
for the year ended 31 December 2018

Contents

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Independent Auditors' Report

To the Supervisory Board
Partnership Fund JSC

Opinion

We have audited the consolidated financial statements of Partnership Fund JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) 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 IESBA Code. 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. Our opinion on the consolidated financial statements does not cover the Management Report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Management Report 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.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and based on the work performed, we conclude that the Management Report:

- 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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
Tbilisi, Georgia
17 January 2020

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.

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Tbilisi, Georgia
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’000 GEL	**Note**	**2018**	**2017***
Assets			
Property, plant and equipment	9	4,108,807	4,383,623
Investment property		75,529	11,863
Prepayments for non-current assets	10	162,749	178,685
Investments in equity accounted investees	11	112,726	70,498
Finance lease receivable	13	67,854	62,873
Loans receivable	14	2,580	6,588
Trade receivables	16	18,959	21,169
VAT receivable		6,137	7,458
Other non-current assets	10	81,655	91,369
Non-current assets		**4,636,996**	**4,834,126**
Loans receivable	14	258	1,661
Inventories		69,655	56,583
Prepayments and other current assets	15	63,244	72,515
Trade receivables	16	253,259	265,874
Current tax assets		11,011	8,462
Cash and cash equivalents	17	780,150	1,097,599
Current assets		**1,177,577**	**1,502,694**
Total assets		**5,814,573**	**6,336,820**
Equity			
Share capital	18	100,000	100,000
Owner contributions		2,725,876	2,654,412
Accumulated deficit		(1,083,629)	(504,790)
Equity attributable to owners of the Company		**1,742,247**	**2,249,622**
Non-controlling interests	24	28,651	42,483
Total equity		**1,770,898**	**2,292,105**
Liabilities			
Loans and borrowings	19	2,476,209	2,850,554
Advance received from the Government of Georgia	18(e)	46,594	46,594
Restructured liabilities	20	36,874	47,875
Grants related to assets	21	105,579	107,797
Other non-current liabilities		-	1,165
Non-current liabilities		**2,665,256**	**3,053,985**
Loans and borrowings	19	953,789	702,508
Restructured liabilities	20	17,000	15,000
Trade and other payables	22	382,762	249,646
Liabilities to the Government of Georgia	18(d)	5,317	7,592
Provisions		14,517	10,940
Current tax liabilities		68	113
Grants related to assets	21	4,966	4,931
Current liabilities		**1,378,419**	**990,730**
Total liabilities		**4,043,675**	**4,044,715**
Total equity and liabilities		**5,814,573**	**6,336,820**

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. 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 9 to 67.

'000 GEL	Note	2018	2017*
Revenue	6	1,705,374	1,650,431
Operating expenses	7	(1,012,023)	(965,137)
Wages and other employee benefits		(230,590)	(216,078)
Depreciation and amortisation		(205,245)	(209,609)
Impairment loss on property and equipment	9	(734,092)	(632,733)
Share of profit of equity accounted investees (net of income tax)	11	(500)	3,995
Income from transferred property	18(f)	-	23,417
Other income		50,135	64,175
Impairment loss on trade receivables		(17,080)	(12,686)
Gain on bargain purchase	12	2,045	-
Gain recognized on step acquisition	12	1,974	-
Results from operating activities		**(440,002)**	**(294,225)**
Finance income	8	71,434	77,151
Finance costs	8	(214,022)	(262,205)
Net finance costs		**(142,588)**	**(185,054)**
Loss before income tax		**(582,590)**	**(479,279)**
Income tax expense		(2,529)	(2,703)
Loss and total comprehensive loss for the year		**(585,119)**	**(481,982)**
Loss and total comprehensive loss attributable to:			
Owners		(571,287)	(476,303)
Non-controlling interests		(13,832)	(5,679)
		(585,119)	**(481,982)**

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

These consolidated financial statements were approved by management on 17 January 2020 and were signed on its behalf by:

David Saganelidze
Chief Executive Officer

Giorgi Tsimakuridze
Chief Financial Officer

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 9 to 67.

’000 GEL	**Note**	**2018**	**2017***
Revenue	6	1,705,374	1,650,431
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Chief Executive Officer

Giorgi Tsimakuridze
Chief Financial Officer

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 9 to 67.

’000 GEL	Share capital	Owner contributions	Accumulated deficit	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	100,000	2,601,334	(18,186)	2,683,148	48,162	2,731,310
Total comprehensive loss						
Loss for the year	-	-	(476,303)	(476,303)	(5,679)	(481,982)
Transactions with owners, recorded directly in equity						
Distributions of non-cash assets (see note 18(c))	-	-	(10,301)	(10,301)	-	(10,301)
Owner contributions (see note 18(b))	-	53,078	-	53,078	-	53,078
Balance at 31 December 2017	**100,000**	**2,654,412**	**(504,790)**	**2,249,622**	**42,483**	**2,292,105**
Adjustment on initial application of IFRS 9	-	-	(7,552)	(7,552)	-	(7,552)
Balance at 1 January 2018*	100,000	2,654,412	(512,342)	2,242,070	42,483	2,284,553
Total comprehensive loss						
Loss for the year	-	-	(571,287)	(571,287)	(13,832)	(585,119)
Transactions with owners, recorded directly in equity						
Owner contributions (see note 18(b))	-	71,464	-	71,464	-	71,464
Balance at 31 December 2018	**100,000**	**2,725,876**	**(1,083,629)**	**1,742,247**	**28,651**	**1,770,898**

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. 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 9 to 67.

'000 GEL	**Note**	**2018**	**2017**
Cash flows from operating activities			
Loss before income tax		(582,590)	(479,279)
Adjustments for:			
Depreciation and amortisation		205,245	209,679
Net finance costs		142,588	185,054
Share of profit of equity accounted investees (net of income tax)		500	(3,995)
Impairment loss on trade receivables		17,080	12,916
Impairment loss on property, plant and equipment		734,092	632,733
Income from amortization of grants		(4,971)	(4,980)
(Gain)/loss on disposal of property		(2,870)	8,696
Income from reversal of provisions		-	(1,340)
Recognized as income from the transferred property	18(f)	-	(23,417)
Gain on bargain purchase		(2,045)	-
Gain recognized on step acquisition		(1,974)	-
		505,055	**536,067**
Changes in:			
Inventories		(11,765)	(4,383)
Trade receivables and prepayments and other current assets		11,171	(11,653)
Restricted cash		-	168
Trade and other payables		25,451	(40,650)
Change in tax payables		(94)	5,161
Provisions		3,458	(594)
Government grants		2,788	4,878
Cash flows from operations before income taxes and interest paid		**536,064**	**488,994**
Income tax paid		(1,517)	(2,681)
Interest paid		(198,890)	(195,985)
Net cash from operating activities		**335,657**	**290,328**
Cash flows from investing activities			
Interest received		54,833	63,609
Issue of loans		(2,293)	-
Cash outflow related to transfer of loans receivable from subsidiary to the Fund		(37,208)	-
Dividends received		-	4,881
Repayment of loans issued		1,005	30,830
Acquisition of property, plant and equipment and changes in prepayments for non-current assets and other non-current assets		(456,503)	(419,072)
Proceeds from sale of property, plant and equipment		18,409	5,133
Acquisition of investments in equity accounted investees		(31,868)	(15,994)
Decrease of investments in equity accounted investees		16,083	-
Investing in other companies		-	(745)
Acquisition of subsidiary		(6,587)	-
Change in term deposits		-	148,909
Net cash used in investing activities		**(444,129)**	**(182,449)**
Cash flows from financing activities			
Proceeds from borrowings		42,256	201,218
Repayment of borrowings		(246,192)	(242,752)
Repayment of restructured liabilities		(15,000)	(10,387)
Receipt from share issue		-	38,540
Net cash used in financing activities		**(218,936)**	**(13,381)**
Net (decrease)/increase in cash and cash equivalents		**(327,408)**	**94,498**
Cash and cash equivalents at 1 January		1,097,599	1,029,990
Effect of movements in exchange rates on cash and cash equivalents		9,959	(26,889)
Cash and cash equivalents at 31 December	17	**780,150**	**1,097,599**

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. 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 9 to 67.

1. Reporting entity

(a) Business environment

The Group's operations are mainly 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.

(b) Organisation and operations

The Partnership Fund JSC (the "Fund") is a joint stock company domiciled in Georgia. The consolidated financial statements include financial statements of the Fund and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures. All significant Group entities are Georgian joint stock and limited liability companies as defined in the "Law of Georgia on Entrepreneurs" and are disclosed in notes 1(c) and 24.

The Fund was established on 28 June 2011 as a wholly state-owned enterprise based on the "Law of Georgia on Partnership Fund JSC". The Fund is a specialised public sector entity established by the State of Georgia, governed by the Supervisory Board chaired by the Prime Minister of Georgia. It was created to support investments in less developed industries of the Georgian economy and to create new employment opportunities in the country.

The Fund's principal activity is to provide equity and debt financing, and guarantees to private and public sector companies operating in Georgia with priority for projects in the energy, agriculture, manufacturing and real estate sectors. The main sources of income are expected to come from dividends and guarantee fees.

The principal activities of the Group entities are the importation and sale of gas, rental of gas and oil pipelines, oil and gas exploration and extraction, operation of a nationwide railway system providing freight and passenger transportation services and transmission, sale and dispatching of electricity over the territory of Georgia. Following the completion of the Gardabani Combined Cycle Power Plant (CCPP) construction in July 2015, electricity generation was added to the Group's principal activities. On 7 September 2015, Gardabani CCPP obtained the license on operation for an unlimited period from the Georgian National Energy and Water Supply Regulatory Commission (GNERC) and commenced generating revenue in accordance with the deregulated tariffs on the electricity market in Georgia. In accordance with the Government of Georgia order # 475 dated 14 September 2015 Gardabani CCPP was granted the status of guaranteed capacity operator until 1 October 2040.

Since 2017 the Group started construction of Gardabani II Combined-Cycle Thermal Power Plant, which was finalized by the end of 2019 (see note 29).

The Fund obtained control over the significant subsidiaries following the decrees of the Government of Georgia dated 30 July and 14 August 2012, under which the 100% interests in Georgian State Electrosystem JSC, Electricity System Commercial Operator JSC and the remaining shares in former associates Georgian Oil and Gas Corporation JSC and Georgian Railway JSC were contributed by the Government of Georgia to the capital of the Fund.

The Fund's registered office is 15 Queen Tamar Avenue, 0112, Tbilisi, Georgia and the Fund's registration number is #404404550.

The Fund is wholly owned by the State of Georgia represented by the Government of Georgia (the "Parent", "Owner"). Related party transactions are detailed in note 28.

(c) Group structure

As at 31 December 2018 and 2017 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2018 Ownership/ voting	2017 Ownership/ voting	Principal activities
Georgian Oil and Gas Corporation JSC and its subsidiaries				
Georgian Oil and Gas Corporation JSC	Georgia	100%	100%	Oil and gas sale, extraction and exploration and rent of pipelines
Gardabani TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
Gardabani 2 TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
GOGC Trading SA	Switzerland	100%	100%	Trade of crude oil, petroleum products, petrochemicals and other commodities
Georgian Railway JSC and its subsidiaries				
Georgian Railway JSC	Georgia	100%	100%	Railroad transportation
GR Property Management LLC (former Railway Property Management LLC)	Georgia	100%	100%	Property Management and development
GR Logistics and Terminals LLC (former Trans Caucasus Terminals LLC)	Georgia	100%	100%	Container transportation
Georgian Railway Construction JSC	Georgia	100%	100%	Construction and other projects
Borjomi Bakuriani Railway LLC	Georgia	100%	100%	Passenger transportation
Georgia Transit LLC	Georgia	100%	100%	Transportation services
GR Transit LLC (former Georgian Transit LLC)	Georgia	100%	100%	Transportation services
GR Transit Line LLC	Georgia	100%	100%	Transportation services
GR Trans Shipment LLC	Georgia	100%	100%	Transportation services
Georgian State Electrosystem JSC and its subsidiaries				
Georgian State Electrosystem JSC	Georgia	100%	100%	Electricity dispatching and transmission
EnergoTrans LLC	Georgia	100%	100%	Electricity transmission
Karcal Energy JSC	Turkey	100%	100%	Electricity transmission
Electricity System Commercial Operator JSC	Georgia	100%	100%	Sale and purchase of electricity
Nenskra JSC	Georgia	-	100%	Construction and operation of a hydro-power plant
Project LLC	Georgia	100%	100%	Manufacture of spare parts for airplanes
Tbilisi Logistics Center LLC and its subsidiaries				
Tbilisi Logistics Center LLC	Georgia	100%	100%	Food services
Fruit and Vegetable Export Company LLC	Georgia	100%	100%	Export of fruit and vegetables
Georgian Product LLC	Georgia	100%	100%	Tourism development
Black Sea Port LLC	Georgia	100%	100%	Construction and operation of a port
Lagodekhi Trading Company LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall in Lagodekhi
Panex JSC	Georgia	49%	49%	Building materials` industry
Telasi JSC	Georgia	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi
Clinics Development Company LLC and its subsidiaries				
Clinics Development Company LLC	Georgia	100%	100%	Management of healthcare provider subsidiaries
Tbilisi Children's Infection Clinical Hospital LLC	Georgia	100%	100%	Healthcare services
Universal Medical Center LLC	Georgia	100%	100%	Healthcare services
Nikoloz Kipshidze Central University Clinic LLC	Georgia	100%	100%	Healthcare services
Aerostructure Technologies Cyclone JSC	Georgia	66%	66%	Manufacture of spare parts for airplanes
Vanric Agro JSC	Georgia	49%	49%	Export of fruit
Rukhi Trading Center LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall
Start-up Georgia LLC	Georgia	100%	100%	Venture capital
Imereti Greenery LLC	Georgia	46.34%	46.34%	Agriculture/farming
Caucasus Clean Energy I, LLP	United Kingdom	10%	10%	Investment fund

Name	Country of incorporation and operation	2018 Ownership/ voting	2017 Ownership/ voting	Principal activities
Georgian Industrial and Regional Development Company LLC	Georgia	100%	100%	Investment fund, providing investments in regional developments in Georgia
Likani Residence LLC	Georgia	100%	100%	Renovation of Romanov Palace in Likani
Global Brand LLC	Georgia	100%	100%	Wine export to USA
Infrastructure Development Partnership Company LLC	Georgia	100%	100%	Providing investments in Anaklia Port Project
Tsinandali Estates LLC	Georgia	45.51%	45.51%	Hotel and spa resort in village Tsinandali
Gazelle Fund LP	Canada	29.10%	29.10%	International investment company represented in Georgia and Armenia
Lopota LLC	Georgia	-	37.78%	Hotel and spa resort near Lopota lake
Ytong Caucasus LLC	Georgia	28.9%	28.9%	Manufacturing of construction materials
Partnership Fund - Green Development LLC and its subsidiaries				
Partnership Fund - Green Development LLC	Georgia	100%	100%	Real estate development
Gino Green City Corporation LLC	Georgia	49%	49%	Real estate development
East West Bridge LLC	Georgia	100%	100%	Ownership of investment fund
Nenskra Hydro JSC	Georgia	6.99%	-	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia
Caucasian SUS Heritage LLC	Georgia	49.90%	-	Hog farm
KMG Service Georgia LLC and its subsidiary	Georgia	100%	-	Operation of a hotel
Borjomi Likani International JSC	Georgia	100%	50%	Construction and operation of a hotel
Georgian Natural Products LLC	Belarus	100%	-	Export of wine and agricultural products

All the Fund’s significant subsidiaries and equity accounted investees are Georgian joint stock and limited liability companies as defined in the “Law of Georgia on Entrepreneurs”.

2. Basis of accounting

Statement of compliance

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

This is the first set of the Group’s annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied.

Changes to significant accounting policies are described in note 5.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari (“GEL”), which is the functional currency of the Fund and of all significant Group entities and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand, 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 6 – revenue recognition in accordance with IFRS 15;
- Note 9(b) and (c) – impairment of property, plant and equipment;
- Note 12 – acquisition of a subsidiary;
- Note 13 – determination of whether the initial arrangement contains a lease and the fair value of the unguaranteed residual value at the end of the lease term, as well as, changes in the estimates for the net investments' present value calculation;
- Note 17 – classification of deposits with original maturities of more than three months as cash and cash equivalents;
- Note 19(a) – despite the breach of covenant on the secured loan, Management believes that the unsecured bonds related to Georgian Railway JSC should still be classified as long-term because the cross-acceleration of the bonds applies if the event of default occurs and is continuing;
- Note 19(a) – fair value of loans and borrowings at initial recognition;
- Note 23(c)(ii) - impairment allowances for trade receivables;
- Note 24 – assessment of control over Georgian State Electrosystem JSC; and
- Note 26 –assessment of the commitment related to the purchase and sale of gas.

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 notes:

- Note 9(c) – impairment of property, plant and equipment: key assumptions underlying recoverable amounts, including the recoverability of property and equipment and sensitivity analysis;
- Note 23(c) – measurement of ECL allowance for financial assets;
- Note 27(b) – contingencies; and
- Note 31(j)(iii) – useful lives of property, plant and equipment.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised 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.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the fair value measurement of financial assets and liabilities is included in note 23(a) – fair values of financial assets and liabilities.

5. Changes in significant accounting policies

The Group has initially applied IFRS 15 (see (A) and IFRS 9 (see (B) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables (see (B)).

The effect of initially applying these standards is mainly attributed to an increase in impairment losses recognised on financial assets (see B(ii)).

A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

IFRS 15 did not have a significant impact on the Group`s accounting policies with respect to the Group`s revenue streams (see note 6), therefore, there has been no impact of transition to IFRS 15 on accumulated deficit at 1 January 2018, or consolidated statement of financial position as at 31 December 2018 or consolidated statement of profit or loss and other comprehensive income or consolidated statement of cash flows for 2018. No contract assets/liabilities were recognized as a result of transition to IFRS 15.

For additional information about the Group`s accounting policies relating to revenue recognition, see note 31(b).

B. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements,* which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in finance costs. Consequently, the Group reclassified impairment losses amounting to GEL 12,686 thousand, recognised under IAS 39, from 'finance cost' to 'impairment loss on trade receivables' in the statement of profit or loss and OCI for the year ended 31 December 2017. Impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and OCI due to materiality considerations.

Additionally, the Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

Due to recognition of expected credit losses under IFRS 9, the impact of transition on retained earnings as at 1 January 2018 amounted to GEL 7,554 thousand.

i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For an explanation of how the Group classifies and measures financial instruments, treats modifications and accounts for related gains and losses under IFRS 9, see note 31 (l).

Trade and other receivables, loans receivable and cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

'000 GEL	
Loss allowance at 31 December 2017 under IAS 39	208,404
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables	7,033
Loan receivable at amortised cost	103
Cash and cash equivalents	416
Loss allowance at 1 January 2018 under IFRS 9	**215,956**

Additional information about how the Group measures the allowance for impairment is described in note 23 (c) and note 31(l).

iii) **Transition**

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in accumulated deficit as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

6. Revenue

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in note 5(a).

'000 GEL	**2018**	**2017**
Revenue from electricity		
Revenue from contracts with customers		
Sales of balancing electricity	319,039	327,453
Income from guaranteed capacity service	156,115	142,880
Transmission of electricity	175,261	106,640
Electricity generation	93,188	90,587
Dispatching of electricity	32,756	8,096
Revenue from transit	202	4,642
Total revenue from electiricty	**776,561**	**680,298**
Revenue from gas and oil sales and pipelines		
Revenue from contracts with customers		
Sales of gas	361,655	379,561
Income from crude oil	11,486	14,153
Other revenue		
Rent of gas pipelines	42,053	59,847
Oil transportation fees	18,367	18,315
Total revenue from gas and oil sales and pipelines	**433,561**	**471,876**
Revenue from railway transportation		
Revenue from contracts with customers		
Freight traffic	292,963	312,960
Logistic services	70,318	73,775
Passenger traffic	27,404	22,843
Other revenue		
Freight car rental	25,362	16,781
Total revenue from railway transportation	**416,047**	**426,359**
Healthcare revenue from contracts with customers	**27,486**	**22,091**
Other revenue from contracts with customers	**51,719**	**49,807**
Total revenues	**1,705,374**	**1,650,431**

Railroad transportation, balancing electricity supply and transmission and dispatching of electricity are natural monopolies in Georgia.

Revenue from electricity

Prices on balancing electricity are set according to the order the "Electricity (Capacity) Market Rules" issued by the Ministry of Energy and Natural Resources of Georgia. The fixed tariff of GEL 0.00019 per KW/H for the Group's service is defined by the decision of the Ministry of Energy and Natural Resources of Georgia and Georgian National Energy and Water Regulatory Commission made on 4 December 2008.

According to the "Georgian Law on Electricity and Natural Gas", starting from September 2010, the stability, security and reliability of Georgia's electric energy system is secured by the Guaranteed Capacity. The thermal power plants, which meet the demands of the technical parameters stipulated by the legislation, represent the Source of the Guaranteed Capacity. The minimum volume of the Guaranteed Capacity for each Source and periods of providing the Guaranteed Capacity are defined by the Government of Georgia. According to the "Electricity (Capacity) Market Rules", the trading with the Guaranteed Capacity is conducted exclusively by the Group entity: Electricity System Commercial Operator JSC (ESCO).

During 2018 the ESCO has acted as a financial agent while providing services based on the Georgian Government's decree N923, dated April 27, 2018. On April 9, 2015, the Government of Georgia and the Government of Turkey signed an agreement on cooperation in the energy sector. In accordance with Article #11 of this agreement, the return of debt to Turkey for electricity with total volume of 1,000,000,000 kWh was accepted by the Government of Georgia. Electricity System Commercial Operator JSC was identified as the electricity supplier from the Georgian side, whereas the electricity trading company TETAS was chosen from Turkish side.

According to the decree N923, ESCO was ordered to purchase electricity from Enguri HPP and service organizations and supply to TETAS free of charge. In 2018 total value of electricity purchased from Enguri HPP and service organizations is GEL 6,465 thousand. Per the same decree N923, Georgian Government covers half of the expenses arisen from the aforementioned activities from ESCO's retained earnings, and the remaining portion of the costs is covered by the Ministry of Finance of Georgia in cash.

In the transactions of purchase and supply of the electricity under the decree N923 ESCO acted as an intermediary between the Governments of Georgia and Turkey. In those transactions management of the Group estimated that the ESCO acts as an agent rather than as the principal.

Management considered the following factors in distinguishing between an agent and a principal:

- ESCO does not take title of the goods and has no responsibility in respect of the goods sold.
- ESCO does not select the customer and/or from which electricity supplier to purchase the electricity.
- ESCO does not bear any credit risk for the purchased electricity.
- ESCO cannot impact on the selling prices which should be same as purchase prices set by the electricity supplier.

Revenue from gas and oil sales and pipelines

The Group rents its gas pipeline and related infrastructure to Georgian Gas Transportation Company LLC (GGTC – a state owned entity outside of the Group). The rent agreement is non-cancellable and is valid until 1 January 2020 (see note 29). From September 2011 till 1 September 2017 the lease payments were calculated based on the volume of gas transported through the leased gas pipeline at a rate of $6.80 per 1,000 cubic meters. Since 1 September 2017 the rent fee is fixed at GEL 3,500 thousand per month. GGTC is responsible for all costs related to the repair, maintenance, operation and security of the main gas pipeline system. The Group is responsible for capital expenditures only.

Oil transportation fee is received for the oil transit from Azerbaijan to Turkey through the Baku-Supsa pipeline.

Revenue from railway transportation

On 28 September 2017, GR Transit LLC concluded a Ship-or-Pay Agreement (SoP) with foreign company, according to which foreign company had to transport at least 1,200,000 metric tons of crude oil and oil and gas condensate (Cargo) until the end of 2017 using the Group railway infrastructure and 50% of annual quantity of crude oil sourced from Turkmenistan and delivered to Baku-Tbilisi-Ceihan pipeline until the end of 2018. Included in the logistics services during

2018 and 2017 is the revenue recognised in the above regards, amounting to GEL 23,471 thousand and GEL 26,440 thousand, respectively.

Notwithstanding the above, no Cargo was transported during 2018 and 2017, however, the foreign company should still pay for the service, regardless of the Cargo transportation, as stipulated by the SoP (see note 16).

Railroad transportation in Georgia is a natural monopoly, however, the prices are not subject to government regulation. According to clause 64 of the Railway Code of Georgia, which came into force on 1 July 2005, the Government of Georgia allowed the Group to set the prices for all services provided, including freight transportation, freight transportation-related additional services and passenger transportation.

Tariffs for freight transportation are based on the International Rail Transit Tariff.

(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	**Railroad transportation**		**Gas supply**		**Electricity generation and supply**		**Upstream activities**		**Other**	
Primary geographical markets	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Domestic	390,685	409,578	361,655	379,561	746,011	647,447	11,486	14,153	79,205	71,898
Foreign	-	-	-	-	30,550	32,851	-	-	-	-
Total	**390,685**	**409,578**	**361,655**	**379,561**	**776,561**	**680,298**	**11,486**	**14,153**	**79,205**	**71,898**

(b) Contract balances

The following table provides information about receivables from contracts with customers.

'000 GEL	**31 December 2018**	**1 January 2018**
Receivables, which are included in 'trade receivables'	246,964	257,963

Due to the nature of the business operations, the Group does not have contract assets and contract liabilities from the contracts with customers.

(c) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

Revenue Type	**Nature and timing of satisfaction of performance obligations, including significant payment terms**	**Revenue recognition under IFRS 15 (applicable from 1 January 2018)**	**Revenue recognition under IAS 18 (applicable before 1 January 2018)**
Electricity generation and supply	Performance obligation is satisfied when electricity is provided to and consumed by the wholesaler. Invoice is issued on a monthly basis. Payment for consumed electricity is made by the end of the month following reporting month.	Revenue is recognised on a monthly basis based on volume of electricity consumed by wholesalers. The consumed electricity is measured by meters. Capacity fees are based on RAB (Valuation of the Regulatory Asset Base) and fixed daily payment is being made during 300 days out of 365.	Revenue was recognised on a monthly basis based on volume of electricity consumed by wholesalers.
Sales of balancing electricity; Income from guaranteed capacity service	While making sale based on contracts with customers, both domestic and foreign, customers obtain control on electricity at the time of making purchase. The Group calculated the tariff each month based on the actual prices of purchased electricity for that period. There are no discount related to sales.	Revenue is recognised at a point in time when the sale takes place.	Revenue was recognised when the control was transferred. The transfer was taking at the time of making sale. The Group did not provide any discounts.
Transmission of electricity; Dispatching of electricity	The Group recognizes revenue derived from transmission of electric power when it transfers control over service to a customer. Revenue is recognized overtime 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.	Revenue is recognized overtime as services are provided. The measure of progress is based on the actual volume of transmitted and dispatched electricity.	Revenue was recognised when the control was transferred. The transfer was taking at the time of making sale.
Gas supply	Customers obtain control of gas when it's transferred by pipelines to the customer. Invoices are generated no later than 15th of the following reporting month. Per contractual terms part of payments are made in advance (no later than 25th of each month) and remaining amount is paid by the end of the month following the reporting month. Per agreement late payment penalties are accrued on outstanding balances starting from the day following payment due date.	Revenue is recognised when the gas is delivered to the delivery points (Eastern, Southern and Northern Delivery Points, defined in the Gas Supply Agreement) i.e. performance obligation on delivery of gas is satisfied. The transaction price includes cost of gas and late payment penalties as variable consideration, and excludes estimates of the variable consideration that are constrained, that is allocated to that performance obligation.	Revenue was recognised when the gas was transferred to the customers via pipelines and consumed by the latter which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred, provided that a reasonable estimate of the returns could be made.

Revenue Type	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Upstream activities/ income from crude oil sales	Performance obligation is satisfied when the Group makes oil available to the customer at its premises (EXW – Incoterms). Invoice is issued on the sale of oil and payment is contractually agreed with individual customer.	Revenue from sales of oil is recognized when oil is transferred/ shipped from the Company's facilities to the customer.	Revenue from sales of oil was recognized when ownership, rights and obligations related to oil was transferred from the Group to the customer.
Freight traffic, Logistic services and Passenger traffic	Freight traffic, Logistic services and Passenger traffic revenue streams are to be recognized "over time" since transportation is the service, during which customer receives and consumes simultaneously the benefit as the Group performs. The customer benefits from the distance travelled.	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on estimated time to completion of transportation.	Revenue was recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion was assessed based on estimated time to completion of transportation.
Healthcare revenue	Performance obligation related to Healthcare revenue is satisfied "over time" as services are provided.	Revenue is recognised over time as the services are provided.	Revenue was recognised in proportion to the stage of completion of the transaction at the reporting date.
Other - import and export of electricity; income from fixed tariff of services rendered and other	**Import and export of electricity –** As a part of contracts with customers, both domestic and foreign, customers obtain control on electricity at the time of making purchase. The Group calculated the tariff each month based on the actual prices of purchased electricity for that period. **Fixed tariff of services rendered -** While making sale based on contracts with customers, the Company received fixed tariff (note 6) for provision of services. The tariff is charged at the point of making purchase of electricity. **Other -** Other revenue is recognised at the point in time when sale has been commenced and control over the goods was transferred.	**Import and export of electricity –** Revenue is recognised at a point in time when the sale takes place. **Fixed tariff of services rendered -** Revenue is recognised at a point in time when the sale takes place. **Other** - Revenue is recognised at a point in time when the goods have been accepted by customers at the Group`s warehouse.	**Import and export of electricity –** Revenue was recognised when the control was transferred. The transfer was taking at the time of making sale. **Fixed tariff of services rendered -** Revenue was recognised when the service was provided at the point of sale of electricity. **Other** - Revenue was recognised when the customer accepted the goods and the related risks and rewards of ownership were transferred.

7. Operating expenses

’000 GEL	2018	2017
Cost of gas and oil	367,473	392,649
Cost of sold balancing electricity	341,063	322,156
Taxes other than on income	44,242	53,125
Electricity and materials used in railroad transportation	43,708	40,828
Cost of guaranteed capacity service	40,347	39,715
Logistic services	17,636	12,996
Cost of medical services rendered	10,313	9,235
Freight car rental	4,177	4,095
Other*	143,064	90,338
	1,012,023	**965,137**

*Other operating expenses above include fees paid to the audit firm of about GEL 713 thousand (2017: GEL 640 thousand), for the provision of audit and other professional services.

8. Finance income and finance costs

’000 GEL	2018	2017
Recognised in profit or loss		
Interest income under the effective interest method	63,673	73,315
Unwinding of discount on restructured receivable from related party	2,780	-
Unwinding of discount on finance lease receivable	4,981	3,836
Finance income	**71,434**	**77,151**
Interest expense on financial liabilities measured at amortised cost	(141,859)	(153,682)
Net foreign exchange loss	(66,215)	(73,607)
Unwinding of discount on restructured liabilities	(5,799)	(6,220)
Loss on derecognition of financial asset	-	(5,194)
Impairment loss on other financial assets	(149)	(23,502)
Finance costs	**(214,022)**	**(262,205)**
Net finance costs recognised in profit or loss	**(142,588)**	**(185,054)**

9. Property, plant and equipment

’000 GEL	**Lands, buildings and constructions**	**Rail track infrastructure**	**Electricity Generating Unit**	**Gas and oil pipelines**	**Oil wells**	**Power transmission lines**	**Transport, machinery, equipment and other**	**Under construction and uninstalled equipment***	**Total**
Cost or deemed cost									
Balance at 1 January 2017	967,545	940,265	390,904	391,649	35,404	393,663	1,787,279	1,199,532	6,106,241
Additions	1,472	255	-	8,380	-	214	75,194	399,498	485,013
Disposals and write-offs	(7,209)	(25,853)	-	(683)	-	-	(15,341)	(9,765)	(58,851)
Transfers/Reclassifiation	16,876	41,470	525	12,451	-	64,580	81,758	(220,917)	(3,257)
Balance at 31 December 2017	**978,684**	**956,137**	**391,429**	**411,797**	**35,404**	**458,457**	**1,928,890**	**1,368,348**	**6,529,146**
Balance at 1 January 2018	978,684	956,137	391,429	411,797	35,404	458,457	1,928,890	1,368,348	6,529,146
Additions	23,687	5,694	-	95	-	-	21,699	596,931	648,106
Acquisitions through business combinations	43,795	-	-	-	-	-	15,084	-	58,879
Disposals and write-offs	(2,162)	(2,495)	-	(694)	-	-	(30,217)	(8,510)	(44,078)
Disposal of ownership interest in subsidiary	-	-	-	-	-	-	-	(19,657)	(19,657)
Transfers/Reclassification	2,934	7,663	214	20,099		3,538	8,836	(43,284)	-
Balance at 31 December 2018	**1,046,938**	**966,999**	**391,643**	**431,297**	**35,404**	**461,995**	**1,944,292**	**1,893,828**	**7,172,396**
Depreciation and impairment losses									
Balance at 1 January 2017	60,222	323,293	22,106	135,964	24,223	119,038	647,141	6,270	1,338,257
Depreciation for the year	8,969	47,977	15,291	17,674	1,207	24,161	90,966	-	206,245
Disposals and write offs	(1,352)	(25,316)	-	(529)	-	-	(4,515)	-	(31,712)
Impairment loss	46,382	-	-	-	-	69,925	150,545	365,881	632,733
Transfers	-	-	-	5	-	-	-	(5)	-
Balance at 31 December 2017	**114,221**	**345,954**	**37,397**	**153,114**	**25,430**	**213,124**	**884,137**	**372,146**	**2,145,523**
Balance at 1 January 2018	114,221	345,954	37,397	153,114	25,430	213,124	884,137	372,146	2,145,523
Depreciation for the year	7,796	57,840	15,319	18,210	966	14,737	86,428	-	201,296
Disposals and write offs	(841)	(868)	-	(398)	-	-	(15,158)	(57)	(17,322)
Impairment loss	166,967	154,883	-	-	-	11,990	150,142	250,110	734,092
Transfers/Reclassification	-	-	-	3,225	-	-	-	(3,225)	-
Balance at 31 December 2018	**288,143**	**557,809**	**52,716**	**174,151**	**26,396**	**239,851**	**1,105,549**	**618,974**	**3,063,589**
Carrying amounts									
At 31 December 2017	864,463	610,183	354,032	258,683	9,974	245,333	1,044,753	996,202	4,383,623
At 31 December 2018	**758,795**	**409,190**	**338,927**	**257,146**	**9,008**	**222,144**	**838,743**	**1,274,854**	**4,108,807**

*Uninstalled equipment consists of gas pipelines and turbines not yet put into use. Since the Georgian market is not developed, it is almost impossible to buy parts for thermal power plants quickly in urgent situations, hence the Group has to keep additional stock. Assets under construction mostly contains the construction / rehabilitation works related to the gas pipelines.

(a) Construction in progress

By the end of 2010, the Group started two large capital projects related to the Railway: the Main Line Modernization and the Tbilisi Bypass. The Group commenced the initiation of the above projects in September 2010 and November 2010, respectively. The Group issued unsecured bonds in 2010 to partly finance the projects above. During 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see note 19(a)).

The borrowing costs were capitalized based on a capitalization rate of 8% (2017: 8%). Capitalised borrowing costs of GEL 57,114 thousand during 2018 relate to the Main Line Modernization project (2017: GEL 49,754 thousand).

Capitalised borrowing costs related to the construction of the Gardabani II Combined-Cycle Thermal Power Plant amounted to GEL 7,050 thousand, with a capitalisation rate of 6.75%. During 2018 GEL 16,000 thousand (2017: nil) has been refunded as VAT on the purchases for Gardabani II Combined-Cycle Thermal Power Plant construction.

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 to GEL 5,521 thousand (2017: GEL 3,331 thousand), with a capitalisation rate of 2.69% (2017:1.81%).

(b) Impairment of Tbilisi Bypass Project (the Project)

In June 2013 the Group announced a decision to redesign the Tbilisi Bypass project. The Group held negotiations with the Government of Georgia and with the main third party construction companies to agree a plan for the conservation of the project for the period of redesigning. All construction works in progress were substantially completed by the end of October 2013 and further construction was suspended. No borrowing costs are capitalised after October 2013.

In March 2014, the Government of Georgia decided that the suspension of the construction of Tbilisi Bypass project would last for 18 months until the final modified project was presented.

During 2015 and 2016, the Group was in discussions with the Tbilisi City Hall and the Government of Georgia about various scenarios of completing the project. One of the scenarios under discussion include an option envisaging a change of the original bypass location, as a result of which the existing bypass infrastructure may become redundant. The alternative scenarios also included the determination of the future use of the existing infrastructure, should it become redundant. The options of future use of the infrastructure were bypass automobile road, light rail/extension of the Tbilisi Metro System, freight depot, etc., however, as at 31 December 2017, 2018 and the date these consolidated financial statements were authorized for issue, no decision was made by the Government of Georgia about the redesign of the Tbilisi Bypass Project.

Due to significant uncertainties associated with either the continuation of the existing Project or implementation of any other scenarios, envisaging the change in the existing use of the Project, and also considering the fact that Management does not expect that the Project will generate any future economic benefit to the Group either individually, or in combination with other non-current assets, the carrying value of the Project was written-down by GEL 382,616 thousand in 2017 to its recoverable amount GEL 14,689 thousand, representing land included in the construction in progress heading above.

During 2018 no event or change in circumstances occurred which would result in reversal of impairment recognized in 2017.

(c) Impairment of property, plant and equipment (excluding Tbilisi Bypass Project)

Georgian Railway JSC:

As at 31 December 2018 the Group determined that there is an indication of impairment of non-current assets (referred to as the "CGU") of Georgian Railway JSC. The impairment testing was carried out by the Group due to the significant decline in the volumes transported (from 5,899 million metric-ton per kilometer of cargo in 2012 to 2,747 million metric-ton per kilometer of cargo in 2018) and revenue in freight transportation (from GEL 350,749 thousand in 2012 to GEL 241,572 thousand in 2018). Revenue from freight transportation services represents about 57% of the total revenue from railroad transportation generated for the past two years, which was considered as the indicator of the impairment.

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. Based on the analysis, the recoverable amount of the CGU was determined to be less than its carrying amount by GEL 691,387 thousand, therefore impairment loss was recorded in the profit or loss and other comprehensive income in 2018. The impairment loss was allocated to items of property, plant and equipment on a pro-rata basis, but not less than the fair value less costs to sell of the individual items.

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

- Cash flows are projected based on actual operating results and cash flows for a period up to 2037, with the further calculation of the terminal value. Due to the significant impact that the construction of Anaklia Port is expected to have on volumes in the future, the Group has determined that it is justified to use cash flow projections for a period of 19 years since the Group believe that the 19 year period will allow cash flows to stabilize after the Anaklia Port is constructed. The projections are prepared in nominal terms;
- Volumes are projected based on the actually transported quantities during 2018, adjusted for the Georgian GDP growth rate of 4.6% up to 2022. No volume growth is projected from 2023. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2019, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 2.25% during the first two projected years and 1.7% increase during the remaining projected period;
- Cash flows include annual maintenance capital expenditure and payments for the finalization of the Main Line Modernization project. Projected cash flows include USD 80 million associated with the Modernization project above. The finalization of the above project is expected to decrease the projected electricity and material costs by 10% during 2020 and 2021;
- A pre-tax discount rate of 12.91% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. The long-term growth rate for the terminal period approximates to the long-term inflation forecast for USD, which is 1.9%.

The key assumptions used to determine the value in use to which the calculation is most sensitive include:

- Discount rate – An increase of 1% point in the discount rate used would have resulted in an additional impairment loss of approximately GEL 186 million.
- Discount rate – A decrease of 1% point in the discount rate used would have resulted in a decrease in impairment loss of approximately GEL 227 million.
- Volume growth due to Anaklia Deep Sea Port – The exclusion of these volumes from the projected cash flows would have resulted in an additional impairment loss of about GEL 293 million;

EnergoTrans LLC:

Furthermore, at 31 December 2018 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 2018 the Energotrans's 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 274,852 thousand was determined to be higher than its recoverable amount of GEL 232,147 thousand and the respective impairment loss of GEL 42,705 thousand was recognized in the impairment loss during 2018, 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 27 years. Management believes that using 27 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 the Company'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 13.6% (2017: 12.2%) 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 10,331 thousand.

GEL 250,117 thousand was recognized in the statement of profit and loss and other comprehensive income during 2017 as impairment loss related to Energotrans LLC's property and equipment, which was allocated to the CGU on the pro-rata basis.

(d) Security

At 31 December 2018 items of property and equipment (land plots with power-transmission lines and related technical equipment) with a carrying amount of GEL 55,980 thousand (2017: GEL 61,102 thousand) are pledged as a security against loans and borrowings from and restructured liabilities to the Ministry of Finance of Georgia (see notes 19 and 20).

At 31 December 2018, property with a carrying amount of GEL 76,717 thousand (2017: GEL 108,365 thousand) is pledged in respect of the secured loan (see note 19).

10. Prepayments for non-current assets and other non-current assets

’000 GEL	**2018**	**2017**
Prepayments for construction of railway infrastructure*	60,630	79,071
Prepayments for construction of Gardabani II CCPP**	57,635	59,535
Other prepayments for non-current assets	44,484	40,079
Total prepayments for non-current assets	**162,749**	**178,685**
Construction materials for railway infrastructure	26,463	36,108
Intangible assets	34,192	35,400
Other	21,000	19,861
Total other non-current assets	**81,655**	**91,369**

* Prepayments for construction of railway infrastructure are related to Bypass project, which was suspended as at 31 December 2017 and 2018. Per Management assessment the prepayments are fully recoverable based on the performance guarantee from a foreign bank.

**On 28 September 2016 the agreement was signed on engineering, procurement and construction of Gardabani II Combined-Cycle Thermal Power Plant, between Gardabani TTP 2 LLC and China Tianchen Engineering Corporation. As at 31 December 2018 advance payment of GEL 57,635 thousand (31 December 2017: GEL 59,535 thousand) was made to China Tianchen Engineering Corporation in accordance with the above agreement. The construction has been completed by the end of 2019 (see note 29).

11. Investments in equity accounted investees

’000 GEL	**2018**	**2017**
Balance at 1 January	70,498	57,526
Contributions to associate	65,938	15,994
Company’s share of (loss)/profit of equity accounted investees (net of income tax) recognized in profit or loss	(500)	3,995
Dividends received	-	(4,906)
Decrease of the investment in associates/jointly controlled entity	(23,210)	(2,111)
Balance at 31 December	**112,726**	**70,498**

None of the Group’s equity accounted investees are publicly listed entities and consequently do not have published price quotations.

Despite the fact that the Group held less than 20 percent of the voting power in Nenskra Hydro JSC (the Entity), the management of the Group concluded that due to meaningful representation on the governing body of the Entity (the Supervisory Board of the Entity is composed of 6 members, out of which four members are nominated by K-water and two members by the Fund) the Group had the power to participate in the Entity`s financial and operating policy decisions and thus had the ability to exercise significant influence over the Entity as at 31 December 2018.

Out of decrease of investment in associates during year 2018 of GEL 6,658 thousand represents transfer of investment in equity accounted investee in Borjomi Likani International JSC to the investment in subsidiary (KMG Service Georgia LLC).

Following tabe describes details of the Group’s investments in equity accunted investees’ movements during 2018. Investments in equity accounted investees presented in note 1(b) that have not been disclosed in the table represent dormant entities that do not carry out any kind of business activities and do not generate any form of revenue.

Associate/ Joint venture	Ownership 2018	Ownership 2017	Business activity	Balance as at 31.12.2017	Contribution	Profit (loss) attributable to the Fund	Withdrawal	Balance as at 31.12.2018
Telasi JSC	24.5%	24.5%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi	37,640	-	6,686	-	44,326
Nenskra Hydro JSC	6.99%	-	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia	-	31,516	(1,524)	-	29,992
Borjomi Likani International JSC	0%	50%	Construction and operation of a hotel	7,798	-	(1,140)	(6,658)	-
Lopota LLC	0%	37.8%	Hotel and spa resort in Lopota Lake	7,585	8,206	149	(15,940)	-
Tsinandali Estates	45.5%	45.5%	Hotel and spa resort in village Tsinandali	5,764	18,754	(3,641)	-	20,877
Panex JSC	49%	49%	Building materials` industry	3,733	-	590	-	4,323
Vanric Agro LLC	49%	49%	Export of fruit	3,265	-	-	-	3,265
Imereti Greenery LLC	37.7%	37.7%	Agriculture/farming	2,412	-	(976)	(612)	824
Gazzele Fund LP	29.1%	29.1%	International investment company represented in Georgia	1,653	3,991	(644)	-	5,000
Caucasus Clean Energy I, LLP	10%	10%	Investment fund	648	2,919	-	-	3,567
Caucasian SUS Heritage LLC	49.9%	49.9%	Hog farm	-	552	-	-	552
				70,498	**65,938**	**(500)**	**(23,210)**	**112,726**

(a) Joint venture

As at 31 December 2017, Borjomi Likani International JSC was the only material joint arrangement in which the Group participated. It was established in 2011 by the Group and KMG Group (represented by Kazmunaygas Service LLP and KMG Service Georgia LLC), with the aim to construct a high-class hotel at the Likani resort to be operated by an internationally recognized hotel brand. The hotel opened in 2015. The Group had rights to the net assets of Borjomi Likani International JSC. Accordingly, the Group classified its interest in Borjomi Likani International JSC as a joint venture as at 31 December 2017.

In 2018, the Group acquired 100% shares of KMG Service Geogia LLC, the entity that owned 50% share of Borjomi Likani International JSC. Therefore, the Group became the sole shareholder of Borjomi Likani International JSC.

The following table summarises the financial information of Borjomi Likani International JSC as included in its own financial statements as at 31 December 2017. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Borjomi Likani International JSC.

'000 GEL	**Year Ended 2017**
Percentage ownership interest	**50%**
Non-current assets	59,763
Current assets (including cash and cash equivalents – 2017: GEL 5,506 thousand)	7,183
Non-current liabilities	(26,415)
Current liabilities	(19,659)
Net assets (100%)	20,872
Fund's share of net assets (50%)	**10,436**
Revenue	12,099
Loss and total comprehensive loss (100%)	(4,500)
Fund's share of loss and total comprehensive loss	**(2,250)**

(b) Associates

At 31 December 2018 the Group has interest in eleven associates – Vanric Agro LLC, Telasi JSC, Panex JSC, Imereti Greenery LLC, Tsinantali Estates LLC, Gazelle Fund LP, Ytong Caucasus LLC, Caucasian SUS Heritage LLC, Gino Green City Corporation LLC, Nenskra Hydro JSC and Caucasus Clean Energy I, LLP (2017: Vanric Agro LLC, Telasi JSC, Panex JSC, Imereti Greenery LLC, Tsinantali Estates LLC, Gazelle Fund LP, Lopota LLC, Ytong Caucasus LLC, Gino Green City Corporation LLC, and Caucasus Clean Energy I, LLP). Telasi is a significant associate of the Group.

24.53% of the shares of Telasi JSC were transferred to the Group as a capital contribution by the Government of Georgia on 30 July 2012. The investment in associate was recognised at the Group's share of net assets of Telasi JSC as at the transfer date of GEL 27,548 thousand. Telasi JSC is involved in the purchase and distribution of electric power to industrial and residential customers in Tbilisi.

The following table summarises the financial information of Telasi JSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Fund's interest in Telasi JSC.

'000 GEL	**2018**	**Restated 2017**
Percentage ownership interest	**24.53%**	**24.53%**
Non-current assets	265,407	238,687
Current assets	75,279	82,195
Non-current liabilities	(41,121)	(44,238)
Current liabilities	(118,928)	(123,261)
Net assets (100%)	180,637	153,383
Fund's share of net assets (24.53%)	**44,310**	**37,625**
Revenue	461,969	420,115
Profit and total comprehensive income (100%)	27,254	22,124
Fund's share of profit and total comprehensive income	**6,685**	**5,427**

12. Acquisition of subsidiary

On 20 June 2018 (date of acquisition) in order to obtain control over Borjomi Likani International JSC (joint venture in 2017) the Fund acquired 100% of equity interest in KMG Service Georgia LLC. As a result, the Fund`s equity interest (both direct and indirect) in Borjomi Likani International JSC increased from 50% to 100%. Borjomi Likani International JSC was established by Partnership Fund JSC (the Fund) and KMG Group (represented by Kazmunaygas Service LLP and KMG Service Georgia LLC), with the aim to construct a high-class hotel at the Likani resort, Georgia, to be operated by an internationally recognized hotel brand. The hotel opened in 2015. Before the acquisition of of KMG Service Georgia LLC the Fund possessed 50% in Borjomi Likani International JSC (the Hotel) and the Fund's investment in Borjomi Likani International JSC was classified as a joint venture as at 31 December 2017.

From the date of acquisition to 31 December 2018 KMG Service Georgia contributed revenue of GEL 6,769 t housand and net loss of GEL 2,380 thousand.

If all acquisitions of businesses had occurred on 1 January 2018, management estimates that consolidated revenue would have been GEL 1,709,619 thousand, and consolidated loss for the year would have been GEL 587,300 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

(i) Consideration transferred

The following table summarizes the acquisition-date fair value of each major class of consideration transferred.

'000 GEL	
Cash	25,299
Total consideration transferred	**25,299**

There was no contingent consideration as a part of the consideration transferred.

(ii) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

'000 GEL	**Recognised fair values on acquisition**
Non-current assets	
Property, plant and equipment	77,590
Intangible assets	172
Current assets	
Inventories	444
Trade and other receivables	778
Cash and cash equivalents	5,146
Non-current liabilities	
Loans and borrowings	(21,536)
Current liabilities	
Loans and borrowings	(23,887)
Trade and other payables	(1,775)
Provisions	(957)
Total identifiable net assets	**35,975**

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Property, plant and equipment	_Market comparison technique and cost technique_: The valuation model considers market prices for similar items when available, and depreciated replacement cost when appropriate.

(iii) Bargain gain from acquisition

A bargain gain was recognized as a result of the step acquisition as follows:

’000 GEL	
Total consideration transferred	25,299
Fair value of previously held equity interest in Borjomi Likani International JSC	8,631
Fair value of identifiable net assets	35,975
Bargain gain	**(2,045)**

The remeasurement to fair value of the Fund’s existing 50% interest in Borjomi Likani International JSC (over which the Fund obtained control as a result of previously held 50% direct equity interest and acquired 50% indirect equity interest through acquisition of 100% subsidiary KMG Service Georgia LLC) resulted in a gain of GEL 1,974 thousand (GEL 8,632 thousand less GEL 6,657 thousand carrying value of equity-accounted investee at acquisition date), which has been recognised in the statement of comprehensive income.

The Group did not incur material acquisition-related costs in respect of the above business combinations.

13. Finance lease receivable

In 1996, the Government of Georgia entered into a 30 year arrangement with a consortium of oil companies that undertook the construction and development of an oil pipeline system from the Georgian-Azerbaijan state border to the Supsa oil terminal on the Georgian Black Sea coast. The arrangement granted the oil companies the right to transport oil across the territory of Georgia through that pipeline system that became the property of the Government of Georgia. The ownership of this pipeline was transferred to the Group in June-July 2010 as a contribution to the charter capital of GOGC JSC at a nominal value of GEL 269,299 thousand. In exchange for the oil companies using the pipeline, the Group receives a transit fee for each barrel of oil transported. Management has determined that the initial arrangement contained a finance lease at inception date, as the lease agreement transferred substantially all of the risks and rewards incidental to ownership to the lessee.

The Group has recognized the finance lease receivable of GEL 39,229 thousand at the date when the title of the pipelines was transferred to the Group. The finance lease receivable is the present value of the net investment in the lease comprising the present value of the assets’ unguaranteed residual value at the end of the lease term discounted at the interest rate implicit in the lease. The difference of GEL 230,070 thousand between the nominal and the present value of the net investment in the lease has been recognised in equity as a fair value adjustment for non-cash owner contributions.

During 2018, the Group revised the estimated unguaranteed residual value of the finance lease receivable reported as GEL 67,854 thousand in the consolidated statement of financial position as at 31 December 2018. This revision involved certain judgements in respect of the assumptions made which are inherently uncertain. All the changes to the key assumptions including a decrease in the discount rate used to calculate the present value of the unguaranteed residual value of the finance lease receivable and a decrease in projected cash flows from transit fees produced by these assets where considered in 2018 consolidated financial statements. The Group applied updated 'finance lease receivables' model from 1 January 2018 and unwinding of discount for 2018 was calculated so that the Group recognized GEL 4,981 thousand unwinding of discount on finance lease receivable in consolidated statement of profit or loss and other comprehensive income in 2018 (see note 8).

'000 GEL	**2018**	**2017**
Finance lease receivable at 1 January	62,873	59,037
Unwinding of discount on finance lease receivable	4,981	3,836
Finance lease receivable at 31 December	**67,854**	**62,873**

Contingent rent related to oil transportation recognized in the consolidated statement of profit or loss and other comprehensive income during 2018 amounted to GEL 18,367 thousand (2017: GEL 18,315 thousand).

14. Loans receivable

'000 GEL	**2018**	**2017**
Non-current assets		
Loan receivable from the state controlled entity	-	6,084
Loan receivable from third party	2,580	500
Loan receivable from entity managed by the Group	-	4
Total non-current	**2,580**	**6,588**
Current assets		
Short term part of the loan receivable from the state controlled entity	-	1,661
Short term part of the loan receivable from the third party	258	-
Total current	**258**	**1,661**
	2,838	**8,249**

15. Prepayments and other current assets

'000 GEL	**2018**	**2017**
Prepayments to suppliers*	56,396	59,798
Receivable from the Government** (see note 18 (f))	25,205	27,149
Impairment allowance on receivable from the Government**	(25,205)	(27,149)
Taxes other than on income	3,717	7,504
Other receivables	5,309	7,254
Impairment allowance for other receivables	(2,178)	(2,041)
	63,244	**72,515**

*Prepayments to suppliers balance were made mainly to South Caucasus Pipeline Option Gas Company Limited of GEL 33,860 thousand (2017: GEL 31,136 thousand) and to Azerbaijan Gas Supply Company Limited (AGSC) of GEL 12,026 thousand (2017: GEL 11,636 thousand) for thesupply of gas.

**Receivable from the Government of Georgia (hereinafter the Government or the GoG) was recognized as a result of the transfer of the property to the GoG, as according to the Bypass Project Memorandum of Understanding (MoU), the Government will reimburse the Group for the value added tax payable incurred on such transfers.

Based on discussions with the GoG and due to uncertainties associated with the reimbursement of the above receivable, the Group recognized an impairment loss on the receivable from the Government, which was recognised in finance cost during 2017. As at 31 December 2018 carrying amount of receivable from the Government is nil.

16. Trade receivables

’000 GEL	**2018**	**2017**
Non-current assets		
Restructured receivables *	18,959	21,169
Allowance for trade receivables	-	-
	18,959	**21,169**
Current assets		
Trade receivables**	423,742	440,578
Restructured receivables *	4,510	4,510
Allowance for trade receivables	(174,993)	(179,214)
	253,259	**265,874**
Total	**272,218**	**287,043**

* On 16 November 2017 the Group and Georgian Gas Transportation Company LLC (a state owned entity) signed an agreement on restructuring the receivable related to the rent of the main gas pipeline. The counterparties agreed a payment schedule, based on which the total amount will be repaid by the end of 2025. The restructuring of the receivable signified a substantial modification of terms, therefore, at the date of the restructuring, the Group derecognized the existing receivable and recognised a new asset according to the new terms. The fair value of the new asset at initial recognition in 2017 was calculated based on the present value of the future payments discounted at the interest rate of 10.86% per annum, which was considered to be at market rate. In 2018 Georgian Gas Transportation Company LLC has made GEL 5,000 thousand payment in accordance with above mentioned payment schedule.

**Trade receivables as at 31 December 2018 and 31 December 2017 include the receivable from Foreign Company (see note 6), amounting to GEL 37,441 thousand and GEL 21,256 thousand respectively. As at 31 December 2018 and 31 December 2017 and the date these consolidated financial statements were authorised for issue, the receivable above was fully overdue. Provision for the receivable as at 31 December 2018 amounts to GEL 18,373 thousand. No provision was made as at 31 December 2017 as following the updated payment terms and receipt of first payments in 2018, the Group expected to fully recover the receivable by the end of 2018.

17. Cash and cash equivalents

000 GEL	**2018**	**2017**
Bank balances	511,645	638,408
Call deposits	268,386	459,113
Petty cash	119	78
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	**780,150**	**1,097,599**

Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

18. Equity and liabilities to the Government

(a) Share capital

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 Fund.

Following the decree of the Government of Georgia on 8 May 2012 the share capital of the Fund was determined as 100,000,000 ordinary shares with a par value of GEL 1.

(b) Owner contributions

During 2018, the Government of Georgia contributed land plots of GEL 69,301 thousand (out of which land plots of GEL 63,695 thousand was initially classified as Investment Property at Fund's separate statement of financial position, and later was invested in LLC Partnership Fund Green Development), cash of GEL 1,900 thousand and movable property of GEL 263 thousand (2017: the Government of Georgia contributed gas pipelines of GEL 7,421 thousand, land plots of GEL 313 thousand and inventories of GEL 334 thousand) in the form of an increase in the Fund's equity as 'Owner contributions'. In 2017 the Government also made a contribution to the Fund`s capital (through 'Owner contributions') of land plots of GEL 6,470 thousand and contributions in the form of cash of GEL 38,540 thousand.

(c) Distributions to the shareholder

In 2017 the Fund transferred land plots located in Anaklia, Zugdidi of GEL 10,301 thousand to a state controlled entity, National Agency of State Property. There was no capital distribution in year 2018.

(d) Liabilities to the Government

Liabilities to the Government represent liabilities in the form of property, plant and equipment which are withdrawn as a reduction in equity but not yet transferred formally to the owners. These liabilities are recorded at the carrying amount of assets to be transferred to the owner.

(e) Advance received from the Government

In April 2012, Georgian Railway JSC and the Government of Georgia entered into the Bypass Project Memorandum. According to the Bypass Project Memorandum the Government is interested and aims to purchase from the Group approximately 70.1 hectares of land plots which will be freed up as a result of the removal of railway infrastructure from Tbilisi city center and construction of a new bypass railway route for the purposes of further development of the land plots. The Government agrees to pay to the Group CHF 138 million equivalent in national currency through the reduction in the amount of dividends payable to the Government.

In 2012, the Georgian Railway JSC declared dividends of GEL 231,592 thousand (CHF 138 million) and classified the amount as an advance received from the Government for the sale of land in accordance with the Bypass Project Memorandum. As a result, the dividend payable was classified as an advance received from the Government for the sale of land. As of the date these consolidated financial statements were authorized for issue there is no decision by the Government about these advances and no indication from the Government that this amount is due on demand.

(f) Transfer of property to the Government

During 2017, the Group transferred 55,787 square meters of land plots with attached constructions, respectively, to the Government within the framework of the Bypass Project Memorandum. During 2018 no such transfers took place. The fair value of these land plots with attached constructions was determined by an independent appraiser based on announced asking prices of similar properties in the similar location and physical condition. The fair value estimate is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation methods. The significant unobservable inputs related to the differences in the characteristics of the properties, such as size, location, access to the property and discount achieved through negotiation, for which the appraiser applied 0% to 15% adjustments to observed asking prices.

The difference between the fair value and the carrying value of the transferred property was recognized as income in the consolidated statement of profit or loss. The difference between the cost of the transferred property, as agreed between the Group and the Government and used for the reduction of advances received from the Government, and the fair value of the transferred property was recognized directly in equity as a non-cash owner contribution reserve.

’000 GEL	**2018**	**2017**
Cost of the transferred property, as agreed between the Group and the Government	-	27,215
Less: fair value of the transferred property	-	(27,215)
Recognized in non-cash owner contribution reserve	**-**	**-**
Fair value of the transferred property	-	27,215
Less: carrying value of the transferred property	-	(3,798)
Recognized as income from the transferred property	**-**	**23,417**

The receivable from the Government within the scope of the Bypass Project memorandum as at 31 December 2017 amounted to GEL 27,149 thousand. The receivable as at 31 December 2017 was fully provisioned (see note 16).

19. 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 risks, see note 23.

’000 GEL	**2018**	**2017**
Non-current liabilities		
Unsecured bonds	1,994,799	1,931,450
Unsecured loans from financial institutions	460,278	809,415
Secured loans from financial institutions	21,132	109,689
	2,476,209	**2,850,554**
Current liabilities		
Current portion of unsecured bonds	62,086	58,108
Current portion of unsecured loans from financial institutions	755,887	588,329
Current portion of secured loans from financial institutions	105,176	21,196
Current portion of secured loan from Ministry of Finance	30,640	34,875
	953,789	**702,508**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2018		31 December 2017	
’000 GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds							
Unsecured bonds issue Long Term	USD	6.75%	2021	669,150	671,620	648,050	648,386
Unsecured bonds Long Term	USD	7.8%	2022	1,385,265	1,385,265	1,341,170	1,341,170
Unsecured loans from financial institutions:							
Loan from bank	USD	5.0%	2018	-	-	12,979	12,979
Loan from bank	USD	6.5%	2018	-	-	54,533	54,533
Ministry of Finance of Georgia – KfW	EUR	KfW reference rate + 4%	2027	247,322	247,322	244,760	244,760
Ministry of Finance of Georgia – KfW	EUR	2.2%	2025	73,869	73,869	75,052	75,052
Ministry of Finance of Georgia – EIB	EUR	Euribor+0.75%	2033	198,907	198,907	216,626	216,626
Ministry of Finance of Georgia – EBRD	EUR	Euribor+1%	2025-2028	164,494	164,494	176,260	176,260
Ministry of Finance of Georgia –KFW	EUR	1%-1.5%	2025-2037	45,879	45,879	50,249	50,249
Ministry of Finance of Georgia –ADB	USD	1%-1.5%	2044	116,604	116,604	112,928	112,928
Ministry of Finance of Georgia – IBRD	USD	World Bank's Reference Rate plus Variable Rate	2038	125,367	125,367	104,651	104,651
Unsecured loan from financial institutions	USD	Libor+5.95%	2020	239,220	239,220	349,709	349,709
Loan from MOF - (KfW New)	EUR	0.25-0.05%	2032	4,130	4,130	-	-
Secured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	4%	2021	6,947	6,947	9,366	9,366
Ministry of Finance of Georgia - IDA	USD	World Bank's lending treasury rates	2022	23,709	23,709	29,516	29,516
Secured loan from Credit Suisse	USD	Libor+1.25%	2026	85,594	85,594	92,002	92,002
Secured loan from financial institution	USD	Libor + 6.00%	2019	10,431	10,431	-	-
Ministry of Finance of Georgia	EUR	7.50%	2020	30,640	30,640	34,875	34,875
Total interest-bearing liabilities				**3,427,528**	**3,429,998**	**3,552,726**	**3,553,062**

Collateral for secured loans and borrowings is detailed in note 9.

In April 2016 the Group carried out the issuance, placement and registration (listing) on the London Stock Exchange of unsecured bonds of USD 250 million and the early part-redemption of the 2012 Bonds.

In July 2012, the Group carried out the issuance, placement and registration (listing) of unsecured bonds of USD 500 million on the London Stock Exchange with an interest rate of 7.75% due in 2022.

Part of the above bonds were used for an early redemption of the unsecured bonds of USD 250 million issued by the Group in 2010.

The secured loan from Credit Suisse was obtained for the sole purpose of the acquisition of passenger trains. The latter is collateralized by the underlying passenger trains, with the carrying amount of GEL 76,717 thousand as at 31 December 2018 (31 December 2017: GEL 108,365 thousand) (see note 9 (d)).

Loans received before 2014 from EBRD, EIB and KfW were disbursed to the Government of Georgia in relation to the BSTN project. Loans received before 2014 from IDA and KfW were disbursed to the Government of Georgia for the implementation of the Electricity Market Support Project (the "EMSP"), "Energy IV", "Sector Program Power Supply" and "Regional Power Network Rehabilitation l " projects. Loans received in 2014 from ADB, KfW and EBRD were disbursed to the Government of Georgia in relation to the construction and enhancement of Jvari - Khorga electricity transmission lines and substations as well as other transmission network rehabilitation projects.

The Government of Georgia, in its turn, transferred amounts received under the facilities, together with an obligation to repay them, to the Group. The lender has not legally released the Government of Georgia from the primary responsibility for the repayment of the loans, accordingly the Government of Georgia acted as a principal in this transaction and accordingly the loans payable by the Group are towards the Ministry of Finance of Georgia. The secured loan from Ministry of Finance of Georgia represents interest accrued on part of the unsecured loans from financial institutions and paid by the Government of Georgia on behalf of the Group.

As at 31 December 2018, the Group maintains a committed credit line of GEL 239,220 thousand (31 December 2017: GEL 349,709 thousand), which was fully utilized as at 31 December 2018 and 31 December 2017. During 2015, the Group acquired a new loan from an international bank of USD 150,000 thousand. The purpose of the loans was to refinance existing loan exposures.

Management estimates that the fair values of loans and borrowings from the above-mentioned international financial institutions are not different from loaned amounts at initial recognition as these loans are provided in a separate market segment which is different from the commercial lending market. Management estimates that the carrying values of unsecured loan from financial institutions and secured loan from Credit Suisse are reasonable approximation of their fair values.

Breach of financial covenants

As at 31 December 2018 the Georgian State Electrosystem JSC (“GSE JSC”) was in breach of the financial covenant in relation to the loan received from IBRD, as the ratio of current assets to current liabilities based on consolidated financial statement of GSE JSC prepared in accordance with IFRSs was less than 1 (as at 31 December 2017 GSE JSC was also in breach of the above financial covenant). 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. On March 18, 2019 GSE JSC obtained a permanent waiver for the breach of the mentioned covenant from IBRD.

During 2018, due to the cash shortage, the contractual amounts falling due under KfW loan with a maturity of 2027 concluded between EnergoTrans LLC and the Government of Georgia were not paid 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 Loan Agreement which gives the Government of Georgia an unconditional right to request immediate repayment of loans and borrowings of GEL 385,287 thousand as at 31 December 2018. As at 31 December 2018 the loans were reclassified as current on the consolidated statement of financial position of the Group. Late payment penalty of GEL 4,961 thousand was imposed by the Ministry of Finance of Georgia.

During 2017 the loan under the abovementioned Loan Agreement was reclassified as current on the consolidated statement of financial position of the Group, due to the breach of contractual terms described above.

As at 31 December 2018 the EnergoTrans LLC was in breach of financial covenant (debt service coverage ratio) stipulated in the Subsidiary Loan Agreements for EBRD and KfW. Management obtained a permanent waiver for the breach of the mentioned covenant, abolishing the financial covenant term before the year ended 31 December 2018 from European Investment Bank (EIB).

Additionally, as at 31 December 2018 a financial covenant related to Net debt to EBITDA ratio on the secured loan from Credit Suisse (obtained by Georgian Railway JSC) was breached. As a result, the lender can request repayment on demand and Group has classified the loan as short-term borrowings. The Group obtained a preliminary agreement from the lender on waiving the covenant at 31 December 2018 and the final waiver was received and became effective as of 10 January 2019.

In relation to the unsecured loan received from Credit Suisse, according to the facility agreement, the Fund should maintain a Debt Service Coverage Ratio greater than 1.2 and a Leverage ratio of Total Net Debt to Dividends less than 3.5.

As at 31 December 2018 a financial covenant related to Debt Service Coverage Ratio on the Credit Suisse loan above was breached. As a result, the lender can request repayment on demand and the Fund has classified the loan as short-term borrowings.

(b) Reconciliation of movements of assets and liabilities to cash flows arising from financing activities

’000 GEL	**Loans and borrowings**	**Restructured liabilities**	**Total**
Balance at 1 January 2018	3,553,062	62,875	3,615,937
Proceeds from borrowings	42,256	-	42,256
Repayment of borrowings	(246,192)	-	(246,192)
Repayment of restructured liabilities	-	(15,000)	(15,000)
Total changes from financing cash flows	**(203,936)**	**(15,000)**	**(218,936)**
The effect of changes in foreign exchange rates	70,859	200	71,059
Interest expense	141,859	-	141,859
Interest expense capitalised as borrowing costs (see note 9 (a))	69,685	-	69,685
Unwinding of discount	-	5,799	5,799
Interest paid	(198,890)	-	(198,890)
Other	(2,641)	-	(2,641)
Total liability-related other changes	**80,872**	**5,999**	**86,871**
Balance at 31 December 2018	**3,429,998**	**53,874**	**3,483,872**

’000 GEL	**Loans and borrowings**	**Restructured liabilities**	**Total**
Balance at 1 January 2017	3,571,754	66,417	3,638,171
Proceeds from borrowings	201,218	-	201,218
Repayment of borrowings	(242,752)	-	(242,752)
Repayment of restructured liabilities	-	(10,387)	(10,387)
Total changes from financing cash flows	**(41,534)**	**(10,387)**	**(51,921)**
The effect of changes in foreign exchange rates	15,390	625	16,015
Interest expense	153,682	-	153,682
Interest expense capitalised as borrowing costs (see note 9 (a))	49,755	-	49,755
Unwinding of discount	-	6,220	6,220
Interest paid	(195,985)	-	(195,985)
Total liability-related other changes	**22,842**	**6,845**	**29,687**
Balance at 31 December 2017	**3,553,062**	**62,875**	**3,615,937**

20. Restructured liabilities

’000 GEL	**2018**	**2017**
Payables to the State Budget	35,029	48,995
Trade payables	28,936	28,765
Loans and interest accrued	2,572	3,586
	66,537	**81,346**
Amortized cost adjustments	(12,663)	(18,471)
Balance at 31 December	**53,874**	**62,875**
Current	17,000	15,000
Non-current	36,874	47,875
	53,874	**62,875**

Restructured liabilities represent the amounts originated before 2006, the repayments of which have been deferred due to the financial difficulties of Georgian State Electrosystem JSC, a Group entity (see note 20). 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 entity for the 15 years, as well as defines the main operating and financial objectives of the Group entity. According to the Rehabilitation Plan, the Rehabilitation Manager has been appointed to undertake the governance of Georgian State Electrosystem JSC throughout the entire rehabilitation period. The main creditor of Georgian State Electrosystem JSC 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%.

21. Grants related to assets

’000 GEL	**2018**	**2017**
Balance at 1 January	112,728	112,830
Recognised in profit and loss	(4,971)	(4,980)
Received during the year	2,788	4,878
Balance at 31 December	**110,545**	**112,728**
Non-current	105,579	107,797
Current	4,966	4,931
	110,545	**112,728**

In 2018, KfW provided a grant related to the construction of the 500/220 KW Jvari substation comprising GEL 1,476 thousand (2017: GEL 2,220 thousand). In addition, GEL 1,312 thousand (2017: GEL 2,658 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.

22. Trade and other payables

’000 GEL	2018	2017
Payable for non-current assets	193,677	87,439
Trade payables	94,366	69,480
Payables for construction works under BSTN project	32,365	38,168
Advances received from customers	14,699	17,645
Taxes other than on income	1,369	1,349
Other payables	46,286	35,565
	382,762	**249,646**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

23. 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 fair values of financial assets and liabilities using valuation techniques. The objective of 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.

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an appropriate credit spread.

(b) Financial risk management

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

- credit risk (see 24(c));
- liquidity risk (see 24(d));
- market risk (see 24(e)).

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 Supervisory Boards of the Fund and the Group entities have overall responsibility for the establishment and oversight of the Group entities' risk management framework. The Supervisory Boards oversee how management monitors compliance with the Group entities' risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group entities.

(c) 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, loans receivable, term deposits and cash and cash equivalents.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Note	Carrying amount	
'000 GEL		**2018**	**2017**
Finance lease receivable	13	67,854	62,873
Trade receivables	16	272,218	287,043
Other receivables	15	3,131	5,213
Loans receivable	14	2,838	8,249
Cash and cash equivalents	17	780,031	1,097,521
		1,126,072	**1,460,899**

(ii) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country, in which customers operate, particularly in the currently deteriorating economic circumstances.

Approximately 46%, 53%, 7%, and 42% of the Group's revenue from the sales of balancing electricity and guaranteed capacity, sales of gas, railroad transportation, electricity transmission and dispatching activities, respectively, are attributable to sales transactions with a single customer for each type of revenue (2017: 45%, 56%, 8%, and respectively 34%).

Credit risk is managed by requesting prepayments from customers or assessing their creditworthiness prior to extending credit, as well as through the monthly monitoring of receivable balances and requiring immediate repayment of a debt when the balance approaches specific limits set for each individual counterparty. No collateral in respect of trade receivables is generally required.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

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

	Carrying amount	
'000 GEL	**2018**	**2017**
Domestic	232,627	217,221
CIS countries	39,591	69,822
	272,218	**287,043**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was as follows:

	Carrying amount	
'000 GEL	**2018**	**2017**
Gas distributors	92,024	117,133
Wholesale electricity customers	70,341	34,991
Electricity distributors	13,505	10,274
Railway transportation	39,641	73,406
Gas pipeline rentals	27,316	29,829
Oil trading	-	4,954
Other	29,391	16,456
	272,218	**287,043**

As at 31 December 2018 the Group had two customers whose balances exceeded 10% of total trade receivables related to gas distribution and rentals of gas pipeline (31 December 2017: two customers). The carrying value of these balances as at 31 December 2018 was GEL 91,856 thousand (31 December 2017: GEL 116,749 thousand) and GEL 27,316 thousand (31 December 2017: GEL 29,829 thousand), respectively. The Group's two most significant customers related to railway transportation account for GEL 21,975 thousand of the trade receivables carrying amount as at 31 December 2018 (31 December 2017: GEL 40,681 thousand).

Expected credit loss assessment for corporate customers as at 1 January and 31 December 2018

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement regarding customer behaviour. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies.

Expected credit loss

The following table provides information about the exposure to credit risk and ECLs for trade receivables for customers as at 31 December 2018:

'000 GEL	**2018**	**2018**	**2018**
Customer credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	207,981	-	207,981
Medium risk	29,765	9,382	39,147
High risk	-	200,083	200,083
Total gross carrying amount	**237,746**	**209,465**	**447,211**
Loss allowance	(761)	(174,232)	(174,993)
	236,985	**35,233**	**272,218**

Low risk - the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations. With equivalent to external credit rating of BBB- to BB+ (S&P).

Medium risk - the borrower has a restructured contractual cash flow obligations to meet in the near term and adverse changes in economic and business conditions in the longer term may likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

High risk - the counterparties have a week capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may likely increase the ability of the counterparties to fulfil their contractual cash flow obligations

Comparative information under IAS 39

The credit quality of the Group's trade receivables as at 31 December 2017 was as follows:

’000 GEL	Gross 2017	Impairment 2017
Neither past due nor impaired	84,914	-
Past due 0- 90 days	145,239	-
Past due 91-180 days	4,520	1,270
Past due 181-365 days	1,606	680
Past due more than one year	229,978	177,264
	466,257	**179,214**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39:

’000 GEL	2018	2017
Balance as at 1 January under IAS 39	**179,214**	**242,756**
Adjustment on initial application of IFRS 9	7,033	-
Balance at 1 January under IFRS 9	**186,247**	**242,756**
Increase during the year	17,080	12,686
Net write off during the year	(28,334)	(76,228)
Balance at end of the year	**174,993**	**179,214**

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.

(iii) Loans receivable

Management believes that the Group is not exposed to a significant amount of credit risk relating to the loans given, as the loans are not past due as at 31 December 2018 and 2017.

(iv) Cash and cash equivalents and term deposits

The Group held cash and cash equivalents manly with banks which are rated B or higher based on rating agency Fitch Ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

(d) 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's liquidity management also involves monitoring the covenants embedded in the bond issue agreements.

To manage the liquidity requirements, the Group makes short-term forecasts for cash flows based on estimated financial needs determined by the nature of operating activities and maintains unused credit line facilities. Typically the Group entities ensures, that they have sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

As described in note 19, due to the breach of covenants, a number of loans and borrowings were reclassified as current by Group entity GSE JSC as at 31 December 2018. Management believes that despite the right of the lenders to request immediate repayment of the loans and borrowings, the likelihood of actual requests is remote due to the ability of GSE JSC to remediate the breach of covenants by means of obtaining waivers from the lenders. In addition, 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.

The Group has significant contractual commitments for the purchase and construction of property, plant and equipment (see note 26). Management believes that the cash and cash equivalents held by the Group, proceeds from loans and borrowings and credit lines and cash flows from operating activities will be sufficient to finance the capital expenditure projects.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date, including estimated interest payments and excluding the impact of netting agreements.

31 December 2018		**Contractual cash flows**				
’000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Loans and borrowings	3,429,998	4,025,622	921,664	92,390	2,631,318	380,250
Restructured liabilities	53,874	66,537	17,000	-	49,537	-
Trade and other payables	368,063	368,063	368,063	-	-	-
	3,851,935	**4,460,222**	**1,306,727**	**92,390**	**2,680,855**	**380,250**

31 December 2017		**Contractual cash flows**				
’000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Loans and borrowings	3,553,062	4,314,188	530,472	287,639	3,020,311	475,766
Restructured liabilities	62,875	81,346	15,000	-	60,000	6,346
Trade and other payables	232,001	234,005	234,005	-	-	-
	3,847,938	**4,629,539**	**779,477**	**287,639**	**3,080,311**	**482,112**

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

As disclosed in note 19, a Group entity Georgian Railway JSC (“GR JSC”) has a secured bank loan (from Credit Suisse) for which there was a breach of financial covenant as at 31 December 2018 resulting in classification of secured loan as current liability. However, considering that as of 10 January 2019 the GR JSC received a waiver letter from the lender, the management expects that the repayment of the secured loan will follow the contractual schedule. Consequently for liquidity note purposes secured loan repayments are allocated per age buckets based on contractual terms.

(e) 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.

(i) Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currencies of all significant Group entities are the Georgian Lari (GEL). The currencies in which these transactions primarily are denominated and are settled are U.S. Dollar (USD), Swiss Franc (CHF) and Euro (EUR).

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

'000 GEL	USD-denominated 2018	CHF - denominated 2018	EUR - denominated 2018	USD - denominated 2017	CHF - denominated 2017	EUR – denominated 2017
Cash and cash equivalents	338,710	17	11	488,633	1,891	99
Trade and other receivables	36,024	4,323	778	48,279	28,505	95
Loans receivable	2,838	-	-	8,249	-	-
Loans and borrowings	(2,657,810)	-	(772,188)	(2,745,875)	-	(807,188)
Restructured liabilities	(2,340)	-	(1,302)	(7,052)	-	(4,041)
Trade and other payables	(57,264)	-	(21,484)	(43,517)	-	(470,574)
Net exposure	**(2,339,842)**	**4,340**	**(794,185)**	**(2,251,283)**	**30,396**	**(1,281,609)**

The following significant exchange rates have been applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
USD 1	2.5345	2.5086	2.6766	2.5922
CHF 1	2.5910	2.5466	2.7268	2.6584
EUR 1	2.9913	2.8322	3.0701	3.1044

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. There would be no direct impact on other comprehensive income or equity. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

'000 GEL	Profit or loss
31 December 2018	
USD (10% weakening)	(233,984)
CHF (10% weakening)	434
EUR (10% weakening)	(79,419)

’000 GEL	Profit or loss
31 December 2017	
USD (10% weakening)	(225,128)
CHF (10% weakening)	3,040
EUR (10% weakening)	(128,161)

A strengthening of the GEL against the above currencies at 31 December would have had the equal but opposite effect on the above currencies on the amounts shown above, on the basis that all other variables remain constant.

(ii) 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 the Group entities’ 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.

Exposure to interest rate risk

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

’000 GEL	Carrying amount	
	2018	**2017**
Fixed rate instruments		
Financial assets	678,325	1,013,282
Financial liabilities	(2,334,954)	(2,339,540)
	(1,656,629)	**(1,326,258)**
Variable rate instruments		
Financial liabilities	(1,095,044)	(1,213,521)
	(1,095,044)	**(1,213,521)**

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 reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss net of taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
’000 GEL	**100 bp increase**	**100 bp decrease**
2018		
Variable rate instruments	(10,950)	10,950
Cash flow sensitivity	**(10,950)**	**10,950**
2017		
Variable rate instruments	(12,135)	12,135
Cash flow sensitivity	**(12,135)**	**12,135**

(f) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The Supervisory Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group's debt to capital ratio at the end of the reporting period was as follows:

'000 GEL	**2018**	**2017**
Total liabilities	4,043,675	4,044,715
Less: cash and cash equivalents	(780,150)	(1,097,599)
Net debt	**3,263,525**	**2,947,116**
Total equity	**1,770,898**	**2,292,105**
Debt to capital ratio at 31 December	**1.84**	**1.29**

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

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

24. Significant subsidiaries and non-controlling interests

Georgian Railway JSC was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The principal activity of Georgian Railway JSC is the operation of a nationwide railway system providing freight and passenger transportation services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

Georgian Oil and Gas Corporation JSC was established as a 100% state-owned enterprise by the order of the Ministry of Economy of Georgia on 21 March 2006, on the basis of three Georgian state-owned companies: Georgian International Oil Corporation JSC, Georgian Gas International Corporation JSC and Teleti Oil Company JSC. The principal activities of Georgian Oil and Gas Corporation JSC are the importation and sale of natural gas, the rental of gas and oil pipelines, oil and gas exploration and extraction in the territory of Georgia. In December 2006 Georgian Oil and Gas Corporation JSC was granted the status of "National Oil Company" by Presidential decree number 736 and it acts on behalf of the State of Georgia, receives and sells the State's share of extracted oil and gas produced by contractors in the territory of Georgia in accordance with the "Law of Georgia on Oil and Gas" and production sharing agreements signed between the State and the contractors. In October 2013 a new subsidiary, Gardabani TPP LLC, was created by the Company and Partnership Fund JSC with 51% and 49% interest, respectively. The charter capital was defined at USD 100,000 thousand. The paid in charter capital as at 31 December 2018 amounted to GEL 175,185 thousand (31 December 2017: GEL 175,185 thousand). The subsidiary was created for the construction and operation of Gardabani Combined Cycle Power Plant (CCPP). The construction works were completed in July 2015. The Gardabani CCPP began generating revenue from September 2015.

Georgian State Electrosystem JSC was 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 major subsidiary of Georgian State Electrosysem JSC is

EnergoTrans LLC, an entity established as a state-owned enterprise in 2002. The principal activities of Georgian State Electrosystem JSC and its subsidiaries are electricity transmission and dispatching over the entire territory of Georgia that are regulated by the law on Electricity and Natural Gas on the basis of the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission. EnergoTrans LLC owns the 500kV Vardzia and Zekari power transmission lines and the 400kV Meskheti interconnection line with Turkey constructed as part of the “Black Sea Transmission Network Project” (BSTN). The BSTN project was completed by the end of 2013. The new lines provide additional security to Georgia’s transmission network, by adding a second west-east 500kV link, and create energy export capacity to Turkey. Due to financial difficulties in the past, Georgian State Electrosystem JSC is currently under rehabilitation process managed by a Rehabilitation Manager in accordance with a Rehabilitation Plan (see note 20). In assessing control over Georgian State Electrosystem JSC, management has considered, among other things, its ability to terminate the rehabilitation process and remove the rehabilitation manager by way of repayment of the debt.

Electricity System Commercial Operator JSC was established in Georgia on 1 September 2006 with the primary objective to sell/purchase balancing electricity and guaranteed capacity, import and export electricity and facilitate electricity sale-purchase in Georgia.

Aerostructure Technologies Cyclone JSC was established in Georgia in March 2015 by Partnership Fund JSC, Project LLC (under 100% ownership of the Group), and Elbit Systems - Cyclone Ltd, with 33.33%, 33.33%, and 33.34% interest, respectively. The parties agreed to incorporate the subsidiary with the authorized share capital of USD 60,000 thousand.

In accordance with the shareholders agreement, unanimous agreement is required for certain decisions. Management has concluded that the Group has control over the subsidiary because the Group is exposed to (has rights to) variable returns from its involvement with the subsidiary, and has the ability to affect those returns through its power over the subsidiary. The conclusion is based on the percentage of the ownership interest and the significance of decisions defined in shareholders’ agreement of the subsidiary for which only a simple majority of votes is required.

The subsidiary was created for the purpose to engage in the development, production, sale and support of composite aero-structure products for the commercial (civil) market.

The following table summarises the information relating to the Group’s subsidiary Aerostructure Technologies Cyclone JSC:

’000 GEL	**2018**	**2017**
Non-Controlling Interest (NCI) Percentage	34%	34%
Non-current assets	129,105	91,068
Current assets	6,982	42,126
Non-current liabilities	(10,861)	-
Current liabilities	(40,958)	(8,243)
Net assets	84,268	124,951
Carrying amount of NCI	**28,651**	**42,483**
Revenue		
Loss	(40,680)	(16,699)
Total comprehensive loss	**(40,680)**	**(16,699)**
Loss allocated to NCI	(13,832)	(5,679)
Cash flows used in operating activities	(33,931)	(9,008)
Cash flows used in investment activities	(19,130)	(40,200)
Cash flows from financing activities (dividends to NCI: nil)	18,707	1,296
Net decrease in cash and cash equivalents	**(34,354)**	**(47,912)**

25. Operating leases

At 31 December, non-cancellable operating lease rentals are receivable as follows:

'000 GEL	**2018**	**2017**
Less than one year	5,400	4,378
Between one and five years	4,610	5,660
More than five years	17,753	18,250
	27,763	**28,288**

Operating leases mainly relate to rent of buildings, containers, locomotives and fittings owned by the Group with lease terms of between 10 to 50 years. Lessees do not have an option to purchase the property at the end of the lease term.

26. Capital commitments

As at 31 December 2018, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 399,446 thousand (2017: GEL 488,135 thousand) mainly relating to the Main Line Modernization project of GEL 69,487 thousand (2017: GEL 267,305 thousand) and Tbilisi Bypass project of GEL 328,214 thousand (2017: GEL 216,375 thousand).

Management does not expect that the cessation of the construction agreement with the counterparty, responsible for the Tbilisi Bypass project completion, will result in the payment of the above amount.

In addition, the Group had entered into contracts for construction of pipelines and the Gardabani II Combined-Cycle Power Plant with outstanding capital commitments as at 31 December 2018 of GEL 16,825 thousand and GEL 220,576 thousand, respectively (2017: GEL 24,900 thousand and GEL 375,105 thousand, respectively).

The Group is a party to a Supplemental Gas purchase agreement effective until 2026 in accordance with which the Group shall take and pay for or pay for, if not taken, certain quantities of gas and at predetermined prices, which are significantly below the current market price of natural gas. As at 31 December 2018 the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 823,398 thousand (31 December 2017: GEL 902,590 thousand).

The Group is also a party to a gas sale agreement based on which its customer must take and pay for or pay for, if not taken, the whole quantity of gas purchased by the Group including the whole amount of the Supplemental Gas. As a result, the Group considers that their commitment in respect of the purchase of Supplemental Gas is set off by the commitment of the Group's customer to buy that amount of gas and represents an effective back-to-back contractual arrangement whereby the Group passes its obligations towards the customer of the Group.

As at 31 December 2018 the Group had long-term contractual commitments to purchase equipment for the construction and rehabilitation of energy-transmission lines for GEL 154,353 thousand (2017: GEL 165,295 thousand).

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

27. 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) Litigations

In July 2018, Georgian Oil and Gas Corporation JSC and SAOG (State Agency of Oil and Gas) submitted their statement of claim against Frontera Resources Georgia Corporation. SAOG and Georgian Oil and Gas Corporation JSC inter alia are claiming that Frontera has materially breached certain provisions of the PSA (profit sharing agreement) including but not limited to the relinquishment of approximately 99% of the Contract Area. Apart from this Georgian Oil and Gas Corporation JSC and SAOG are seeking reimbursement of damages including a monetary compensation for the breach of oil sharing and relinquishment obligations and reimbursement of the natural resource enjoyment fee which was paid by Georgian Oil and Gas Corporation JSC and never reimbursed by Frontera.

Georgian Oil and Gas Corporation JSC and SAOG believe that there is a high likelihood that the arbitration tribunal will hold that Frontera breached its contractual obligations.

In September 2018 Frontera made counterclaim, claiming USD 3.5 billion as lost profits for the period 2012 through 2027 for certain alleged breaches of the PSA by Georgian Oil and Gas Corporation JSC and SAOG. This counterclaim was not supported with any expert report calculation. Georgian Oil and Gas Corporation JSC and SAOG consider the counterclaim to be without merit and intend to contest the counterclaim vigorously. In addition to the claim for the lost profits, Frontera asserted a claim for taxes (VAT and excise tax) in the amount of USD 3.5 million and claimed for legal costs allegedly incurred in obtaining land access to block XII in the amount of USD 74 thousand.

The proceedings are in progress, On 13 December 2019 the Arbitration has propsed that the parties submit their positions on certain procedural and other aspects until the end of January 2020. Management believe that Georgian Oil and Gas Corporation JSC and SAOG have factual and legal bases to win the case, and that possibility for Frontera to win these claims is remote.

(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.

(d) Environmental matters

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

(e) Electricity purchase contracts

The Group has entered into contracts for the purchase of electricity to be produced by the new hydro-electric power stations, thermo-electric power stations and wind-electric power stations. In total 48 contracts (2017: 40 contracts) have been initiated electric power stations are under construction as of 31 December 2018 and planning to be finalised between 2019-2020. In 2018 construction of five power stations were finalized (2017: four power stations). According to the management such contracts represent 'Executory contracts' and are not onerous contracts as defined in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and it is not possible to measure reliably the approximate amount of revenue and cost of sales which the Group will face after completion of the constructions and when the electric power stations will start generating electricity.

28. Related parties

(a) Parent and ultimate controlling party

As at 31 December 2018 and 2017 the Fund is wholly owned by the Government of Georgia.

(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 other employee benefits.

'000 GEL	**2018**	**2017**
Salaries and bonuses	**5,340**	**4,862**

(c) Transactions with Government related entities

The Group transacts in its daily operations with a number of entities that are either controlled/ jointly controlled by 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.

The significant transactions with entities controlled or significantly influenced by the State and balances for these transactions are disclosed below. Management estimates that the aggregate amounts of all other income and expenses and the related balances with government-related entities at the reporting dates are not significant. Transactions with the shareholder are disclosed in note 18.

(i) Revenue

'000 GEL	**Transaction value**	
	2018	**2017**
Entities controlled or significantly influenced by the State:		
Rent of gas pipelines	42,053	59,847
Transmission and dispatching of electricity	5	3
Electricity generation	34,022	74,506

The Group rents its gas pipeline to Georgian Gas Transportation Company LLC, a state controlled entity. The contract is valid until 1 January 2020. The lease payments are contingent on the volume of gas transported through the leased gas pipeline (see note 29)

The Group does not usually have significant balances for the above transactions.

(ii) Expenses

'000 GEL	**Transaction value**	
	2018	**2017**
Entities and agencies controlled or significantly influenced by the State:		
Cost of gas	5,357	31,516
Purchase of balancing electricity and guaranteed capacity	4,973	13,659

The Group does not usually have significant balances for the above transactions.

(iii) Loans

'000 GEL	**Interest income/expense**		**Outstanding balance as at 31 December**	
	2018	**2017**	**2018**	**2017**
Loans receivable:				
State controlled entity	-	-	-	-
Loans received:				
Ministry of Finance of Georgia	20,940	21,280	1,037,868	1,054,283

The interest rates and maturities of loans from related parties are disclosed in note 19 (a).

(iv) Restructured liabilities

The Group's restructured liabilities mainly consist of payables to the Government of Georgia or Government bodies.

29. Subsequent events

On 15 November 2019, Government of Georgia issued a decree N2353 confirming that the Group entity: Georgian Oil and Gas Corporation JSC will start works on refinancing its bonds in 2020, including a potential increase of the size of the Bond issuance up to 300 million USD.

The agreement on rental of pipelines between the Group entity: Georgian Oil and Gas Corporation JSC and another state owned entity outside the Group: Georgian Gas Transportation Company LLC (GGTC) is due for renewal from 1 January 2020. The parties have agreed that the rental will be renewed from 1 January 2020.

Construction of Gardabani II Combined-Cycle Thermal Power Plant has been completed in December 2019 and is operational (currently under testing regime).

30. Basis of measurement

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

31. 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) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) 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.

(iii) 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.

(iv) Acquisitions from entities under common control

Business combinations arising from the transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for from the date the control is obtained by the Group. The assets and liabilities acquired are recognised at the carrying amounts recognised in the acquiree's financial statements. The equities of the acquired entities are added to the equity of the Group. Pre-acquisition interests are not remeasured. Any cash paid for the acquisition is recognised directly in equity.

(v) 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.

(vi) Investments in associates and joint ventures (equity accounted investees)

The Group's interests in equity-accounted investees comprise interest in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost or at the Group's share of the carrying value of the net assets of the investee recognised in the equity accounted investee's financial statements at the date of the acquisition if the acquisition is from an entity under common control. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments is reduced to zero and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vii) Joint operations

A joint operation is an arrangement carried on by each venture using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(viii) 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. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Revenue

The Group has initially applied IFRS 15 from 1 January 2018. Information about the Group's accounting policies relating to contracts with customers is provided in Note 6. The timing or amount of the Group's income from contracts with customers were not significantly impacted by the adoption of IFRS 15.

(i) Rent of pipelines

Revenue from rent of gas pipelines represents fixed rent payment and is recognized in profit or loss on a monthly basis.

(ii) Oil transportation

Oil transportation fees comprise contingent rent received under finance lease arrangement. Revenue is recognized on the basis of the metered oil transferred through the pipelines at the contract rate for barrels of oil.

(iii) Freight car rental

Freight car rental comprises revenue of renting wagons of the group to foreign countries' railways, mostly within CIS, as well as local customers. Freight car rental represents a lease and is accounted for under IAS 17.

(c) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(d) Finance income and costs

Finance income comprises interest income on funds invested, unwinding of discount on finance lease receivable and foreign currency gains.

Finance costs comprise interest expense on financial liabilities measured at amortised cost, unwinding of the discount on restructured liabilities, premium on early redemption of issued bonds, foreign currency losses and impairment losses recognised on trade receivables.

Interest income or expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or
– the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to GEL at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in GEL 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.

(f) 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.

(g) Income tax

Income tax expense comprises current tax. Current tax is recognised in profit or loss.

(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 has 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 at a later date.

The new system of corporate income taxation does not imply exemption from the corporate income tax, rather the taxation is shifted from the moment of profit earning to the moment of its distribution. The Tax Code of Georgia defines distributed earnings to shareholders as dividends, however some other transactions (e.g. non-arm's length cross-border transactions with related parties and transactions with tax exempt persons) are also considered as distributed earning. In addition, the taxable base also includes expenses or other payments not related to the entity's economic activities, free of charge supply of good and services and representative expenses exceeding tax deductible limits.

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 in relation to which the dividends are paid.

(ii) Deferred tax

Due to the nature of the new taxation system as described above, the entities registered in Georgia do not have any differences between the tax and accounting base of assets and liabilities and hence, no deferred tax arise.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally determined on the first-in first-out 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. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(i) Assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and 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.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant 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, plant and equipment are recognised in profit or loss as incurred.

Maintenance and repair expenses are recognised as follows:

- Rolling stock included in “Transport, machinery, equipment and other” class:
  - current maintenance expenses during the useful life of equipment (repair work and replacement of unusable and missing parts) are recognised as operating expenses in profit or loss as incurred;
  - expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated separately from the main asset;
  - overhauls performed near the end of the useful life of an asset, together with refurbishment, are capitalised when they extend the useful life of the underlying asset.

- Fixed installations of rail track infrastructure:
  - current maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recognised as operating expenses in profit or loss as incurred;
  - labour, materials and other costs (associated with the installation of rails, sleepers and ballast) under multi-year major building or infrastructure maintenance programmes are capitalised through the partial or total replacement of each component concerned;
  - costs associated with infrastructure improvements are capitalized to the extent that they increase the functionality (traffic working speed) of the asset.

(iii) Depreciation

Items of property, plant 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 residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant 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, plant and equipment for the current and comparative periods are as follows:

- buildings and constructions 15 - 50 years
- rail track infrastructure 13 - 25 years
- gas and oil pipelines 30 - 35 years
- oil wells 4 - 9 years
- power transmission lines 20 - 35 years
- electricity generating unit 25 years
- transport, machinery, equipment and other 2 - 25 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

Recognition and measurement

Investment property is measured at cost less accumulated depreciation and impairment losses. Land is measured at cost less 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 its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

When parts of an item of investment property have different useful lives, they are accounted for as separate items (major components) of investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Subsequent expenditure

The cost of replacing part of an item of investment property 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 Fund and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of investment property are recognised in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of investment property, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(l) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised 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

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; 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. This includes all derivative financial assets. 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.

Trade and other receivables, loans receivable and cash and cash are classified as measured at amortised cost.

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest.

These financial 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 recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Before 1 January 2018, the Group classified non-derivative financial assets into the following categories: loans and receivables and cash and cash equivalents. These were measured at amortised cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative 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 recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company 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 Company 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 Company 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 Company analogizes to the guidance on derecognition of financial liabilities.

The Company 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;

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 Company 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 Company derecognizes 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 Company 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 Company 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. The Company 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.

Company 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 Company 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 consolidated 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 financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(m) Equity

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.

Non-cash owner contributions, except for contributions of interests in associates and subsidiaries constituting a business, are recognised at fair value of the assets contributed, net of deferred tax, at the date of the contribution.

Non-cash distributions are recognized at the carrying amount of the assets distributed if those distributions are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners*.

(n) Impairment

(i) Non-derivative financial assets - Policy applicable from 1 January 2018

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 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.

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 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 consolidated 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-derivative financial assets - Policy applicable before 1 January 2018

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor,
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise,
- indications that a debtor or issuer will enter bankruptcy,
- adverse changes in the payment status of borrowers or issuers in the Group,
- economic conditions that correlate with defaults; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both a specific asset and a collective level. All individually significant assets are assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Equity accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(iii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are 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 to the carrying amounts of the 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 amortisation, if no impairment loss had been recognised.

(o) Dividends

Dividends on ordinary shares are reflected as an appropriation of retained earnings in the period in which they are declared.

(p) 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.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly.

Future operating costs are not provided for.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(q) Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership of leased assets are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and receivables. Subsequently, the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

32. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. 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 are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces 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.

The Group is assessing potential effect of the initial application of IFRS 16 on its consolidated financial statements. Based on the preliminary assessment adoption of IFRS 16 will not have material effect of the consolidated financial statements of the Group.

(i) Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(b) Other standards and interpretations

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

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*;
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*;
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*;
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards;
- *Amendments to References to Conceptual Framework in IFRS Standards*;
- *IFRS 17 Insurance Contracts;*
- *Definition of a Business (Amendments to IFRS 3);*
- *Definition of material (Amendments to IAS 1 and IAS 8);*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);*
- *Interest rate Benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7).*