Partnership Fund JSC

Consolidated Financial Statements
for the year ended 31 December 2019

Contents

KPMG Georgia LLC
GMT Plaza
5th floor, 4 Liberty Square
Tbilisi, Georgia 0105
Telephone +995 322 93 57 13
Internet www.kpmg.ge

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 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) *(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
23 October 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.

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
23 October 2020

'000 GEL	Note	2019	2018*
Assets			
Property, plant and equipment	9	4,358,883	4,108,807
Investment property	9(e)	134,864	75,529
Prepayments for non-current assets	10	158,588	162,749
Investments in equity accounted investees	11	114,084	112,726
Finance lease receivable	12	73,134	67,854
Loans receivable	13	2,563	2,580
Trade receivables	15	15,718	18,959
VAT receivable		1,211	6,137
Other non-current assets	10	63,972	81,655
Non-current assets		**4,923,017**	**4,636,996**
Loans receivable	13	1,945	258
Inventories		85,622	69,655
Prepayments and other current assets	14	81,902	63,244
Trade receivables	15	385,940	253,259
Current tax assets		11,231	11,011
Cash and cash equivalents	16	515,020	780,150
Current assets		**1,081,660**	**1,177,577**
Total assets		**6,004,677**	**5,814,573**
Equity			
Share capital	17	100,000	100,000
Owner contributions		2,749,005	2,725,876
Accumulated deficit		(1,003,629)	(1,083,629)
Equity attributable to owners of the Company		**1,845,376**	**1,742,247**
Non-controlling interests	23	19,559	28,651
Total equity		**1,864,935**	**1,770,898**
Liabilities			
Loans and borrowings	18	3,244,287	2,476,209
Advance received from the Government of Georgia	17(d)	46,594	46,594
Restructured liabilities	19	23,113	36,874
Grants related to assets	20	102,736	105,579
Contract liability	6(c)	4,621	-
Non-current liabilities		**3,421,351**	**2,665,256**
Loans and borrowings	18	299,073	953,789
Restructured liabilities	19	19,267	17,000
Trade and other payables	21	365,736	382,762
Liabilities to the Government of Georgia	17(c)	4,896	5,317
Provisions		18,967	14,517
Current tax liabilities		7,617	68
Grants related to assets	20	2,835	4,966
Current liabilities		**718,391**	**1,378,419**
Total liabilities		**4,139,742**	**4,043,675**
Total equity and liabilities		**6,004,677**	**5,814,573**

The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application, 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 69.

’000 GEL	**Note**	**2019**	**2018**
Revenue	6	2,072,725	1,705,374
Operating expenses	7	(1,312,113)	(1,012,023)
Wages and other employee benefits		(245,434)	(230,590)
Depreciation and amortisation		(180,593)	(205,245)
Impairment loss on property and equipment	9	(5,038)	(734,092)
Share of profit of equity accounted investees (net of income tax)	11	(2,154)	(500)
Other income		39,399	50,135
Impairment loss on trade receivables		(38,688)	(17,080)
Impairment loss on investments in equity accounted investees	11	(2,546)	-
Gain on bargain purchase		-	2,045
Gain recognized on step acquisition		-	1,974
Results from operating activities		**325,558**	**(440,002)**
Finance income	8	55,129	71,434
Finance costs	8	(308,069)	(214,022)
Net finance costs		**(252,940)**	**(142,588)**
Profit/(loss) before income tax		**72,618**	**(582,590)**
Income tax expense		(1,710)	(2,529)
Profit/(loss) and total comprehensive income/(loss) for the year		**70,908**	**(585,119)**
Profit/(loss) and total comprehensive income/(loss) attributable to:			
Owners		80,000	(571,287)
Non-controlling interests		(9,092)	(13,832)
		70,908	**(585,119)**

The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application, see note 5

These consolidated financial statements were approved by management on 23 October 2020 and were signed on its behalf by:

David Saganelidze
Chief Executive Officer

Ioseb Mamukelashvili
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 69.

'000 GEL	Note	2019	2018
Revenue	6	2,072,725	1,705,374
Operating expenses	7	(1,312,113)	(1,012,023)
Wages and other employee benefits		(245,434)	(230,590)
Depreciation and amortisation		(180,593)	(205,245)
Impairment loss on property and equipment	9	(5,038)	(734,092)
Share of profit of equity accounted investees (net of income tax)	11	(2,154)	(500)
Other income		39,399	50,135
Impairment loss on trade receivables		(38,688)	(17,080)
Impairment loss on investments in equity accounted investees	11	(2,546)	-
Gain on bargain purchase		-	2,045
Gain recognized on step acquisition		-	1,974
Results from operating activities		**325,558**	**(440,002)**
Finance income	8	55,129	71,434
Finance costs	8	(308,069)	(214,022)
Net finance costs		**(252,940)**	**(142,588)**
Profit/(loss) before income tax		**72,618**	**(582,590)**
Income tax expense		(1,710)	(2,529)
Profit/(loss) and total comprehensive income/(loss) for the year		**70,908**	**(585,119)**
Profit/(loss) and total comprehensive income/(loss) attributable to:			
Owners		80,000	(571,287)
Non-controlling interests		(9,092)	(13,832)
		70,908	**(585,119)**

The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application, see note 5

These consolidated financial statements were approved by management on 23 October 2020 and were signed on its behalf by:

David Saganelidze
Chief Executive Officer

ი. მამუკელაშვილი

Ioseb Mamukelashvili
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 69.

'000 GEL	**Share capital**	**Owner contributions**	**Accumulated deficit**	**Total**	**Non-controlling interests**	**Total equity**
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 17(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**
Balance at 1 January 2019	100,000	2,725,876	(1,083,629)	1,742,247	28,651	1,770,898
Total comprehensive income						
Profit/(loss) for the year	-	-	80,000	80,000	(9,092)	70,908
Transactions with owners, recorded directly in equity						
Owner contributions (see note 17(b))	-	23,129	-	23,129	-	23,129
Balance at 31 December 2019	**100,000**	**2,749,005**	**(1,003,629)**	**1,845,376**	**19,559**	**1,864,935**

The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application, see note 5.

’000 GEL	**Note**	**2019**	**2018**
Cash flows from operating activities			
Profit/(loss) for the year		70,908	(585,119)
Adjustments for:			
Depreciation and amortisation		180,593	205,245
Income tax expense		1,710	2,529
Net finance costs		252,940	142,588
Share of loss of equity accounted investees (net of income tax)		2,154	500
Impairment loss on trade receivables		38,688	17,080
Impairment loss on property, plant and equipment		5,038	734,092
Impairment loss on investments in equity accounted investees		2,546	-
Income from amortization of grants		(4,988)	(4,971)
(Gain)/loss on disposal of property		(4,716)	(2,870)
Gain on bargain purchase		-	(2,045)
Gain recognized on step acquisition		-	(1,974)
		544,873	**505,055**
Changes in:			
Inventories		(15,216)	(11,765)
Trade receivables and prepayments and other current assets		(176,405)	11,171
Trade and other payables		20,661	25,451
Tax payables		9,742	(94)
Provisions		9,071	3,458
Government grants		15	2,788
Cash flows from operations before income taxes and interest paid		**392,741**	**536,064**
Income tax paid		(1,725)	(1,517)
Interest paid		(213,185)	(198,890)
Net cash from operating activities		**177,831**	**335,657**
Cash flows from investing activities			
Interest received		46,355	54,833
Issue of loans		(1,069)	(2,293)
Cash outflow related to transfer of loans receivable from subsidiary to the Fund		-	(37,208)
Repayment of loans issued		125	1,005
Acquisition of property, plant and equipment and changes in prepayments for non-current assets and other non-current assets		(413,305)	(456,503)
Proceeds from sale of property, plant and equipment		16,282	18,409
Acquisition of investments in equity accounted investees		(11,581)	(31,868)
Decrease of investments in equity accounted investees		27,528	16,083
Acquisition of subsidiary		-	(6,587)
Net cash used in investing activities		**(335,665)**	**(444,129)**
Cash flows from financing activities			
Proceeds from borrowings		91,803	42,256
Repayment of borrowings		(194,025)	(246,192)
Repayment of restructured liabilities		(17,000)	(15,000)
Repayment of loan commitment fees		(4,455)	-
Repayment of lease liabilities		(1,000)	-
Net cash used in financing activities		**(124,677)**	**(218,936)**
Net (decrease)/increase in cash and cash equivalents		**(282,511)**	**(327,408)**
Cash and cash equivalents at 1 January		780,150	1,097,599
Effect of movements in exchange rates on cash and cash equivalents		17,381	9,959
Cash and cash equivalents at 31 December	16	**515,020**	**780,150**

The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application, 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 69.

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 23.

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. Electricity generation license was issued to Gardabani II by Georgian National Energy and Water Supply Regulating Commission on 25 March 2020. As a result, Gardabani II Thermal Power Plant started operation in 2020.

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 6 Vukol Beridze street, 0108, 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 27.

(c) Group structure

As at 31 December 2019 and 2018 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2019 Ownership/ voting	2018 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)
Georgian Gas Storage Company LLC	Georgia	100%	100%	Construction and operation of underground gas storage
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 and terminal services
Georgian Railway Construction JSC	Georgia	100%	100%	Construction and other projects
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
Georgian Energy Exchange JSC	Georgia	50%	-	Operation of organized electricity market
Electricity System Commercial Operator JSC	**Georgia**	**100%**	**100%**	**Sale and purchase of electricity**
Georgian Energy Exchange JSC	Georgia	50%	-	Operation of organized electricity market
Project LLC	Georgia	100%	100%	Manufacture of spare parts for airplanes
Aerostructure Technologies Cyclone JSC	Georgia	66%	66%	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	48.17%	48.17%	Building materials` industry
Telasi JSC	Georgia	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi

Name	Country of incorporation and operation	2019 Ownership/ voting	2018 Ownership/ voting	Principal activities
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
Vanric Agro JSC	Georgia	40.48%	40.48%	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	37.65%	37.65%	Agriculture/farming
Caucasus Clean Energy I, LLP	United Kingdom	8%	8%	Investment fund
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	33.43%	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
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	8.07%	6.99%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia
Caucasian SUS Heritage LLC	Georgia	49.90%	49.90%	Hog farm
Borjomi Likani International JSC	Georgia	100%	100%	Construction and operation of a hotel
Georgian Natural Products LLC	Belarus	100%	100%	Export of wine and agricultural products
Peace Fund for Better Future NCLE	Georgia	33.33%	-	Investment company

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”.

50% ownership obtained in Sakrusenergo JSC

During year 2019, Government of Georgia temporarily transferred its 50% shares in Sakrusenergo JSC to the Fund. Management estimated that the Fund has neither obtained control nor significant influence over Sakrusenergo JSC in the abovementioned transaction and assessed it as transitory common control transaction. Subsequently in 2020, the shares were transferred back to the Government of Georgia.

Georgian Energy Exchange JSC

Georgian Energy Exchange JSC was established in December 2019, with 50%-50% participation of Georgian State Electrosystems JSC and Electricity System Commercial Operator JSC. Georgian Energy Exchange JSC is an operator of organized electricity markets and ensures establishment of daily markets and operation though software services of Nord Pool Consulting Company. During 2019, Georgian State Electrosystems JSC made investment of GEL 1,541 thousand for purchase/installation of software required for subsidiary's operations. The Group made investment of GEL 1,843 thousand during 2019 year in Georgian Energy Exchange JSC.

2. Basis of accounting

(a) 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 16 *Leases* has been applied.

Changes to significant accounting policies are described in note 5.

(b) Going concern - the COVID-19 outbreak

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Georgian government authorities have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home.

In order to ensure the sanitary and epidemiological well-being of the population, the President of Georgia declared state of emergency on 21 March 2020, restricting working for all employees except for medical and pharmacy organizations, emergency services, food and essential goods providers and continuous operating cycle entities.

Due to lockdown and business disruption in many countries, global oil demand has drastically decreased leading to oversupply and sharp fall in oil prices.

These events will have wider adverse effects on the economy, including:

- Disruption to business operations and economic activity, with a negative impact on supply chains and breach of contracts;
- Significant disruption to businesses in certain sectors, both operating on domestic market and export-oriented businesses with high reliance on foreign markets. Mostly affected sectors include retail, travel and tourism, entertainment and hospitality sector, transportation, oil industry, construction, automotive, insurance and financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The government initially carried out certain measures in parallel to efforts in curbing the pandemic that meant covering of payments for communal services for March-May period, maintaining prices on nine basic food products as well as attraction of more than USD 3 billion from international donors.

On 24 April 2020, the Prime Minister of Georgia presented anti-crisis economic plan at the session of the Anti-Crisis Economic Group of the Interagency Coordination Council, how to rebuild, activate and re-open COVID-19 affected economy in the country. The measures as envisaged by the anti-crisis plan contain components of social aid and business assistance. Also, the scheme for lifting up restrictions gradually.

The Pandemic had negative impact on global financial industry and consequently on one of the significant subsidiaries of the Group – Georgian Oil and Gas Corporation JSC (GOGC). Namely, GOGC is facing a large USD 250 million Eurobond (GEL 722,024 thousand) maturing in April 2021 (please see note 18). Given the current turbulence on international financial markets, refinancing is the key challenge for GOGC. The Gardabani II power station, launched in 2020, should add more EBITDA stability and improve GOGC`s cash flows. However, based on the management expectation, GOGC is unlikely to generate enough internal liquidity sources to repay the Eurobonds.

Management has developed base-case scenario and prepared cash flow forecasts on the following assumptions:

The authorities will take additional stringent measures to contain the COVID-19 pandemic, including extending the current restrictions imposed by the Government of Georgia. The average dollar exchange rate during the year will make up to 3.25 GEL.

Based on this scenario, management assumes that GOGC will be able to tap the capital markets in autumn of 2020 for refinancing existing bonds and difference between cash inflow from the financing and cash outflow to repay the existing bonds will amount to GEL 252,000 thousand that will be mostly allocated to construction of Gardabani III power station.

Based on this scenario, management assumes that in 2020 the GOGC’s cash receipts from customers and net cash flow from operating activities will increase approximately by 24% and 140%, respectively, compared to year 2019 relevant actual historical information, mostly attributable to electricity generation, namely due to commencement of Gardabani II operations.

Management also performed stress-test for the base-case scenario, based on the assumptions that estimated cash flow in base-case scenario in year 2020 will be reduced by GEL 113,206 thousand, resulting in net change in cash and cash equivalents amounted to GEL 44,106 thousand.

Additionally, in September of 2020, GOGC signed a loan agreement with EBRD to refinance USD 250 million Eurobonds maturing in April 2021. The principal amount of the loan is EUR 217 million with the interest rate of Eurolibor + 3.3% and the term of 10 years. (note 28).

Management is confident that based on above analysis GOGC will have sufficient resources to continue for the foreseeable future. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the GOGC’s ability to continue as a going concern.

Another significant subsidiary, Georgian Railway JSC (GR) temporarily terminated the passenger transportation services, which is about 2% of the Group’s total revenue for the year ended 31 December 2019 (2018: 2%). However, irrespective of the aforementioned measures, as at 31 December 2019 and as of the date these consolidated financial statements were authorized for issue, GR, apart from the passenger transportation services, continued its operations in its normal way. Passenger transportation was also continued, but with restrictions.

As for other significant subsidiaries, Georgian State Electrosystems JSC and Electricity System Commercial Operator JSC, the restrictions imposed by Government of Georgia do not apply to any of these companies’ operations.

In addition, due to significance of the subsidiary for the Group as a whole and because of indirect affect on the Group`s going concern assumption, management analyzed going concern assumptions of EnergoTrans LLC, subsidiary of Georgian State Electrosystem JSC. As at 31 December 2019 management have analyzed the overall financial results, positive cash flows from operating activities, considered the mitigating factors listed below and concluded that EnergoTrans LLC will have sufficient liquidity to meet its liabilities when due and that the management's going concern assumption as at the reporting date is appropriate.

As at 31 December 2019 EnergoTrans LLC incurred net loss of GEL 26,426 thousand (2018: net loss of GEL 27,815 thousand), had net current liability of GEL 50,322 thousand (2018: net current liability of GEL 402,570 thousand). The management's above assumption is based on the following facts and estimates:

- The loans and borrowings of GEL 585,559 thousand are due to the Ministry of Finance of Georgia, out of the total loans and borrowings balance, GEL 564,903 thousand represent subloan agreements of the Ministry of Finance's obligation towards the financial institutions (EBRD, KfW and EIB, see note 18), and the balance of GEL 20,656 thousand is due to the Ministry of Finance.
- A support letter has been obtained from the Ministry of Economy and Sustainable Development
- of Georgia (ultimate controlling party), where the Ministry of Economy and Sustainable Development expressed its intention and ability to provide further financial and other support to
- EnergoTrans LLC, if necessary, to permit EnergoTrans LLC meet its financial obligations as
- they fall due. EnergoTrans LLC's ability to continue as a going concern and to settle its obligations when they fall due, is highly dependent on a support, which was obtained in past, and management believes that will be obtained in future from the Government of Georgia (ultimate controlling party).
- Management believes that tariffs for transmitting electricity will increase from 2021 that affects EnergoTrans LLC's revenue and cash flow subsequently. Management expects that electricity transmission activities will increase due to overall increase in consumption, which will stipulate further increase in tariffs and respectively revenues of EnergoTrans LLC. Increase in consumption has been growing during recent periods and management anticipates that this tendency will continue further.
- In addition, EnergoTrans LLC maintains a VAT recoverable balance of GEL 5,699 thousand (2018: GEL 9,220 thousand) as at 31 December 2019 that can be offset against EnergoTrans LLC's tax liabilities.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the 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 2(b) – Going concern: the effect of COVID-19 on the Group`s operations and significant judgments related to going concern assumption;
- Note 6 – Material right given to the customer under IFRS 15 - Recognition of contract liability;
- Note 25 – Assessment of the commitment related to the purchase and sale of gas.
- Note 9(c) – impairment of property, plant and equipment;
- Note 22(c) – impairment allowances for trade and other receivables;
- Note 30(i) (iii) – useful lives and residual values of property, plant and equipment.
- Note 18 – fair value of loans and borrowings at initial recognition;
- Note 6 **-** acting as an agent in the transactions regulated by the Government Decree N923;
- Note 6 – acting as a principal in the transactions with Abkhazia;
- Note 23 – assessment of control over Georgian State Electrosystem JSC; and
- Note 1(c) – assessment of control over Sakrusenergo JSC;

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 22(c) – measurement of ECL allowance for financial assets;
- Note 26(b) – contingencies;
- Note 9(c) – impairment of property, plant and equipment: key assumptions underlying recoverable amounts, including the recoverability of property and equipment and sensitivity analysis;

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 22(a) – fair values of financial assets and liabilities.

5. Changes in significant accounting policies

IFRS 16

The Group has initially adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, recognises right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Group has applied IFRS 16 using the modified retrospective approach and has measured right-of-use asset at the amount equal to the lease liability, adjusted for prepayments and accruals. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

The Group does not have significant lease contracts where it acts as a lessee as at 1 January 2019 and 31 December 2019. Consequently, the Group used practical expedient when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group did not recognise right-of-use assets and liabilities for leases with a term ending less than 12 months after the date of initial application of IFRS 16 *Leases*.

The Group has recognized right-of-use assets and lease liabilities for contracts related to leases of office area, but the recognized amounts are not significant for the Group's consolidated financial statements.

The Group's significant accounting policy regarding leases is described in note 30(p).

(c) As a lessor

The Group leases out gas pipeline and related infrastructure, its own property, to a related party, Georgian Gas Transportation Company LLC (see note 27). The Group classified the named lease as an operating lease under IAS 17 *Leases*, because it did not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Transition to IFRS 16 *Leases did not have impact on the leases under discussion*.

In addition to the gas pipeline lease, the Group leases out oil pipeline and 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. Under IAS 17 *Leases* the Group classified the named lease as a finance lease (see note 12). Transition to IFRS 16 Leases did not have impact on the leases under discussion.

The Group also leases out its other buildings, wagons, containers, locomotives and fittings. The Group has classified these leases as operating leases.

The Group is not involved in sub-lease transactions.

(d) Impact on consolidated financial statements

On transition to IFRS 16, the Group has not recognized either significant additional right-of-use assets or additional lease liabilities. Consequently, there was no significant impact on the consolidated financial statements of the Group on transition date.

A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements, including amendments to IAS 23 Borrowing Costs.

6. Revenue

'000 GEL	**2019**	**2018**
Revenue from electricity		
Revenue from contracts with customers		
Sales of balancing electricity	362,140	319,039
Income from guaranteed capacity service	164,063	156,115
Transmission of electricity	181,107	175,261
Electricity generation	105,130	93,188
Dispatching of electricity	44,143	32,756
Revenue from transit	1,680	202
Total revenue from electricity	**858,263**	**776,561**
Revenue from gas and oil sales and pipelines		
Revenue from contracts with customers		
Sales of gas	576,123	361,655
Income from crude oil	15,105	11,486
Other revenue		
Rent of gas pipelines	43,059	42,053
Oil transportation fees	21,168	18,367
Total revenue from gas and oil sales and pipelines	**655,455**	**433,561**
Revenue from railway transportation		
Revenue from contracts with customers		
Freight traffic	373,913	292,963
Logistic services	48,814	70,318
Passenger traffic	31,138	27,404
Freight car cross-border charge	14,156	17,468
Other revenue		
Rent of wagons and other rental income	16,090	11,297
Total revenue from railway transportation	**484,111**	**419,450**
Healthcare revenue from contracts with customers	**23,270**	**27,486**
Other revenue from contracts with customers	**51,626**	**48,316**
Total revenues	**2,072,725**	**1,705,374**

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.

Electricity transmission and dispatch tariffs are established by GNERC. The tariffs have not been changed since 2018.

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). Until 31 August 2014 ESCO acted in the capacity of an agent rather than as a principal in these transactions. Following the change in the legislation since 1 September 2014 ESCO acts in the guaranteed capacity transaction as a principal.

According to the clause 38.2 of Electricity (Capacity) Market Rules the Government of Georgia shall provide the electricity to Abkhazia territory in case of shortage of supply encountered by the suppliers of Abkhazia. Per the same clause (38.2) the amount of supplied electricity to Abkhazia is subject to return to ESCO in terms of the electricity, afterwards ESCO can resell the same electricity to other counterparties with the same terms of trading with balancing electricity. In 2019 the amount of supplied electricity to Abkhazia was GEL 12,700 thousand (2018: nil) as a balancing electricity. As of 31 December 2019 the amount of electricity receivable is GEL 5,400 thousand (2018: nil) which was subsequently returned to ESCO in 2020. The transaction with Abkhazia is accounted under the income from sales of balancing electricity, as ESCO acts as a principal in arrangement like in other transactions of balancing electricity trading.

During 2018 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 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 2021. 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 till March 2019 the rent fee was fixed at GEL 3,500 thousand per month (excluding VAT) and from 1 March till 31 December 2019 monthly rent fee was fixed at GEL 3,600 thousand per month (excluding VAT). Since 1 January 2020 the fixed rent fee is GEL 43,000 thousand per annum (excluding VAT). 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 pay for transportation of 50% of annual quantity of crude oil sourced from Turkmenistan and delivered to Baku-Tbilisi-Ceihan pipeline until the end of 2018 regardless of whether such transportation has occurred. No revenue was recognised in terms of SoP in 2019 (2018: GEL 23,471 thousand).

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. The Group is a co-signatory of the Tariff Agreement together with CIS countries, Latvia, Lithuania and Estonia. The parties to the Agreement hold annual conferences to determine the tariff policy for the following year: each party declares tariffs denominated in Swiss Francs (CHF) for railway transportation and states the general rules that apply to and modify tariffs. The agreed tariffs indicate the maximum level of tariffs applicable.

(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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Domestic	453,865	390,685	576,123	361,655	850,539	757,273	15,105	11,486	74,896	75,802
Foreign	14,156	17,468	-	-	7,724	19,288	-	-	-	-
Total	**468,021**	**408,153**	**576,123**	**361,655**	**858,263**	**776,561**	**15,105**	**11,486**	**74,896**	**75,802**

(b) Contract balances

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

'000 GEL	31 December 2019	31 December 2018
Receivables, which are included in 'trade receivables'	376,971	246,964
Contract liabilities (note 6(c))	(4,621)	-

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

(c) Material right

According to the contract with the most significant customer for gas supply, the customer should make discount of USD 15 for each thousand cubic meters of so called "social gas" (gas to be consumed by the population of Georgia) sold until the end of the year 2020 ("Facilitation period"). On its part, the Group undertook obligation to provide USD 15 discount for each thousand cubic meters of natural gas for the same volume of gas sold by the customer to the population of Georgia during the Facilitation Period. Gas sales at discounted price by the Group to the customer will take place during 2021-2025 years ("Compensation period").

The management, considering the requirements of IFRS 15 – *Revenue from contracts with customers*, concluded that the option given by the Group to the customer to purchase additional gas at a discount from the price stipulated in the original contract, gives the customer the right to acquire additional goods at a price that does not reflect the stand-alone selling price. Consequently, management concluded that the option is a material right which gives rise to a performance obligation.

As a result, respective contract liability amounted to GEL 4,621 thousand was recognized by the Group for the year ended 31 December 2019. This will be recognized as revenue in the subsequent periods when the estimated stand-alone selling price exceeds price stipulated in the agreement, which is expected to occur over the last two years of the Compensation period, namely, in years 2024 and 2025.

There was no balance of contract liabilities recognized at the beginning of the periods recognized as revenue for the period ended 31 December 2019. There was no revenue recognised in the period ended 31 December 2019 from performance obligations satisfied (or partially satisfied) in previous periods.

(d) 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 policies
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.
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 calculates the tariff each month based on the actual prices of purchased electricity for that period. There are no discounts related to sales.	Revenue is recognized over time as services are provided, based on the volume of transmitted electricity.
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 over time as services are provided, based on the monthly volume of transmitted and dispatched electricity and the tariff set by the Regulator. The agreements with counterparties do not have discounts and the invoices are payable on a monthly basis.	Revenue is recognized over time as services are provided. The measure of progress is based on the actual volume of transmitted and dispatched electricity.
Sale of natural gas	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. In the second type, payment terms vary for each customer but in most cases payments should be done in arrears, no later than 25th day following the reporting month.	Revenue is recognised when the gas is delivered to the delivery points (pre-determined in the agreements with each customer) 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.
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 Type	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
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.
Freight car cross-border charge	Freight car cross-border charge stream is to be recognized "over time" since it is the service, during which customer receives and consumes simultaneously the benefit as the Group performs.	Revenue for such services is recognised over time.
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.
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 Group receives fixed tariff for provision of services. The tariff is charged at the point of making purchase of electricity. There are no discounts related to the sales. **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 recognized over time as services are provided, based on the volume of transmitted electricity. **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.

7. Operating expenses

’000 GEL	**2019**	**2018**
Cost of gas and oil	617,269	367,473
Cost of sold balancing electricity	392,042	341,063
Electricity and materials used in railroad transportation	47,921	43,708
Cost of guaranteed capacity service	44,067	40,347
Taxes other than on income	43,642	44,242
Logistic services	20,182	17,636
Cost of medical services rendered	9,844	10,313
Freight car rental	3,780	4,177
Other*	133,366	143,064
	1,312,113	**1,012,023**

*Other operating expenses above include fees paid to the audit firm of about GEL 60 thousand (2018: GEL 36 thousand), for the provision of audit and other professional services.

8. Finance income and finance costs

’000 GEL	**2019**	**2018**
Recognised in profit or loss		
Interest income under the effective interest method	47,300	63,673
Unwinding of discount on restructured receivable from related party	2,549	2,780
Unwinding of discount on finance lease receivable	5,280	4,981
Finance income	**55,129**	**71,434**
Interest expense on financial liabilities measured at amortised cost	(103,577)	(141,859)
Net foreign exchange loss	(199,442)	(66,215)
Unwinding of discount on restructured liabilities	(4,825)	(5,799)
Other finance costs	(225)	(149)
Finance costs	**(308,069)**	**(214,022)**
Net finance costs recognised in profit or loss	**(252,940)**	**(142,588)**

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 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**
Balance at 1 January 2019	1,046,938	966,999	391,643	431,297	35,404	461,995	1,944,292	1,893,828	7,172,396
Additions	9,548	5,232	-	2,055	-	-	53,160	453,890	523,885
Transfer to investment property (9(e))	(59,335)	-	-	-	-	-	-	-	(59,335)
Disposals and write-offs	(697)	(1,764)	-	-	(17)	-	(21,383)	(25,922)	(49,783)
Transfers/Reclassification	4,422	11,098	4,016	12,179	18	3,142	52,156	(87,031)	-
Balance at 31 December 2019	**1,000,876**	**981,565**	**395,659**	**445,531**	**35,405**	**465,137**	**2,028,225**	**2,234,765**	**7,587,163**
Depreciation and impairment losses									
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**
Balance at 1 January 2019	288,143	557,809	52,716	174,151	26,396	239,851	1,105,549	618,974	3,063,589
Depreciation for the year	6,718	45,359	16,723	18,195	700	12,490	75,279	-	175,464
Disposals and write offs	(299)	(1,406)	-	(133)	-	-	(13,965)	(59)	(15,862)
Impairment loss	282	-	-	-	-	1,418	3,052	338	5,090
Transfers/Reclassification	54	2,908	-	952	-	-	52	(3,966)	-
Balance at 31 December 2019	**294,898**	**604,670**	**69,439**	**193,165**	**27,096**	**253,759**	**1,169,967**	**615,287**	**3,228,281**
Carrying amounts									
At 31 December 2018	758,795	409,190	338,927	257,146	9,008	222,144	838,743	1,274,854	4,108,807
At 31 December 2019	**705,978**	**376,895**	**326,220**	**252,366**	**8,309**	**211,378**	**858,259**	**1,619,478**	**4,358,883**

*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 and the Main Line Modernisation project.

(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 18(a)).

The borrowing costs were capitalized on the above two projects in proportion to the costs incurred on those projects based on a capitalization rate of approximately 8% (2018: 8%). Capitalised borrowing costs of GEL 73,518 thousand during 2019 related to the Main Line Modernization project (2018: GEL 57,114 thousand).

Capitalised borrowing costs related to the construction of the Gardabani II Combined-Cycle Thermal Power Plant amounted to GEL 33,174 thousand (2018: GEL 7,050 thousand), with a capitalisation rate of 6.75%. During 2019 GEL 23,891 thousand (2018: 16,000) 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 6,813 thousand (2018: GEL 5,521 thousand), with a capitalisation rate of 2.78% (2018: 2.69%).

(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 2019 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 2019 and 2018 no event or change in circumstances occurred which would result in reversal of the provision.

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

Georgian Railway JSC:

At 31 December 2018, 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). As a result of the impairment testing, the Group recognized impairment loss of GEL 691,387 thousand in 2018 and 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 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.

As at 31 December 2019, in response to the changes on the market resulting in the revision of some of the expectations of the Group as at 31 December 2018, the Group reassessed its estimates and conducted a new impairment test. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

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 five years and a terminal growth rate thereafter. A long-term growth rate for the terminal period is determined as approximate long-term economy growth forecast for Georgia and the region affecting the Group's operations.
- Volumes are projected based on the budgeted quantities during 2020, adjusted for the Georgian GDP growth rate of 4.9% up to 2024. No volume growth is projected from 2025. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2020, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 1.9% and 2.1% during the first two projected years and 1.7% increase during the remaining projected period;
- Cash flows include annual maintenance capital expenditures and payments for the finalization of the Main Line Modernization project. Projected cash flows include USD 55 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 2022 and 2023;
- A pre-tax discount rate of 11.01% 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 2%.

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 impairment loss of approximately GEL 180 million;
- Volume growth – A decrease of 5% point in the transported volumes projection used would have resulted in impairment loss of approximately GEL 135 million;
- Terminal growth – A decrease of 1% point in the terminal growth rate used would have resulted in impairment loss of approximately GEL 130 million.

EnergoTrans LLC:

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

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

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

- Cash flows are projected for 26 years. Management believes that using 26 years is justified as the period represents the weighted average remaining useful life of the CGU, to account for reimbursement of investments in the CGU and the required rate of return of the investors, as defined by tariff setting methodology approved by the Georgian National Energy and Water Supply Regulatory Commission (GNERC);
- The load factor for the 400kW energy transmission line projected in the forecasted period of 17.53%. The load factor is calculated as the net projected export/import figure divided by the potential capacity of the transmission line.
- Cash inflows are expected from two main streams of revenue: transmission and export of electricity;
- Revenue from transmission and export of electricity is projected based on actual operating results and 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 14.04% (2018: 13.6%) is applied in determining the present value of the future cash flows. The discount rate reflects the nominal required rate of return for the cash flows on the invested capital of the companies denominated in GEL.

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

(d) Security

At 31 December 2019 items of property and equipment (land plots with power-transmission lines and related technical equipment) with a carrying amount of GEL 48,090 thousand (2018: GEL 55,980 thousand) are pledged as a security against loans and borrowings from and restructured liabilities to the Ministry of Finance of Georgia (see notes 18 and 19).

At 31 December 2019, property with a carrying amount of GEL 74,274 thousand (2018: GEL 76,717 thousand) is pledged in respect of the secured loan (see note 18).

At 31 December 2019, property, plant and equipment (land plots and other items) with a carrying amount of GEL 128,059 thousand (2018: nil) are pledged as a security against loans and borrowings from local Georgian banks (see note 18).

(e) Investment property

'000 GEL	**2019**	**2018**
Balance at 1 January	75,529	11,863
Reclassification from property, plant and equipment	59,335	63,666
Balance at 31 December	**134,864**	**75,529**

On 31 December 2019 Fund's lands met investment property recognition criteria and the Group fully reclassified carrying amount of these lands from property, plant and equipment to investment property, amounting GEL 59,335 thousand. The main items under these investment property represent land plots in Kobuleti (GEL 18,711 thousand), obtained as a result of business acquisition of Borjomi Likani International JSC in 2018 by the Group and land plots in Borjomi (GEL 26,255 thousand), withdrawn from investment in Borjomi Likani International JSC during 2019 by the Fund.

The mentioned land plots met investment property recognition criteria under IAS 40 due to undetermined future use by the Fund as at 31 December 2019.

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

'000 GEL	**2019**	**2018**
Prepayments for construction of railway infrastructure*	60,768	60,630
Prepayments for construction of Gardabani II CCPP**	91,563	57,635
Other prepayments for non-current assets	6,257	44,484
Total prepayments for non-current assets	**158,588**	**162,749**
Construction materials for railway infrastructure	23,240	26,463
Intangible assets	30,200	34,192
Other	10,532	21,000
Total other non-current assets	**63,972**	**81,655**

*Prepayments for construction of railway infrastructure are related to Bypass project, which was suspended as at 31 December 2019 and 31 December 2018. Per Management's 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 2019 advance payment of GEL 89,953 thousand (31 December 2018: GEL 57,328 thousand) was made to China Tianchen Engineering Corporation in accordance with the above agreement. The construction of Gardabani II Combined-Cycle Thermal Power Plant was finalized in December 2019. Electricity generation license was issued to Gardabani II by Georgian National Energy and Water Supply Regulating Commission on 25 March 2020.

11. Investments in equity accounted investees

'000 GEL	**2019**	**2018**
Balance at 1 January	112,726	70,498
Contributions to associate	11,106	65,938
Group's share of loss of equity accounted investees (net of income tax) recognized in profit or loss	(2,154)	(500)
Withdrawal of the investment in associates/jointly controlled entity	(5,048)	(23,210)
Impairment loss	(2,546)	-
Balance at 31 December	**114,084**	**112,726**

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

Following table describes details of the Group's investments in equity accounted investees' movements during 2019. Investments in equity accounted investees presented in note 1(c) 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	Ownership 2019	Ownership 2018	Business activity	'000 GEL Balance as at 31.12.2018	'000 GEL Contribution	'000 GEL Profit (loss) attributable to the Fund	'000 GEL Withdrawal	'000 GEL Impairment	'000 GEL Balance as at 31.12.2019
Telasi JSC	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi	44,326	-	3,504	-	-	47,830
Nenskra Hydro JSC	8.07%	6.99%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia	29,992	8,250	(640)	-	-	37,602
Tsinandali Estates LLC	33.43%	45.51%	Hotel and spa resort in village Tsinandali	20,877	151	(4,461)	-	-	16,567
Panex JSC	48.17%	48.17%	Building materials` industry	4,323	-	1,313	(5,048)	-	588
Vanric Agro LLC	40.48%	40.48%	Export of fruit	3,265	-	(719)	-	(2,546)	-
Imereti Greenery LLC	37.65%	37.65%	Agriculture/farming	824	-	(824)	-	-	-
Gazzele Fund LP	29.11%	29.11%	International investment company represented in Georgia	5,000	2,185	172	-	-	7,357
Caucasus Clean Energy I, LLP	8%	8%	Investment fund	3,567	520	(363)	-	-	3,724
Caucasian SUS Heritage LLC	49.9%	49.9%	Hog farm	552	-	(136)	-	-	416
				112,726	**11,106**	**(2,154)**	**(5,048)**	**(2,546)**	**114,084**

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 Group) 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 2019.

(a) Associates

At 31 December 2019 the Group has interest in ten associates – Vanric Agro LLC, Telasi JSC, Panex JSC, Imereti Greenery LLC, Tsinantali Estates LLC, Gazelle Fund LP, Caucasian SUS Heritage LLC, Gino Green City Corporation LLC, Nenskra Hydro JSC and Caucasus Clean Energy I, LLP (2018: 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).

Telasi JSC 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 Group's interest in Telasi JSC.

'000 GEL	**2019**	**2018**
Percentage ownership interest	**24.53%**	**24.53%**
Non-current assets	291,423	265,407
Current assets	71,548	75,279
Non-current liabilities	(26,435)	(41,121)
Current liabilities	(141,613)	(118,928)
Net assets (100%)	194,923	180,637
Fund's share of net assets (24.53%)	**47,815**	**44,310**
Revenue from contracts with customers	453,084	461,969
Profit and total comprehensive income (100%)	14,286	27,254
Fund's share of profit and total comprehensive income	**3,504**	**6,685**

12. 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.

'000 GEL	**2019**	**2018**
Finance lease receivable at 1 January	67,854	62,873
Unwinding of discount on finance lease receivable	5,280	4,981
Finance lease receivable at 31 December	**73,134**	**67,854**

Variable lease payments depending on usage related to oil transportation recognized in the consolidated statement of profit or loss and other comprehensive income during 2019 amounted to GEL 21,168 thousand (2018: GEL 18,367 thousand).

13. Loans receivable

'000 GEL	**2019**	**2018**
Non-current assets		
Loan receivable from the state controlled entity	604	-
Loan receivable from the third party	1,959	2,580
Total non-current	**2,563**	**2,580**
Current assets		
Short term part of the loan receivable from the state controlled entity	122	-
Short term part of the loan receivable from the third party	1,823	258
Total current	**1,945**	**258**
	4,508	**2,838**

14. Prepayments and other current assets

’000 GEL	2019	2018
Prepayments to suppliers*	73,044	56,396
Receivable from the Government**	25,205	25,205
Impairment allowance on receivable from the Government**	(25,205)	(25,205)
Taxes other than on income	5,910	3,717
Other receivables	5,086	5,309
Impairment allowance for other receivables	(2,138)	(2,178)
	81,902	**63,244**

*Prepayments to suppliers balance were made mainly to South Caucasus Pipeline Option Gas Company Limited of GEL 42,933 thousand (2018: GEL 33,860 thousand) and to Azerbaijan Gas Supply Company Limited (AGSC) of GEL 13,332 thousand (2018: GEL 12,026 thousand) for the supply 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.

15. Trade receivables

’000 GEL	2019	2018
Non-current assets		
Restructured receivables *	15,718	18,959
	15,718	**18,959**
Current assets		
Trade receivables**	597,203	423,742
Restructured receivables *	4,296	4,510
Allowance for trade receivables	(215,559)	(174,993)
	385,940	**253,259**
Total	**401,658**	**272,218**

*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 2019 Georgian Gas Transportation Company LLC has made GEL 4,990 thousand payment in accordance with above mentioned payment schedule.

**Trade receivables as at 31 December 2019 and 31 December 2018 include the receivable from Foreign Company (see note 6), amounting to GEL 40,115 thousand and GEL 37,441 thousand respectively. As at 31 December 2019 and 31 December 2018 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 2019 amounts to GEL 40,115 thousand (2018: GEL 18,373 thousand).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 22.

16. Cash and cash equivalents

'000 GEL	**2019**	**2018**
Bank balances	296,142	511,645
Call deposits	218,796	268,386
Petty cash	82	119
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	**515,020**	**780,150**

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 22.

17. 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 2019, the Government of Georgia contributed land plots of GEL 8,339 thousand, gas pipelines of GEL 1,854 thousand, movable property of GEL 494 thousand and undertook liability of GEL 762 thousand for capital contributions to be made in 2020 (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) in the form of an increase in the Group's equity as 'Owner contributions'.

On 13 September 2019 new repayment schedule was agreed between EnergoTrans LLC and the Ministry of Finance of Georgia, acting in a capacity of shareholder, according to which loan maturity is extended till 2029. Original maturity was 30 December 2020. The difference (GEL 11,680 thousand) between the net present value of amended and original cash outflows is accounted as an additional paid in capital (note 18).

(c) 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 Government. These liabilities are recorded at the carrying amount of assets to be transferred to the owner.

(d) 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 701,281 square meters of land plots with attached constructions which would 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 agreed 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). Subsequently, Georgian Railway JSC agreed with the Government that the declared dividend amount would represent a consideration due from the Government for the future sale of the land plots 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. No transfer of the aforementioned land plots to the Government took place in 2018 or in 2019.

18. 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 22.

'000 GEL	**2019**	**2018**
Non-current liabilities		
Unsecured bonds	2,137,717	1,994,799
Unsecured loans from financial institutions	944,164	460,278
Secured loans from financial institutions	133,166	21,132
Unsecured loans from related party	18,640	-
Secured loans from related party	10,600	-
	3,244,287	**2,476,209**
Current liabilities		
Current portion of unsecured bonds	68,970	62,086
Current portion of unsecured loans from financial institutions	189,627	755,887
Current portion of secured loans from financial institutions	28,446	105,176
Current portion of unsecured loans from related party	1,974	-
Current portion of secured loans from Ministry of Finance	10,056	30,640
	299,073	**953,789**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2019		31 December 2018	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds							
Unsecured bonds-long term	USD	6.75%	2021	716,925	722,024	669,150	671,620
Unsecured bonds-long term	USD	7.75%	2022	1,484,663	1,484,663	1,385,265	1,385,265
Unsecured loans from financial institutions:							
Ministry of Finance of Georgia – KfW	EUR	KfW reference rate + 4%	2027	253,047	253,047	247,322	247,322
Ministry of Finance of Georgia – EIB	EUR	Euribor+0.75%	2033	203,514	203,514	198,907	198,907
Ministry of Finance of Georgia – KFW	EUR	1%-1.5%	2025-2037	43,974	43,974	45,879	45,879
Ministry of Finance of Georgia – EBRD	EUR	Euribor+1%	2025-2028	162,850	162,850	164,494	164,494
Ministry of Finance of Georgia – ADB	USD	1%-1.5%	2044	124,929	124,929	116,604	116,604
Ministry of Finance of Georgia – KfW	EUR	2.2%	2025	73,937	73,937	73,869	73,869
Ministry of Finance of Georgia – IBRD	USD	World Bank's Reference rate plus variable rate	2038	139,711	139,711	125,367	125,367
Ministry of Finance of Georgia – IBRD	EUR	Variable interest rate	2044	496	496	-	-
Loan from MOF - (KfW New)	EUR	0.25-0.05%	2032	4,318	4,318	4,130	4,130
Unsecured loan from financial institutions	USD	Libor+5.95%	2020	127,015	127,015	239,593	239,593
Unsecured loans related parties	USD	Libor+6%	2023	20,614	20,614	-	-
Secured loans from financial institutions and related parties:							
Ministry of Finance of Georgia - IDA	USD	World Bank's lending treasury rates	2022	18,044	18,044	23,709	23,709
Ministry of Finance of Georgia - KfW	EUR	4%	2021	4,841	4,841	6,947	6,947
Secured loan from financial institution	EUR	5.30%	2026-2034	19,452	19,452	-	-
Secured loan from financial institution	USD	Libor+6%	2019	-	-	10,058	10,058
Secured loan from financial institution	USD	Libor+6%	2027	38,308	38,308	-	-
Secured loan from Credit Suisse	USD	Libor+1.25%	2026	80,968	80,968	85,594	85,594
Ministry of Finance of Georgia	EUR	7.50%	2029	32,335	20,655	30,640	30,640
Total interest-bearing liabilities				**3,549,941**	**3,543,360**	**3,427,528**	**3,429,998**

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 74,274 thousand as at 31 December 2019 (31 December 2018: GEL 76,717 thousand) (see note 9 (d)).

In 2018 GOGC signed loan agreement of EUR 150 million with KfW for financing construction of first underground gas storage in Georgia. Per the loan agreement GOGC will receive the EUR 150 million in 2 tranches. As at 31 December 2019 no tranche was withdrawn/utilized and GOGC paid management fee and commitment fee of EUR 1,350 thousand and EUR 27.5 thousand, respectively.

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 2019, the Group maintains a committed unused credit lines of GEL 146,708 thousand, GEL 465,387 thousand and USD 45,000 thousand (31 December 2018: GEL 239,220 thousand). 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

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 represented the

Event of Default under the Loan Agreement which gave 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.

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

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). For EBRD and KfW loans, respective covenant waivers have been received in December of 2019.

The management calculates the above financial covenant at the end of each year based on both, standalone financial information of EnergoTrans LLC and consolidated financial statements of Georgian State Electrosystem JSC prepared in accordance with IFRSs.

As at 31 December 2018 Georgian State Electrosystem JSC was in breach of the financial covenant as the ratio of current assets to current liabilities based on consolidated financial statement of Georgian State Electrosystem JSC prepared in accordance with IFRSs was less than 1.

As at 31 December 2018 the loan with the amount of GEL 125,367 thousand was classified as current in the consolidated statement of financial position.

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 2019 and 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 Group has classified the loan as short-term borrowings. However, for the date of the approval of the consolidated financial statements by the management, Credit Suisse has not requested repayment of the abovementioned amount. In 2020, the Group used the option to extend the principal repayment till September 2021 year and the new addendum of agreement with Credit Suisse no longer includes financial covenants clause (see note 2(b) and 28).

Changes of contractual terms

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

Extension of maturity of the loan from Ministry of Finance of Georgia, acting in a capacity of shareholder, till 2029 resulted in significant modification of contractual terms as a result of which the modification gain calculated between the original and new cash flows of financial instrument is recognized as an additional paid in capital at amount of GEL 11,475 thousand. (note 17(b)).

On 13 September 2019 EnergoTrans LLC agreed with the Ministry of Finance of Georgia to repay the principal amounts due in 2019 till the end of 2020; As a result of restructuring of loan terms with the Government of Georgia, there is no breach of contractual terms as at 31 December 2019. Late payment penalty of GEL 8,337 thousand (2018: GEL 4,961 thousand) was imposed by the Ministry of Finance of Georgia.

(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 2019	3,429,998	53,874	3,483,872
Proceeds from borrowings	91,803	-	91,803
Repayment of borrowings	(194,025)	-	(194,025)
Repayment of restructured liabilities	-	(17,000)	(17,000)
Total changes from financing cash flows	**(102,222)**	**(17,000)**	**(119,222)**
The effect of changes in foreign exchange rates	214,107	681	214,788
Interest expense	112,837	-	112,837
Interest expense capitalised as borrowing costs (see note 9 (a))	113,505	-	113,505
Unwinding of discount	-	4,825	4,825
Interest paid	(213,185)	-	(213,185)
Modification gain on financial liabilities (see note 17(b))	(11,680)	-	(11,680)
Total liability-related other changes	**215,584**	**5,506**	**221,090**
Balance at 31 December 2019	**3,543,360**	**42,380**	**3,585,740**

’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**

19. Restructured liabilities

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

Restructured liabilities represent the amounts originated before 2006, the repayments of which have been deferred due to the financial difficulties of Georgian State Electrosystem JSC. 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%.

20. Grants related to assets

’000 GEL	**2019**	**2018**
Balance at 1 January	110,545	112,728
Recognised in profit and loss	(4,988)	(4,971)
Received during the year	14	2,788
Balance at 31 December	**105,571**	**110,545**
Non-current	102,736	105,579
Current	2,835	4,966
	105,571	**110,545**

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

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

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

21. Trade and other payables

’000 GEL	**2019**	**2018**
Trade payables	142,071	94,366
Payable for non-current assets	127,772	193,677
Payables for construction works under BSTN project	30,039	32,365
Advances received from customers	19,657	14,699
Taxes other than on income	1,544	1,369
Other payables	44,653	46,286
	365,736	**382,762**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

22. 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. Management's estimate of the fair value of the unsecured bonds yielded a range of values approximately equal to the carrying amount. Although unsecured bonds are listed in London Stock Exchange, the market is not considered as active, as the participants are mostly institutional investors and turnover on the market is not high.

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 22(c));
- liquidity risk (see 22(d));
- market risk (see 22(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 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		**2019**	**2018**
Trade receivables	21	401,658	272,218
Other receivables	14	2,948	3,131
Loans receivable	13	4,508	2,838
Cash and cash equivalents	16	514,938	780,031
		924,052	**1,058,218**

(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 31%, 54%, 11% and 45% 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 (2018: 46%, 53%, 7% and respectively 42%).

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 expected credit 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	**2019**	**2018**
Domestic	383,007	232,627
CIS countries	18,651	39,591
	401,658	**272,218**

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

	Carrying amount	
’000 GEL	**2019**	**2018**
Gas distributors	239,010	92,024
Wholesale electricity customers	66,568	70,341
Electricity distributors	12,519	13,505
Railway transportation	24,144	39,641
Gas pipeline rentals	24,264	27,316
Other	35,153	29,391
	401,658	**272,218**

As at 31 December 2019 the Group had two customers whose balances exceeded 10% of total trade receivables related to gas distribution and rentals of gas pipeline (31 December 2018: two customers). The carrying value of these balances as at 31 December 2019 was GEL 202,339 thousand (31 December 2018: GEL 91,856 thousand) and GEL 24,264 thousand (31 December 2018: GEL 27,316 thousand), respectively. The Group's two most significant customers related to railway transportation account for GEL 9,051 thousand of the trade receivables carrying amount as at 31 December 2019 (31 December 2018: GEL 21,975 thousand).

Expected credit loss assessment for corporate customers

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 2019 and 31 December 2018:

’000 GEL	**2019**	**2019**	**2019**
Customer credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	360,902	-	360,902
Medium risk	39,179	5,081	44,260
High risk	-	212,055	212,055
Total gross carrying amount	**400,081**	**217,136**	**617,217**
Loss allowance	(4,826)	(210,733)	(215,559)
	395,255	**6,403**	**401,658**

’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.

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

’000 GEL	**2019**	**2018**
Balance at 1 January	**174,993**	**186,247**
Increase during the year	40,814	17,080
Net write off during the year	(248)	(28,334)
Balance at end of the year	**215,559**	**174,993**

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 2019 and 2018.

(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.

(v) Finance lease receivable

Balance of finance lease receivable represents unguaranteed residual value at the end of the lease term discounted at the interest rate implicit in the lease (see note 12). Consequently, management concluded that the latter is not bear credit risk and is outside of IFRS 9 impairment requirements, consequently no expected credit losses were recognised with respect to finance lease receivable.

(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 ensure, 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 or global pandemic.

As described in note 18, due to the breach of covenant, loans and borrowings from Credit Suisse were reclassified as current by the Group as at 31 December 2019. 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 the Group to remediate the breach of covenants by means of obtaining waivers from the lenders. In addition, in 2020 the Group used the option to extend the principal repayment till September 2021 year and the new addendum of agreement with Credit Suisse no longer includes financial covenants clause.

The Group has significant contractual commitments for the purchase and construction of property, plant and equipment (see note 25). 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 2019	**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	3,543,360	4,080,927	305,471	90,174	2,947,493	737,789
Restructured liabilities	42,380	50,218	19,000	-	31,218	-
Trade and other payables	325,807	325,807	325,807	-	-	-
	3,911,547	**4,456,952**	**650,278**	**90,174**	**2,978,711**	**737,789**

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**

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

(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 2019**	**CHF - denominated 2019**	**EUR - denominated 2019**	**USD - denominated 2018**	**CHF - denominated 2018**	**EUR – denominated 2018**
Cash and cash equivalents	222,805	133	7	338,710	17	11
Trade and other receivables	9,733	6,957	59	36,024	4,323	778
Loans receivable	4,087	-	-	2,838	-	-
Loans and borrowings	(2,756,275)	-	(787,085)	(2,657,810)	-	(772,188)
Restructured liabilities	(2,242)	-	(1,009)	(2,340)	-	(1,302)
Trade and other payables	(84,942)	(15)	(17,378)	(57,264)	-	(21,484)
Net exposure	**(2,606,834)**	**7,075**	**(805,406)**	**(2,339,842)**	**4,340**	**(794,185)**

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

in GEL	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
USD 1	2.8192	2.5345	2.8677	2.6766
CHF 1	2.8374	2.5910	2.9488	2.7268
EUR 1	3.1553	2.9913	3.2095	3.0701

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 2019	
USD (10% weakening)	(260,683)
CHF (10% weakening)	708
EUR (10% weakening)	(80,541)

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

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**	
	2019	**2018**
Fixed rate instruments		
Financial assets	411,711	678,880
Financial liabilities	(2,498,794)	(2,334,954)
	(2,087,083)	**(1,656,074)**
Variable rate instruments		
Financial liabilities	(1,044,566)	(1,095,044)
	(1,044,566)	**(1,095,044)**

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**
2019		
Variable rate instruments	(10,446)	10,446
Cash flow sensitivity	**(10,446)**	**10,446**
2018		
Variable rate instruments	(10,950)	10,950
Cash flow sensitivity	**(10,950)**	**10,950**

(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	**2019**	**2018**
Total liabilities	4,139,742	4,043,675
Less: cash and cash equivalents	(515,020)	(780,150)
Net debt	**3,624,722**	**3,263,525**
Total equity	**1,864,935**	**1,770,898**
Debt to capital ratio at 31 December	**1.94**	**1.84**

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.

23. 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 2019 amounted to GEL 175,185 thousand (31 December 2018: 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 19). 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	**2019**	**2018**
Non-Controlling Interest (NCI) Percentage	34%	34%
Non-current assets	128,151	129,105
Current assets	9,055	6,982
Non-current liabilities	(67,262)	(10,861)
Current liabilities	(10,866)	(40,958)
Net assets	(59,078)	(84,268)
Carrying amount of NCI	**(19,559)**	**(28,651)**
Revenue	12,174	-
Loss	(26,741)	(40,680)
Total comprehensive loss	**(26,741)**	**(40,680)**
Loss allocated to NCI	(9,092)	(13,832)
Cash flows used in operating activities	(13,016)	(33,931)
Cash flows used in investment activities	(14,707)	(19,130)
Cash flows from financing activities (dividends to NCI: nil)	24,374	18,707
Net decrease in cash and cash equivalents	**(3,349)**	**(34,354)**

24. Leases

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019 (for more details, please see Note 5).

(a) Leases a lessee

The Group does not have significant lease contracts where it acts as a lessee as at 1 January 2019 and 31 December 2019. Consequently, the Group used practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group did not recognise right-of-use assets and liabilities for leases of low value assets.

(b) Leases a lessor

(i) Operating lease

The Group also leases out gas pipeline and related infrastructure, its own property, to a related party, Georgian Gas Transportation Company LLC. The rent agreement is non-cancellable and is valid until 1 January 2021. The Group has classified gas pipeline lease as operating one, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets (see Note 6). Rental income recognised by the Group during 2019 was GEL 43,059 thousand (2018: GEL 42,053 thousand).
The Group also leases out its wagons, other buildings, containers, locomotives and fittings. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Rental income recognised by the Group during 2019 was GEL 16,090 thousand (2018: GEL 11,297 thousand) and included in revenue. See Note 5.

The following table sets out a maturity analysis of lease payments under non-cancellable period of a lease contracts entered into as at 31 December 2019, showing the undiscounted lease payments to be received after the reporting date.

’000 GEL	
2019 – Operating leases under IFRS 16	
Less than one year	4,946
Between one and five years	7,762
More than five years	23,178
	35,886
2018 – Operating leases under IAS 17	
Less than one year	5,400
Between one and five years	4,610
More than five years	17,753
	27,763

(ii) Finance lease

The Group leases out oil pipeline and 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 classified oil pipeline lease as a finance lease under IAS 17.

The Group has recognized the finance lease receivable at the date when the title of the pipelines was transferred to the Group. The finance lease receivable is the present value of the assets’ unguaranteed residual value at the end of the lease term (see Note 12).

The Group did not make any adjustments on transition to IFRS 16 for oil pipeline lease, in which it acts as a lessor.

Contingent rent related to oil transportation recognized in the consolidated statement of profit or loss and other comprehensive income during 2019 amounted to GEL 21,168 thousand (2018: GEL 18,367 thousand).

25. Capital commitments

As at 31 December 2019, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 331,617 thousand (2018: GEL 333,188 thousand) mainly relating to the Main Line Modernization project of GEL 91,152 thousand (2018: GEL 109,113 thousand) and Tbilisi Bypass project of GEL 240,012 thousand (2018: GEL 222,203 thousand, increased only due to foreign exchange rate fluctuation).

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 and for purchasing of power transformer with outstanding capital commitments as at 31 December 2019 of GEL 8,802 thousand, GEL 45,030 thousand and GEL 2,266 thousand, respectively (2018: GEL 16,825 thousand and GEL 220,576 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 2019 the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 783,315 thousand (31 December 2018: GEL 823,398 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 2019 the Group had long-term contractual commitments to purchase equipment for the construction and rehabilitation of energy-transmission lines for GEL 138,656 thousand (2018: GEL 154,353 thousand). Capital commitments are attributable to various project-related construction works and will be funded by undisbursed loan facilities from international financial institutions.

26. 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

Frontera case:

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.

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. Georgian Oil and Gas Corporation JSC and SAOG consider the counterclaim to be without merit and contested it 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.

In 2019, Frontera applied to the arbitration tribunal with a statement on voluntary withdrawal of the counterclaims. Georgian Oil and Gas Corporation JSC and SAOG objected Frontera's request but later withdrew their opposition to the proposed withdrawal.

On 17 April 2020 the arbitration tribunal rendered its final award as to the matters in dispute. The arbitration tribunal has upheld Georgian Oil and Gas Corporation JSC's and SAOG`s interpretation of the PSA as it defines the parties' respective rights and obligations. Among the issues decided by the Arbitration Tribunal, it ruled that the respondent - Frontera committed material breach of the PSA by its refusal to relinquish and return to the Government of Georgia the exploration area. According to the award Frontera and Frontera Resources US LLC are obligated to reimburse the amount of the mineral usage tax paid by Georgian Oil and Gas Corporation JSC on behalf of Frontera as well as the costs incurred by Georgian Oil and Gas Corporation JSC with regard to the arbitration proceedings. The arbitral award effectuates withdrawal of and dismissed the counterclaims that had been filed by Frontera. The arbitral award is final and binding on the parties, in accordance with its terms and the PSA.

Currently, Georgian Oil and Gas Corporation JSC and SAOG are considering further steps aimed at enforcement of the award and implementation of the rights and remedies granted under the PSA.

(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 7 contracts (2018: 48 contracts) have been initiated electric power stations are under construction as of 31 December 2019 and planning to be finalised in 2020. In 2019 construction of eleven power stations were finalized (2018: five 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.

27. Related parties

(a) Parent and ultimate controlling party

As at 31 December 2019 and 2018 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	**2019**	**2018**
Salaries and bonuses	**5,634**	**5,340**

(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 Government of Georgia 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**	
	2019	**2018**
Entities controlled or significantly influenced by the State:		
Rent of gas pipelines	43,059	42,053
Transmission and dispatching of electricity	-	5
Electricity generation	8,095	34,022

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

(ii) Expenses

’000 GEL	**Transaction value**	
	2019	**2018**
Entities and agencies controlled or significantly influenced by the State:		
Cost of gas	6,466	5,357
Purchase of balancing electricity and guaranteed capacity	1,112	4,973

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**	
	2019	**2018**	**2019**	**2018**
Loans received:				
Shareholder	1,974	-	20,614	-
Ministry of Finance of Georgia	20,804	20,940	1,050,317	1,037,868

The interest rates and maturities of loans from related parties are disclosed in note 18 (a).

(iv) Restructured liabilities

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

28. Subsequent events

In September of 2020, the Group used its contractual option to extend the principal repayment of the loan obtained from Credit Suisse till September 2021. The principal repayment was originally due in September 2020. The loan interest increased to Libor + 6.5% per annum. Termination amounts paid by the Group to Credit Suisse on loan extension date amounted USD 1,491 thousand.

The construction of Gardabani II Combined-Cycle Thermal Power Plant was finalized in December 2019. Electricity generation license was issued to Gardabani II by Georgian National Energy and Water Supply Regulating Commission on 25 March 2020 and the Plant transferred from testing regime to fully operational.

In April 2020 Georgian Oil and Gas Corporation JSC signed amendment to the agreement with main customer SOCAR Gas Export-Import. Based on this amendment social gas sales prices were renegotiated for 2020 and lower sales prices were agreed for 2020.

In April 2020 Georgian Oil and Gas Corporation JSC and a Russian state owned company - Gazprom Export LLC entered into agreement of amendments #1 to the Gas Supply Contract dated 13 March 2019 (“Gazprom GSA”). The amendment set forth the parties’ agreement on a reduction of natural gas purchase price, which has retroactive force and is applicable from 1 February 2020 through 31 December 2020.

In September of 2020, Georgian Oil and Gas Corporation JSC signed a loan agreement with EBRD to refinance USD 250 million Eurobonds maturing in April 2021. The principal amount of the loan is EUR 217 million with the interest rate of Eurolibor + 3.3% and the term of 10 years.

Changes in the Group structure

According to the decision issued on 28 February 2020 by the Government of Georgia, the Government of Georgia reduced the Group’s equity by transferring the ownership (100% of shares) of Georgia State Electrosystem JSC and Electricity System Commercial Operator JSC to the Government of Georgia (Ministry of Economy and Sustainable Development of Georgia).

50% shares in Sakrusenergo JSC, obtained by the Group under common control transaction in 2019, was fully returned back to the Government of Georgia in February 2020.

In June 2020, liquidation procedures began for Clinics Development Company LLC (‘CDC LLC’), after which Group’s 100% ownership in the investment will be fully cancelled. Clinics Development Company LLC’s subsidiaries, along with the land and buildings on which they operate, were fully transferred to the Government of Georgia according to the decision issued on 06 February 2020 by the Government of Georgia. The sole purpose of CDC LLC was to manage the subsidiary hospitals and the related real estate.

In July 2020, public auction was held as part of the bankruptcy proceedings of the Fund’s equity accounted investee, Vanric Agro JSC (40.48% shareholding of the Fund) to sell Vanric Agro JSC’s assets. The winner of the public auction was a local company Efko LLC, which entered into a loan agreement with the Fund following the factoring agreement formed in 2019. The principal amount of the loan is USD 2.5 million, which represents loan receivable for the Fund.

In September 2020, the Fund held public auction to fully sell its share of interest (24.53%) in Telasi JSC. The winner of public auction was a local company Best Energy Group LLC, which acquired JSC Telasi’s shares for approximately USD 10,500 thousand.

In September 2020, one of the Fund’s equity accounted investees, Panex JSC, fully redeemed its shares (48.17%) from the Fund for USD 2,055 thousand.

Outbreak of COVID-19

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

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

COVID-19's impact on the Group is disclosed in note 2(b).

29. Basis of measurement

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

30. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the adoption of IFRS 16 from 1 January 2019 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

Information about the Group's accounting policies relating to contracts with customers is provided in Note 6.

(i) Rent of pipelines

Operating lease:
The Group rents its gas pipeline and related infrastructure to Georgian Gas Transportation Company LLC. The rent agreement is non-cancellable and is valid until 1 January 2021.

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

Finance lease:

The Group leases out oil pipeline and receives a transit fee for each barrel of oil transported. Variable lease payments are 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) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iv) Sale of electricity

Revenue from the sale of electricity, including export of electricity, in the course of ordinary activities is measured at the fair value of the consideration received or receivable. No returns, trade discounts and volume rebates are made. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of electricity can be estimated reliably, there is no continuing management involvement with the electricity sold, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

For sales of balancing electricity, transfer usually occurs when the electricity is delivered to the point at the electricity grid system from where electricity is distributed into power lines and is considered to be received by the customer.

Since September 2014, due to changes in relevant legislation, the Group acts as a principal in the purchase and sale of Guaranteed Capacity and therefore recognises revenue and respective cost of sales. The Group charges no commission on the purchase and sale of the Guaranteed Capacity. For the purchase and sale of the Guaranteed Capacity before 1 September 2014 the Group acted in the capacity of an agent rather than as the principal in the purchase and sale of Guaranteed Capacity transactions.

(v) Services

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

(vi) Government grants

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

(c) Finance income and costs

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

Finance costs comprise interest expense on financial liabilities measured at amortised cost, unwinding of the discount on restructured liabilities, foreign currency losses and impairment losses recognised on trade receivables and other financial assets.

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.

(d) 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.

(e) Short-term employee benefits

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

(f) 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.

(g) 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.

(h) 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.

(i) 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	1 - 25 years

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

(j) 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.

(k) 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.

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

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

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

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

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

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

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

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

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

(iv) 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.

(v) 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.

(l) 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 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*.

(m) Impairment

(i) Non-derivative financial assets

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-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, 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 reduce 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.

(n) Dividends

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

(o) 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.

(p) Leases

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

Policy applicable from 1 January 2019

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

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

(i) As a lessee

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

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

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

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future ease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

A lease term reflects the Group's reasonable estimate of the period during which the underlying asset will be used. In determining the lease term the Group bases its judgement on the broader economics of the contract and the underlying asset, rather than the contractual terms only and allows factors like economic penalties, legislative approach to renewal of the lease and the future business plans of the Group to be effectively captured in the estimate of the lease term.

The Group uses practical expedient not to recognise right-of-use assets and liabilities for leases with a term ending less than 12 months and for leases of low-value assets.

(ii) As a lessor

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

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

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

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

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

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

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

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

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;

- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

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

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

(ii) As a lessor

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

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

31. 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 Fund plans to adopt these pronouncements when they become effective.

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

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*
- *IFRS 17 Insurance Contracts.*
- *Classification of liabilities as current or non-current (Amendments to IAS 1).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *IFRS 14 Regulatory Deferral Accounts.*