Partnership Fund JSC

Consolidated Financial Statements for the year ended 31 December 2020

Contents

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Independent Auditors' Report

To the Supervisory Board of Patnership Fund JSC

Opinion

We have audited the consolidated financial statements of Partnership Fund JSC (the "Fund") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 the information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Irina Gevorgyan

KPMG Georgia LLC
Tbilisi, Georgia
22 December 2021

LIMITED LIABILITY COMPANY KPMG GEORGIA 404437695

’000 GEL	**Note**	**31 December 2020**	**31 December 2019 restated***	**1 January 2019 restated***
Assets				
Property, plant and equipment	10	3,295,897	4,355,898	4,045,310
Investment property	11	103,457	134,864	134,864
Prepayments for non-current assets	12	64,758	158,588	162,749
Investments in equity accounted investees	13	64,182	114,084	112,726
Finance lease receivable	14	79,962	73,134	67,854
Loans receivable	15	9,354	2,563	2,580
Trade receivables	17	14,514	15,718	18,959
VAT receivable		-	1,143	6,137
Other non-current assets	12	52,866	87,254	97,120
Non-current assets		**3,684,990**	**4,943,246**	**4,648,299**
Loans receivable	15	2,074	1,945	258
Inventories		61,861	63,486	54,792
Prepayments and other current assets	16	101,447	115,992	88,951
Trade receivables	17	275,048	385,940	253,259
Current tax assets		8,705	11,232	11,011
Cash and cash equivalents	18	466,887	514,747	780,150
Current assets		**916,022**	**1,093,342**	**1,188,421**
Total assets		**4,601,012**	**6,036,588**	**5,836,720**
Equity				
Share capital	19	100,000	100,000	100,000
Owner contributions		2,145,965	2,749,005	2,725,876
Accumulated deficit		(832,509)	(929,592)	(1,026,085)
Equity attributable to owners of the Company		**1,413,456**	**1,919,413**	**1,799,791**
Non-controlling interests		12,972	19,559	28,651
Total equity		**1,426,428**	**1,938,972**	**1,828,442**
Liabilities				
Loans and borrowings	20	1,759,498	3,204,999	2,439,907
Advance received from the Government of Georgia		46,594	46,594	46,594
Restructured liabilities		-	19,594	40,648
Grants related to assets		-	102,736	105,579
Contract liability		-	4,621	-
Payables for non-current assets	21	53,535	21,551	55,146
Non-current liabilities		**1,859,627**	**3,400,095**	**2,687,874**
Loans and borrowings	20	1,080,242	290,132	945,467
Restructured liabilities		-	26,157	18,383
Trade and other payables	21	209,946	346,917	331,686
Liabilities to the Government of Georgia	19(c)	4,734	4,896	5,317
Provisions		19,491	18,967	14,517
Current tax liabilities		544	7,617	68
Grants related to assets		-	2,835	4,966
Current liabilities		**1,314,957**	**697,521**	**1,320,404**
Total liabilities		**3,174,584**	**4,097,616**	**4,008,278**
Total equity and liabilities		**4,601,012**	**6,036,588**	**5,836,720**

*The comparative information is restated on account of correction of errors. 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**	**2020**	**2019 restated***
Continuing operations			
Revenue	7	1,496,776	1,293,909
Operating expenses	8	(921,935)	(831,680)
Wages and other employee benefits		(207,803)	(211,511)
Depreciation and amortisation		(147,941)	(137,343)
Share of loss of equity accounted investees	13	(24,799)	(2,154)
Other income		31,000	38,056
Impairment loss on trade receivables		(12,174)	(36,397)
Impairment loss on investments in equity accounted investees		-	(2,546)
Results from operating activities		**213,124**	**110,334**
Finance income	9	47,679	39,360
Finance costs	9	(528,718)	(225,583)
Net finance costs		**(481,039)**	**(186,223)**
Loss before income tax		**(267,915)**	**(75,889)**
Income tax expense		(2,207)	(1,672)
Loss from continuing operations		**(270,122)**	**(77,561)**
Profit from discontinued operation, net of tax	6	74,290	164,962
(Loss)/profit and total comprehensive (loss)/income for the year		**(195,832)**	**87,401**
(Loss)/profit and total comprehensive (loss)/income attributable to:			
Owners		(189,245)	96,493
Non-controlling interests		(6,587)	(9,092)
		(195,832)	**87,401**

*The comparative information is restated on account of correction of errors, see Note 5, and discontinued operations, see Note 6.

These consolidated financial statements were approved by management on 22 December 2021 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	2020	2019 restated*
Continuing operations			
Revenue	7	1,496,776	1,293,909
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'000 GEL	Equity attributable to shareholders: Share capital	Owner contributions	Accumulated deficit	Total	Non-controlling interests	Total equity
Balance at 1 January 2019, as previously reported	100,000	2,725,876	(1,083,629)	1,742,247	28,651	1,770,898
Impact of correction of errors	-	-	57,544	57,544	-	57,544
Balance at 1 January 2019* (restated)	100,000	2,725,876	(1,026,085)	1,799,791	28,651	1,828,442
Profit and total comprehensive income for the year (restated)	-	-	96,493	96,493	(9,092)	87,401
Transactions with owners, recorded directly in equity						
Owner contributions (see note 19(b))	-	23,129	-	23,129	-	23,129
Balance at 31 December 2019* (restated)	**100,000**	**2,749,005**	**(929,592)**	**1,919,413**	**19,559**	**1,938,972**
Balance at 1 January 2020	100,000	2,749,005	(929,592)	1,919,413	19,559	1,938,972
Loss and total comprehensive loss for the year	-	-	(189,245)	(189,245)	(6,587)	(195,832)
Transactions with owners, recorded directly in equity						
Owner contributions (see note 19(b))	-	30,267	-	30,267	-	30,267
Withdrawal of non-cash assets	-	(633,307)	286,328	(346,979)	-	(346,979)
Balance at 31 December 2020	**100,000**	**2,145,965**	**(832,509)**	**1,413,456**	**12,972**	**1,426,428**

*The comparative information is restated on account of correction of errors. See Note 5

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 69.

'000 GEL	**Note**	**2020**	**2019 restated***
Cash flows from operating activities			
(Loss)/profit for the year		(195,832)	87,401
Adjustments for:			
Depreciation and amortisation		157,782	181,889
Income tax expense		2,207	1,710
Net finance costs		441,935	237,951
Share of loss of equity accounted investees		24,799	2,154
Impairment loss on trade receivables		12,174	38,688
Impairment loss on property, plant and equipment		-	5,038
Impairment loss on investments in equity accounted investees		-	2,546
Income from amortization of grants		-	(4,989)
Gain on disposal of property, plant and equipment		(3,641)	(5,998)
Gain on disposal of investments		(6,404)	(6,845)
Non-cash item		(162)	(7,364)
		432,857	**532,181**
Changes in:			
Inventories		(7,675)	(7,411)
Trade receivables and prepayments and other current assets		(102,082)	(172,964)
Trade and other payables		11,584	16,502
Tax payables		(4,101)	9,741
Provisions		(4,605)	9,071
Cash flows from operations before income taxes and interest paid		**325,978**	**387,120**
Interest paid		(187,490)	(211,427)
Income tax paid		(1,693)	(1,725)
Net cash from operating activities		**136,795**	**173,968**
Cash flows from investing activities			
Interest received		25,907	46,023
Issue of loans		-	(1,069)
Repayment of loans issued		125	125
Acquisition of property, plant and equipment and changes in prepayments for non-current assets and other non-current assets		(126,553)	(408,130)
Proceeds from sale of property, plant and equipment		3,529	16,614
Acquisition of investments in equity accounted investees		(8,922)	(11,581)
Consideration received from sale of equity accounted investees		40,431	27,528
Disposal of non-significant subsidiaries		(147)	-
Disposal of discontinued operations		(114,934)	-
Net cash used in investing activities		**(180,564)**	**(330,490)**
Cash flows from financing activities			
Proceeds from borrowings		13,144	90,844
Repayment of borrowings		(33,590)	(184,962)
Repayment of restructured liabilities		-	(18,105)
Prepayment of borrowings		-	(8,827)
Repayment of loan commitment fees		(8,225)	(4,455)
Proceeds from grants		-	17
Repayment of lease liabilities		-	(814)
Net cash used in financing activities		**(28,671)**	**(126,302)**
Net decrease in cash and cash equivalents		**(72,440)**	**(282,824)**
Cash and cash equivalents at 1 January		514,747	780,150
Effect of movements in exchange rates on cash and cash equivalents		24,580	17,421
Cash and cash equivalents at 31 December	18	**466,887**	**514,747**

*The comparative information is restated on account of correction of errors. 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 COVID-19 coronavirus pandemic has further increased uncertainty in the business environment.

COVID-19 outbreak neither has nor is anticipated to have immediate significant adverse impact on the Group's financial position.

The management cannot preclude the possibility that extended lockdown periods, and escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Fund in the medium and longer terms. The Fund also considers negative development scenarios and is ready to adapt its operational plans accordingly.

(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 import 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. 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 2012 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. However according to the decision issued on 28 February 2020 by the Government of Georgia, the Government of Georgia reduced the Fund's equity by transferring the ownership (100% of shares) of Georgian State Electrosystem JSC and Electricity System Commercial Operator JSC to the Government of Georgia (Ministry of Economy and Sustainable Development of Georgia).

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 2020 and 2019 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2020 Ownership/ voting	2019 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	Georgia	100%	100%	Property Management and development
GR Logistics and 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	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	0%	100%	Electricity dispatching and transmission
EnergoTrans LLC	Georgia	0%	100%	Electricity transmission
Karcal Energy JSC	Turkey	0%	100%	Electricity transmission

Name	Country of incorporation and operation	2020 Ownership/ voting	2019 Ownership/ voting	Principal activities
Georgian Energy Exchange JSC	Georgia	0%	50%	Operation of organized electricity market
Electricity System Commercial Operator JSC	**Georgia**	0%	**100%**	**Sale and purchase of electricity**
Georgian Energy Exchange JSC	Georgia	0%	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	0%	48.17%	Building materials industry
Telasi JSC	Georgia	0%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi
Clinics Development Company LLC and its subsidiaries				
Clinics Development Company LLC	Georgia	0%	100%	Management of healthcare provider subsidiaries
Tbilisi Children's Infection Clinical Hospital LLC	Georgia	0%	100%	Healthcare services
Universal Medical Center LLC	Georgia	0%	100%	Healthcare services
Nikoloz Kipshidze Central University Clinic LLC	Georgia	0%	100%	Healthcare services
Vanric Agro JSC	Georgia	0%	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%	33.43%	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

Name	Country of incorporation and operation	2020 Ownership/ voting	2019 Ownership/ voting	Principal activities
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%	8.07%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia
Caucasian SUS Heritage LLC	Georgia	49.90%	49.90%	Hog farm
Nenskra JSC	Georgia	100%	100%	Construction and operation of hydroelectric power plant
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%	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, the 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.

2. Basis of accounting

Statement of compliance

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

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 19(e) – Equity – Distribution to owner;
- Note 10(c) – impairment of property, plant and equipment;
- Note 22(c) – impairment allowances for trade and other receivables;
- Note 31(h) (iii) – useful lives and residual values of property, plant and equipment.
- Note 10 (a) – suspension of capitalization of borrowing costs

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 10(c) – impairment of property, plant and equipment: key assumptions underlying recoverable amounts, including the recoverability of property and equipment and sensitivity analysis;
- Note 26– recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

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. Correction of errors

(i) Loans and borrowings and restructured liabilities – Georgian State Electrosystem JSC

From 2004, due to continuous substantial operating losses and sustained severe liquidity problems, the management of Georgian State Electrosystem JSC announced insolvency. On 18 July 2008, representative of Georgian State Electrosystem JSC, filed a statement with the Civil Cases Panel of the Tbilisi City Court, requesting to initiate an insolvency case against Georgian State Electrosystem JSC. By the decision of the Civil Cases Board of the Tbilisi City Court on 23 July 2008, the application of insolvency case for Georgian State Electrosystem JSC was accepted in the proceedings. According to the decision of the Civil Cases Board of the Tbilisi City Court of 15 September 2008, the rehabilitation process was started. Rehabilitation Plan was subject of periodic amendments either from the Ministry or from Georgian State Electrosystem JSC side. The main purpose of the rehabilitation plan was organizational, financial and technical rehabilitation of Georgian State Electrosystem JSC. The plan was set up for 15 years. The plan has included the schedule for the repayment of the liabilities existing at rehabilitation date. Based on court decision of October and November 2020 creditors with total balance of GEL 13 million were written off. The Georgian State Electrosystem JSC has left the rehabilitation plan after the settlement of all liabilities within the plan.

In 2020, due to the positive changes in the Georgian State Electrosystem JSC's operations, management had decided to close the rehabilitation plan. In the process of reconciliation of balances with the Ministry of Finance the Group has identified following:

- Based on the article 29, Paragraph 6 of the Law of Georgia on Insolvency Proceedings, all claims must be reflected in the national currency.
- Based on article 46, Paragraph 4 - Rehabilitation plan: The rehabilitation plan shall determine the accrual of interest on debts and its payment.
- According to Rehabilitation plan, article -7.2 Payables included in Rehabilitation Plan should be recorded in GEL and no interest expense should be accrued regarding those liabilities.

In practice, after the sign off of rehabilitation plan Georgian State Electrosystem JSC has not converted loans and restructured liabilities in national currency (GEL) and has not ceased interest expense accrual for loans which it had on the balance at point of entering rehabilitation plan.

As a consequence, balances of the restructured liabilities and loans and borrowings were overestimated in previously issued financial statements.

These errors have been corrected in these consolidated financial statements by adjusting the comparative amounts of restructured liabilities and loans and borrowings, as well as recognising prepayments for overpaid interest and principal. In addition respective interest expense and foreign exchange gain or loss have been eliminated from the comparative finance costs and opening accumulated losses.

(ii) Change in contract terms of EnergoTrans LLC's loans

During 2020, EnergoTrans LLC discovered errors in the accounting for the change of contractual terms of the loans from certain financial institution during 2019. Consequently, finance income and costs were understated by GEL 10,248 thousand and GEL 711 thousand in the prior period respectively, while the related liabilities were overstated by GEL 9,537 thousand as at 31 December 2019.

In these consolidated financial statements these errors have been corrected for the comparative period.

(iii) Property and equipment, intangible assets and inventories - Georgian State Electrosystem JSC

During 2020, the Group discovered that intangible assets presented in other non-current assets had been incorrectly accounted as CIP balance of property and equipment for several years. As a result of correction, intangible assets were increased and property and equipment was decreased by GEL 3,435 thousand. The change did not have any effect on depreciation expense of the Group.

During 2020 the Group has reconsidered the presentation of assets and classified some items of property and equipment as other non-current assets. The change in accounting also had effect on inventories as part of assets was accounted as such. The change had effect on items as at 1 January 2019 and 31 December 2019. As a result of the change as at 1 January 2019 and 31 December 2019 GEL 6,240 thousand and GEL 7,681 thousand were reclassified to other non-current assets from property and equipment and GEL 5,789 thousand and GEL 5,705 thousand from inventories respectively. The assets reclassified are spare parts in nature which in the future will be used for capital repair of property and equipment or will be used on repair works needed for proper work on transmission lines.

(iv) Other non-current assets and trade and other payables - Georgian State Electrosystem JSC

During 2019 the Group together with Electricity System Commercial Operator (ESCO) has established new entity Georgian Energy Exchange LLC where it had owning of 50%. As at 31 December 2019 the Group has consolidated Georgian Energy Exchange LLC. In 2020 management made detailed analysis of accounting of the entity and concluded that it should have been recognised as an associate and this should have been done initially form point of establishing the entity. Due to this fact the Group has restated numbers as at 31 December 2019 to remove consolidation entries and to record investments in the consolidated statement of financial position using equity accounting under other non-current assets.

(v) Consideration payable to customer (omission) – Georgian Oil and Gas Corporation JSC

During the preparation of 2020 consolidated financial statements, the Group has discovered that the consideration payable to the main customer of gas sales related to year 2019 was not treated correctly as a reduction in revenue and no corresponding financial liability has been recognized in prior year consolidated financial statements. The management concluded that all the conditions for the recognition of the liability were met as at 31 December 2019 and the information regarding compensation payable to customer was available before the date when prior year consolidated financial statements were authorized for issue. As a consequence, the balance of trade and other payables has been understated by GEL 6,833 thousand as at 31 December 2019 and the amount of revenue has been overstated by GEL 6,833 thousand for 2019 in the previously issued consolidated financial statements.

(vi) Property, plant and equipment (capitalization of general borrowing costs) – Georgian Oil and Gas Corporation JSC

During preparation of 2020 consolidated financial statements the Group discovered that general borrowing cost related to construction and rehabilitation of pipelines was not capitalized and part of the general borrowing cost related to construction of Gardabani II TPP was capitalized incorrectly in prior year financial statements . As a result, balance of property, plant and equipment was understated by GEL 7,440 thousand as at 31 December 2019 and finance costs were overstated by GEL 1,286 thousand for 2019 in the previously issued consolidated financial statements.

(vii) Property, Plant and equipment (depreciation) – Georgian Oil and Gas Corporation JSC

During preparation of 2020 consolidated financial statements the Group discovered that borrowing costs capitalized on Group level on construction of Gardabani TPP and Gardabani TPP 2 were not depreciated. As a result, balance of property, plant and equipment was overstated by GEL 1,756 thousand as at 31 December 2019 and depreciation expenses were understated by GEL 409 thousand for 2019, in the previously issued consolidated financial statements.

(viii) Classification of spare parts - Georgian Oil and Gas Corporation JSC

During preparation of 2020 consolidated financial statements, Group discovered that part of the spare parts met definition of property, plant and equipment, including the requirement to be used over more than one period, were incorrectly classified as inventory. As a consequence, balances of property, plant and equipment have been understated by GEL 16,222 thousand as at 31 December 2019 and the balances of inventories have been overstated by GEL 16,222 thousand as at 31 December 2019 in previously issued consolidated financial statements.

(ix) Component accounting - Georgian Oil and Gas Corporation JSC

During preparation of 2020 consolidated financial statements, Group discovered that major overhaul costs related to wings of gas turbines, required regularly in every 5 -8 years were not accounted as a separate component and was not depreciated separately from the main asset. As a consequence, balances of property, plant and equipment have been overstated by GEL 10,764 thousand as at 31 December 2019 and Depreciation has been understated by GEL 2,401 thousand for 2019 in the previously issued consolidated financial statements.

(x) Penalty accrual cut-off – Georgian Oil and Gas Corporation JSC

During the preparation of 2020 consolidated financial statements the Group discovered that penalty imposed to the main counterparty related to construction of TPP (Gardabani 2), and related correction of respective payable balance, attributable to year 2019 was not accounted in the correct period. As a consequence, balance of trade and other payables has been overstated by GEL 7,133 thousand as at 31 December 2019, other income has been understated by GEL 7,364 thousand for 2019 and finance costs have been overstated by GEL 231 thousand for 2019 in the previously issued consolidated financial statements. Generally the Group recognizes income from penalties on an accrual basis when the Group has the legal right to request the payment or offset with payables and when the future receipt is reasonably certain .

(xi) Operating expenses – Georgian Oil and Gas Corporation JSC

During the preparation of 2020 consolidated financial statements the Group discovered that in 2019 received invoice amounted to GEL 4,069 thousand related to the services provided by Hogal Lovells International LLP during 2018 was recognised in the consolidated statement of profit or loss and other comprehensive income for 2019. In preparing these consolidated financial statements the management decided to correct comparative information for the invoice amount by reducing operating expenses for 2019 and increasing the balance of accumulated losses and other payables as at 1 January 2019 accordingly.

(xii) Classification of pyables for non-current assets – Georgian Railway JSC

During the preparation of 2020 consolidated financial statements the Management reconsidered its right under the construction contract for Modernisation Project to defer the payment beyond 12 months. The Management determined that as at 31 December 2019 and 1 January 2019 it has an unconditional right to defer the payment of GEL 21,551 thousand and GEL 55,146 thousand, respectively, for over 1 year. The Management re-presented the balance sheet as at those dates in these consolidated financial statements to show these amounts as non-current liabilities.

Consolidated statement of financial position

'000 GEL	Impact of correction of error		
1 January 2019	**As previously reported**	**Adjustments**	**As restated**
Property, plant and equipment	4,049,472	(4,162)	4,045,310
Other non-current assets	81,655	15,465	97,120
Inventories	69,655	(14,863)	54,792
Prepayments and other current assets	63,244	25,707	88,951
Total assets	**5,814,573**	**22,147**	**5,836,720**
Loans and borrowings	3,429,998	(44,624)	3,385,374
Restructured liabilities	53,874	5,157	59,031
Payables for non-current assets	-	55,146	55,146
Trade and other payables	382,762	(51,076)	331,686
Total liabilities	**4,043,675**	**(35,397)**	**4,008,278**
Accumulated deficit	(1,083,629)	57,544	(1,026,085)
Total equity	**1,770,898**	**57,544**	**1,828,442**

'000 GEL	Impact of correction of error		
31 December 2019	**As previously reported**	**Adjustments**	**As restated**
Property, plant and equipment	4,358,883	(2,984)	4,355,898
Other non-current assets	63,972	23,282	87,254
Inventories	85,622	(22,136)	63,486
Prepayments and other current assets	81,902	34,090	115,992
Adjustments for other items (VAT and cash and cash equivalents)	516,231	(341)	515,890
Total assets	**6,004,677**	**31,911**	**6,036,588**
Loans and borrowings	3,543,360	(48,229)	3,495,131
Restructured liabilities	42,380	3,371	45,751
Payables for non-current assets	-	21,551	21,551
Trade and other payables	365,736	(18,819)	346,917
Total liabilities	**4,139,742**	**(42,126)**	**4,097,616**
Accumulated deficit	(1,003,629)	74,037	(929,592)
Total equity	**1,864,935**	**74,037**	**1,938,972**

Consolidated statement of profit or loss and other comprehensive income

'000 GEL	Impact of correction of error		
For the year ended 31 December 2019	**As previously reported**	**Adjustments**	**As restated**
Revenue	1,300,742	(6,833)	1,293,909
Operating expenses	(835,749)	4,069	(831,680)
Depreciation and amortization	(134,533)	(2,810)	(137,343)
Other income	30,992	7,064	38,056
Finance costs	(226,638)	1,055	(225,583)
Profit from discontinued operation, net of tax	150,914	13,948	164,862
Profit and total comprehensive income for the year	**70,908**	**16,493**	**87,401**

Consolidated statement of cash flows

'000 GEL	Impact of correction		
31 December 2019	**As previously reported**	**Adjustments**	**As restated**
Net cash from operating activities	177,831	(3,865)	173,966
Net cash used in investing activities	(335,665)	5,175	(330,490)
Net cash used in financing activities	(124,677)	(1,625)	(126,302)
Total	**(282,511)**	**(315)**	**(282,826)**

All changes are related to adjustments on the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income above. GEL 213 thousand is cash attributable to Georgian Energy Exchange LLC.

6. Discontinued operation

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

Above-mentioned subsidiaries were not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of profit or loss and OCI has been re-presented to show the discontinued operations separately from continuing operations.

(a) Results of discontinued operation

'000 GEL	**2020**	**2019**
Revenue	149,295	800,741
Elimination of inter-group revenue	(5,760)	(31,233)
External revenue	**143,535**	**769,508**
Expenses	(139,106)	(712,416)
Elimination of inter-group expenses	30,013	151,229
External expense	**(109,093)**	**(561,187)**
Other income	744	8,407
Results from operating activities	**35,186**	**216,728**
Net finance income/(costs)	39,104	(51,728)
Profit before income tax	**74,290**	**165,000**
Income tax expense	-	(38)
Profit from discontinued operations, net of tax	**74,290**	**164,962**

(b) Cash flows from/(used in) discontinued operations

'000 GEL	**2020**
Net cash from operating activities	15,966
Net cash used in investing activities	(2,934)
Net cash used in financing activities	(2,894)
Effect of exchange rate fluctuations on cash and cash equivalents	(323)
Net cash flows for the year	**9,815**

(c) Effect of disposal on the financial position of the Group

'000 GEL	2020
Property, plant and equipment	(994,531)
Prepayment for non-current assets	(5,787)
VAT receivable	(1,141)
Other non-current assets	(33,697)
Inventory	(9,369)
Prepayments and other current assets	(35,286)
Trade receivables	(108,587)
Cash and cash equivalents	(114,934)
Loans and borrowings	964,040
Restructured liabilities	45,789
Grants related to the assets	106,000
Trade and other payables	124,719
Current tax liabilities	1,989
Net assets and liabilities	**(60,795)**
Cash and cash equivalents disposed of	(114,934)
Net cash outflows	**(114,934)**

7. Revenue

'000 GEL	2020	2019 (restated)
Revenue from electricity		
Revenue from contracts with customers		
Electricity generation	308,982	105,130
Total revenue from electricity	**308,982**	**105,130**
Revenue from gas and oil sales and pipelines		
Revenue from contracts with customers		
Sales of gas	585,093	569,290
Income from crude oil	9,471	15,105
Other revenue		
Rent of gas pipelines	43,065	43,059
Oil transportation fees	26,348	21,168
Total revenue from gas and oil sales and pipelines	**663,977**	**648,622**
Revenue from railway transportation		
Revenue from contracts with customers		
Freight traffic	389,308	373,913
Logistic services	54,106	48,814
Passenger traffic*	11,201	31,138
Freight car cross-border charge	14,147	14,156
Other revenue		
Rent of wagons and other rental income	8,838	16,090
Total revenue from railway transportation	**477,600**	**484,111**
Revenue from aerostructure parts		
Revenue from contracts with customers		
Sale of composite aerostructure parts	28,566	12,174
Total revenue from aerostructure parts	**28,566**	**12,174**
Other revenue from contracts with customers	**17,651**	**43,872**
Total revenues	**1,496,776**	**1,293,909**

* In response to the restrictions imposed by the Government of Georgia agains COVID-19, the Group periodically suspended the passenger transportation services during 2020.

Revenue from electricity

Income from electricity generation and supply includes the income from guaranteed capacity fees and income from electricity generation. Income is fully attributable to Gardabani TPP LLC and Gardabani TPP 2 LLC which started active generation of electricity from July 2020, contributing more than GEL 100,000 thousand to revenue from electricity generation.

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 1 September 2017 until 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 43,065 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

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	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Domestic	454,615	453,865	585,093	569,290	308,982	105,130	9,471	15,105	46,217	56,046
Foreign	14,147	14,156	-	-	-	-	-	-	-	-
Total	**468,762**	**468,021**	**585,093**	**569,290**	**308,982**	**105,130**	**9,471**	**15,105**	**46,217**	**56,046**

(b) Contract balances

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

'000 GEL	31 December 2020	31 December 2019
Receivables, which are included in 'trade receivables'	267,021	376,971
Contract liabilities (note 7(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 recognized in 2019 and the shareholder intervention in 2020

According to the contract (the "Contract") with the most significant customer (the "Customer") for gas supply, the customer should have made discount of USD 15 for each thousand cubic meters of so called "social gas" sold until the end of the year 2020 ("Facilitation period") for the consumption of the populace of Georgia. On its part, the Company undertook obligation to provide during 2021-2025 (the "Compensation period") USD 15 discount for each thousand cubic meters of the Option Gas (received by the Company during each particular year of the Compensation period in excess of 330 MCM) in aggregate amount equal to the volume of gas sold by the customer for the consumption of the populace of Georgia during the Facilitation period.

The management, considering the requirements of *IFRS 15 – Revenue from contracts with customers*, concluded that the option given by the Company to the Customer to purchase the above-mentioned volumes of 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.

Starting from the second half of 2020, due to economic downturn caused by COVID-19, following the instruction of the ultimate controlling party - the Government of Georgia (the "Government") aimed at the maintenance of low tariffs on gas for the population of Georgia, the Company started negotiations with the Customer to achieve set objective (reduce financial burden on the populace of Georgia).

The outcome of the negotiations was the signing of an amendment to the Contract in December 2020 which resulted inter alia in (i) reduction of the Company's receivables from the Customer through decrease of Social Gas Purchase Prices for the respective volumes of the Social Gas during the period from 2018 to 2020, and (ii) corresponding waiver by the Customer of its right to receive and claim USD 15 discount in Compensation period.

As a result, contract liability recognized in 2019, was derecognized by the Group for the year ended 31 December 2020 and trade receivable was reduced by GEL 108,475 thousand.

(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 recognized on a monthly basis based on volume of electricity consumed by wholesalers. The consumed electricity is measured by meters. Guaranteed Capacity fees are determined by resolution of GNERC and fixed daily payment is being made during 290 days out of 365 in 2020 (300 days in 2019)

Revenue Type	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
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. There are two main types of payment terms. In the first case (which is related to the most significant part of gas sales), per contractual terms, part of payments are made in advance (no later than 25th of each month) and the 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.
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 Group's facilities to the customer.
Freight traffic, logistic services and passenger traffic	Freight traffic, logistic services and passenger traffic revenue streams are to be recognized "over time" since transportation is the service, during which customer receives and consumes simultaneously the benefit as the Group performs. The customer benefits from the distance travelled..	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on estimated time to completion of transportation.
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.
Sale of composite aerostructure parts	Sale of composite aerorsturcture parts revenue is recognised at the point in time when sale has been commenced and control over the goods was transferred.	Revenue from the sale of finished goods is recognised when the Group satisfies the performance obligation, i.e. at the point in time when the control of the goods has passed to the customer, generally on delivery of the goods.
Other revenue	Other revenue is recognised at the point in time when sale has been commenced and control over the goods was transferred.	Revenue is recognised at a point in time when the goods have been accepted by customers at the Group`s warehouse.

8. Operating expenses

'000 GEL	**2020**	**2019 (restated)**
Cost of gas and oil	746,056	616,415
Electricity and materials used in railroad transportation	41,411	47,921
Taxes other than on income	37,727	37,967
Logistic services	21,105	20,182
Security	9,917	9,246
Freight car cross border charge	3,688	3,780
Other*	62,031	96,169
	921,935	**831,680**

*Other operating expenses above include fees paid to the audit firm of about GEL 810 thousand (2019: GEL 694 thousand), for the provision of audit and other professional services.

9. Finance income and finance costs

'000 GEL	**2020**	**2019 (restated)**
Recognised in profit or loss		
Interest income under the effective interest method	24,622	31,531
Unwinding of discount on restructured receivable from related party	2,283	2,549
Modification gain on financial instruments*	13,946	-
Unwinding of discount on finance lease receivable	6,828	5,280
Finance income	**47,679**	**39,360**
Interest expense on financial liabilities measured at amortised cost	(192,886)	(81,498)
Net foreign exchange loss	(329,637)	(144,046)
Unwinding of discount on restructured liabilities	(1,225)	-
Modification loss on financial instruments	(1,009)	-
Other finance costs	(3,961)	(39)
Finance costs	**(528,718)**	**(225,583)**
Net finance costs recognised in profit or loss	**(481,039)**	**(186,223)**

*Modification gain on financial instruments includes effect of GEL 6,579 thousand related to modification of loan receivable from Vanric Agro LLC. 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 its assets. The winner of the public auction was a local company FCO LLC. At the time of the above-mentioned transaction the Fund had a fully provisioned loan receivable from Vanric Agro LLC which was assigned to FCO LLC. Due to change in the counterparty, the Fund reassessed the fair value of the loan and a loan modification gain in the amount of GEL 6,579 thousand was recognized in finance income.

10. 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 2019, as previously reported	988,881	966,999	396,182	431,297	35,404	459,265	1,935,718	1,897,640	7,111,386
Impact of restatement	-	-	-	-	-	-	-	5,548	5,548
Balance at 1 January 2019 (restated)	988,881	966,999	396,182	431,297	35,404	459,265	1,935,718	1,903,188	7,116,934
Additions	9,548	5,232	-	2,188	-	-	53,245	456,887	527,100
Disposals and write-offs	(705)	(1,764)	-	-	(17)	-	(21,434)	(25,264)	(49,184)
Transfers/Reclassification	4,421	11,098	4,016	12,179	18	3,143	52,207	(87,082)	-
Balance at 31 December 2019	**1,002,145**	**981,565**	**400,198**	**445,664**	**35,405**	**462,408**	**2,019,736**	**2,247,729**	**7,594,850**
Balance at 1 January 2020	1,002,145	981,565	400,198	445,664	35,405	462,408	2,019,736	2,247,729	7,594,850
Additions	4,432	2,857	2,239	1,604	-	899	14,191	198,282	224,504
Disposals and write-offs	(3,770)	(2,545)	-	-	-	-	(6,177)	(5,618)	(18,110)
Disposal of ownership interest in subsidiary (10(e)	(244,099)	-	-	-	-	(547,477)	(905,869)	(171,156)	(1,868,601)
Transfers/Reclassification	3,415	37,975	505,879	20,603	-	84,170	9,586	(661,628)	-
Balance at 31 December 2020	**762,123**	**1,019,852**	**908,316**	**467,871**	**35,405**	**-**	**1,131,467**	**1,607,609**	**5,932,643**
Depreciation and impairment losses									
Balance at 1 January 2019 as previously reported	288,013	557,809	52,716	174,151	26,396	232,120	1,112,549	618,160	3,061,914
Impact of restatement	-	-	9,711	-	-	-	(814)	813	9,710
Balance at 1 January 2019 (restated)	288,013	557,809	62,427	174,151	26,396	232,120	1,111,735	618,973	3,071,624
Depreciation for the year	6,718	45,359	19,176	18,212	700	12,490	75,278	-	177,933
Disposals and write-offs	(299)	(1,406)	-	-	(17)	-	(13,862)	(59)	(15,643)
Impairment loss	336	2,908	-	-	-	1,418	3,052	(2,676)	5,038
Transfers/Reclassification	-	-	-	952	-	-	-	(952)	-
Balance at 31 December 2019	**294,768**	**604,670**	**81,603**	**193,315**	**27,079**	**246,028**	**1,176,203**	**615,286**	**3,238,952**
Balance at 1 January 2020	294,768	604,670	81,603	193,315	27,079	246,028	1,176,203	615,286	3,238,952
Depreciation for the year	4,394	38,382	36,076	18,619	585	2,676	52,697	-	153,429
Disposals and write offs	(665)	(2,012)	-	-	-	-	(4,330)	(52)	(7,059)
Disposal of ownership interest in subsidiary (10(e))	(49,271)	-	-	-	-	(248,704)	(432,391)	(18,210)	(748,576)
Reallocation of depreciation and impairment	2,642	8,976	-	-	-	-	(19,845)	8,227	-
Balance at 31 December 2020	**251,868**	**650,016**	**117,679**	**211,934**	**27,664**	**-**	**772,334**	**605,251**	**2,636,746**
Carrying amounts									
At 1 January 2019	700,868	409,190	333,755	257,146	9,008	227,145	823,983	1,284,215	4,045,310
At 31 December 2019	707,377	376,895	318,595	252,349	8,326	216,380	843,533	1,632,443	4,355,898
At 31 December 2020	**510,255**	**369,836**	**790,637**	**255,937**	**7,741**	**-**	**359,133**	**1,002,358**	**3,295,897**

*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 20(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% in 2019. No borrowing costs were capitalized in 2020 due to significant slowdown of the works performed on Modernization project, mainly linked with COVID-19 pandemic situation in Georgia. (2019: Capitalised borrowing costs of GEL 73,518 thousand during 2019 relate to the Main Line Modernization project).

Capitalised borrowing costs related to the construction of the Gardabani II Combined-Cycle Thermal Power Plant and construction of Pipelines in 2020 amounted to GEL 7,152 thousand (2019: GEL 34,460 thousand), with a capitalisation rate of 7.27% (2019: 7.27%).

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 1,241 thousand (2019: GEL 6,813 thousand).

(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 since October 2013.

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

During 2016 and 2015, the Group was in discussion with the Tbilisi City Hall and the Government of Georgia about various scenarios of completing the project. One of the scenarios under discussion included an option envisaging a change of the original bypass location, because 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 2020 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 2020 and 2019 no event or change in circumstances occurred which would result in a reversal of the provision.

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

Georgian Railway JSC:

At each reporting date, the Group assesses whether there is any indication that the recoverable amount of the Group's non-financial assets has declined below the carrying value or previously recognized impairment loss is subject to reversal.

At 31 December 2018, the impairment testing was carried out by the Group on the CGU comprising the property plant and equipment and other non-current assets of Georgian Railway 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.

In 2019, the Group revisited some of its key assumptions with respect to longer-term prospects of growth as a result of the new developments in the market, outside of the control of the Group. Consequently, the Group conducted an impairment test at 31 December 2019. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

As at 31 December 2020, the Management analyzed impairment indicators (external and internal) according to IAS 36 and concluded that there is an indication of impairment because of the significant market turmoil during 2020 driven by the outbreak of COVID-19 and considering that impairment test conducted at 31 December 2019 was sensitive to changes in key assumptions. The Management conducted a new impairment test at 31 December 2020. 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 2021, adjusted for the Georgian GDP growth rate of 4.5% and 4.1% during the first two projected years and 4.6% increase during the remaining projected period. No volume growth is projected from 2026. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2021, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 2.1% and 1.8% during the first two projected years and 1.9% 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 outflows include USD 50 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 11.49% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. The long-term growth rate for the terminal period approximates to the long-term inflation forecast for USD, which is 1.9%.

The key assumptions to which the impairment indicator analysis 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 96,800 thousand;
- Volume growth – A decrease of 5% in the transported volumes projection used would have resulted in impairment loss of approximately GEL 46,503 thousand;
- Terminal growth – A decrease of 1% point in the terminal growth rate used would have resulted in impairment loss of approximately GEL 44,390 thousand.

Aerostructure Technologies Cyclone JSC:

In March 2015 a new subsidiary, Aerostructure Technologies Cyclone JSC, was established in Georgia by the Fund, Project LLC (under 100% ownership of the Fund) 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 Fund has control over the subsidiary because the Fund 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.

At 31 December 2020 management identified an indicator that the property, plant and equipment of Aerostructure Technologies Cyclone JSC may be impaired, due to the fact that the company's result from operating activities during 2020 resulted in a loss in the amount of GEL 2,781 thousand. The recoverable amount of the CGU was based on its value in use, determined by discounting estimated future cash flows to be generated from the aforementioned investment. The recoverable amount of the CGU was determined to be higher than its carrying amount and no impairment loss was recognized as at 31 December 2020.
The following main key assumptions are used in the estimation of the recoverable amount of the CGU:

- Cash flows are projected based on actual operating results and the business plan for a period up to 2027, with the further calculation of the terminal value. Management has determined that it is justified to use cash flow projections for a period of 7 years since the management believes that the 7-year period will allow cash flows to stabilize. The projections are prepared in nominal terms;
- A pre-tax nominal discount rate of 11.69% is applied in determining the recoverable amount of the investment in Aerostructure Technologies Cyclone JSC. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. A long-term growth rate following the period covered by the business plan of 7 years has been determined by the management as 2%;
- Cash flow are projected to increase sharply from 2024. Increase is supported by the decision of the second shareholder to move its passenger plane manufacturing to Aerostructure Technologies Cyclone JSC and full post COVID-19 recovery from 2024.

No reasonable change in key assumptions will bring CGU to impairment.

(d) Security

At 31 December 2020, property with a carrying amount of GEL 72,494 thousand (31 December 2019: GEL 74,274 thousand) is pledged in respect of the secured loan (See Note 20).

At 31 December 2020, property, plant and equipment (land plots and other items) with a carrying amount of GEL 126,491 thousand (2019: GEL 128,059 thousand) are pledged as a security against loans and borrowings from local Georgian banks (see note 20).

(e) Disposal of ownership interest in subsidiary

During 2020 by decision of the Government of Georgia owner contribution of the Fund was reduced by the amount of GEL 437,520 thousand by transferring ownership of Georgia State Electrosystem JSC (100% of shares) and Electricity System Commercial Operator JSC (100% of shares) to the Government of Georgia (Ministry of Economy and Sustainable Development of Georgia). Consequently, as a result of the aforementioned transaction carrying amount of the property, plant and equipment was reduced by GEL 994,531 thousand.

In June 2020, liquidation procedures began for Clinics Development Company LLC ('CDC LLC'), after which Fund's 100% ownership in the investment were 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 6 February 2020 by the Government of Georgia. Consequently the Owner contribution reserve of the Fund was reduced by GEL 140,006 thousand, carrying amount of the property, plant and equipment and investment property was reduced by GEL 125,500 thousand and GEL 11,864 thousand respectively. The sole purpose of CDC LLC was to manage the subsidiary hospitals and the related real estate.

11. Investment property

'000 GEL	2020	2019
Balance at 1 January	**134,864**	**134,864**
Additions	24,557	-
Disposal of ownership interest in subsidiary (10(e))	(11,864)	-
Disposals	(44,100)	-
Balance at 31 December	**103,457**	**134,864**

Additions in 2020 comprise of capital contributions of land plots and building with fair value amounted to GEL 24,557 thousand (2019: GEL 34,594 thousand).

In 2020 the main item under these investment properties represent building and its land located in Tbilisi (GEL 18,472 thousand), obtained from the Government of Georgia as capital contribution and in 2019 the main items represented land plots in Kobuleti (GEL 18,711 thousand), obtained as a result of business acquisition of Borjomi Likani International JSC in 2018 by the Fund and land plots in Borjomi (GEL 26,255 thousand), withdrawn from investment in wholly owned subsidiary Borjomi Likani International JSC during 2019.

In 2018 the Government of Georgia contributed 116 vacant land plots to the Groups's equity. The land plots (freehold) were located nearby Tbilisi Sea and Olympic Village in Tbilisi. Total area of the subject property was 2,693,344 m2. At initial recognition, management recognized the land plots at GEL 63,695 thousand, which was calculated based on normative prices per sq.m as defined by Tbilisi City Municipality. Management estimated that the GEL 63,695 thousand were close to the land plots' fair values as of the date of the capital contribution.

During 2020 management decided to return 67 land plots to the Government of Georgia with total area of 1,437,424 m2. Carrying amount of the transferred lands was GEL 44,100 thousand. Consequently, 'Owner contribution reserve' of the Group was reduced by the above-mentioned amount.

Management estimates that carrying values of investment property are reasonable approximation of their fair values. The fair value is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation method.

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

'000 GEL	31 December 2020	31 December 2019 restated	1 January 2019 restated
Prepayments for construction of railway infrastructure*	63,719	60,768	60,630
Prepayments for construction of Gardabani II CCPP**	1,039	91,563	57,635
Other prepayments for non-current assets	-	6,257	44,484
Total prepayments for non-current assets	**64,758**	**158,588**	**162,749**
Construction materials for railway infrastructure	26,084	23,240	26,464
Intangible assets	24,704	30,200	34,192
Other	2,078	33,814	36,464
Total other non-current assets	**52,866**	**87,254**	**97,120**

*Prepayments for construction of railway infrastructure are related to Tbilisi Bypass project, which was suspended as at 31 December 2020 and 31 December 2019. 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. Balance of prepayments to the latter as at 31 December 2019 amounted to GEL 89,953 thousand. In February 2020 construction of Gardabani 2 Thermal power Plant was finalized and prepayments made to China Tianchen Engineering Corporation were fully utilized.

13. Investments in equity accounted investees

'000 GEL	2020	2019
Balance at 1 January	114,084	112,726
Contributions to associate	8,922	11,107
Group's share of loss of equity accounted investees recognized in profit or loss	(24,797)	(2,154)
Decrease of the investment in associates/jointly controlled entity	(40,431)	(5,049)
Impairment loss	-	(2,546)
Gain from the sales of shares	6,404	-
Balance at 31 December	**64,182**	**114,084**

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 2020. 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.

Gain from the sales of shares of equity accounted investees was recognized as other income in profit or loss.

Associate	**Ownership 2020**	**Ownership 2019**	**Business activity**	**'000 GEL Balance as at 31 December 2019**	**'000 GEL Contribution**	**'000 GEL Profit (loss) attributable to the Fund**	**'000 GEL Considiration received**	**'000 GEL Gain from the sale of shares**	**'000 GEL Balance as at 31 December 2020**
Telasi JSC	0.0%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi	47,830	-	(15,210)	(33,662)	1,042	-
Nenskra Hydro JSC	8.07%	8.07%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia	37,602	-	(2,896)	-	-	34,706
Tsinandali Estates LLC	33.43%	33.43%	Hotel and spa resort in village Tsinandali	16,567	-	(5,185)	-	-	11,382
Panex JSC	0%	48.17%	Building materials` industry	588	-	819	(6,769)	5,362	-
Vanric Agro LLC	0%	40.48%	Export of fruit	-	-	-	-	-	-
Imereti Greenery LLC	37.65%	37.65%	Agriculture/farming	-	-	-	-	-	-
Gazzele Fund LP	29.10%	29.10%	International investment company represented in Georgia	7,357	5,605	(2,243)	-	-	10,719
Caucasus Clean Energy I, LLP	8%	8%	Investment fund	3,724	3,317	-	-	-	7,041
Caucasian SUS Heritage LLC	49.9%	49.9%	Hog farm	416	-	(82)	-	-	335
				114,084	**8,922**	**(24,797)**	**(40,431)**	**6,404**	**64,182**

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 has 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 2020 and 31 December 2019.

The decrease of investment in associates during year 2020 of GEL 34,025 thousand represents sale of Panex JSC and Telasi JSC.

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 its assets. The winner of the public auction was a local company FCO LLC. At the moment of the auction investment in Vanric Agro JSC was fully impaired.

(a) Impairment of investment in Nenskra Hydro JSC

Management was expecting to commission the Nenskra Hydro project in 2020. However, due to the termination of the the Engineering, Procurement and Construction Contract (the "EPC Contract") in 2018 and outbreak of COVID-19 pandemic in 2020, the Project completion was postponed to 2025 and is expected to be further postponed to 2027.

Upon termination of the EPC Contract, the management of Nenskra Hydro JSC announced a tender for procurement of the remaining construction works within the framework of the Project. The tender process for selection of the new EPC contractor started in November 2018 in compliance with the public procurement guidelines of the International Financial Institutions, potential lenders (the "Lenders Group").

The management was expecting to finalize and execute the new EPC Contract in May 2020 and construction works were planned to commence in June 2020. In addition, as financing from international financial institutions is dependent on the execution of the new EPC Contract, Financial Close was also expected to be achieved subsequent to the execution of the new EPC contract in 2020. However, negotiations with the Preferred Bidder and the Lenders Group were interrupted due to the following:

The outbreak of COVID-19 in early 2020 and its rapid spread has caused substantial impact and changes to the business environment worldwide, including Georgia. That, in turn has also negatively affected the Nenskra Hydro JSC, in terms of delay of execution of the new EPC Contract and also leading to the postponement of Financial Close.

Pending litigation case with Georgian Construction Consortium LLC ("GCC") has also contributed to the abovementioned delays. On 9 December 2020, Tbilisi City Court (the "Court") issued an injunction order (the "Order") as an interim measure against the Nenskra Hydro JSC. Pursuant to the Order, all movable property of Nenskra Hydro JSC was seized, including restrictions on the usage of Tunnel Boring Machines ("TBMs"), representing one of the crucial assets for the construction of the Project. Besides, the Order restricted Nenskra Hydro JSC from: (a) entering into any contract with any third party relating to serpentine road construction works; and (b) withdrawing guarantees provided by GCC in line with the Urgent Work Contract requirements.

Besides, per the initial timelines stated in the Implementation Agreement, the Financial Close and issuance of FNTP (Full Notice To Proceed, as defined under the Implementation Agreement) to EPC Contractor in order to proceed with the main construction works, were scheduled to occur no later than 30 months after the agreement execution date (31 August 2015), that is February 2018. However, the above milestone dates have not been achieved yet.

Furthermore, as the Nenskra Hydro JSC is on the construction stage and has not yet commenced generation of revenue, it has reported a net loss of GEL 35,884 thousand (2019: a net loss of GEL 7,931 thousand) and operating cash outflows of GEL 4,250 thousand (2019: operating cash outflows of GEL 21,014 thousand) for the year ended 31 December 2020.

Management has estimated the degree of uncertainties related to the foregoing events and conditions and, considering the effects of mitigating actions taken by the GoG, the Nenskra Hydro JSC and the Parent company ("K-water") as disclosed below, continues to have a reasonable expectation that it will be able to execute the EPC Contract with the Preferred Bidder, proceed with planned construction works and have access to adequate financial and other resources to secure cash flows resulting in value in use of the investment being higher than its carrying amount:

- During the first half of 2021, the Government of Georgia started to gradually lift major restrictions imposed due to COVID-19 pandemic. Distribution of vaccines that demonstrate an ability to provide a high degree of immunity from COVID-19 provides positive overlook on future prospects of economy and business environment both in Georgia and around the world. Consequently, the management has renewed active negotiations with the Preferred Bidder. The Preferred Bidder is a joint venture of internationally acclaimed companies with extensive experience in hydropower plant construction industry and strong financial background. As of the date of issuance of these financial statements, management is confident that the respective new EPC Contract will be executed, and the major construction works will commence no later than early 2022. Meanwhile, Nenskra Hydro JSC is actively negotiating with its Lenders Group, i.e. international financial institutions, the terms and conditions of the financing. Considering that the financing from international financial institutions is dependent on the execution of the EPC Contract with the Preferred Bidder, Financial Close is also expected to be followed immediately after signing of the new EPC contract;

- On 16 March 2021 the Court issued a new Injunction Order , according to which the following measures enforced by the previous Order dated 9 December 2020: (a) seizure over movable property of the Nenskra Hydro JSC, including restriction over the usage of Tunnel Boring Machines; and (b) restriction over entering into a contract with any third party relating to the serpentine road construction works, have been lifted. Management is confident that the Company will not face any barriers in putting its property to intended use, i.e. construction of the HPP;
- On 28 January 2019, the Company and the Ministry of Economy and Sustainable Development entered into Memorandum of Cooperation (the "MoC") on the basis of which, among others, the parties confirmed that the timeline and other key terms of the Implementation Agreement may be revised and amended in accordance with the newly updated Project timeline, including the new construction schedule of the Project as per the new EPC contract; No amendment to the Implementation Agreement has been executed as of the date of issuance of these financial statements. However, the Nenskra Hydro JSC is in the final phase of negotiations with the GoG to update terms, including revision of project timelines (extension of the deadlines for Financial Close and FNTP, along with the revised construction schedule). Given the strategic importance of the Project in ensuring energy security and independence of Georgia, the management is confident that GoG will accept the extension of timelines proposed by the Company and will execute revised and restated Implementation Agreement no later than early 2022.
- The majority shareholder the K-water has indicated its intention to continue to provide the Nenskra Hydro JSC with such financial and other support as are needed to enable it to continue in operational existence and, to enable it to realize its assets and discharge its liabilities in the normal course of business.

Consequently, management has concluded that no impairment should be recognized as at 31 December 2020.

14. 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 Georgian Oil and Gas Corporation in June-July 2010 as a contribution to the charter capital of the Company 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	2020	2019
Finance lease receivable at 1 January	73,134	67,854
Unwinding of discount on finance lease receivable	6,828	5,280
Finance lease receivable at 31 December	**79,962**	**73,134**

Variable lease payments depending on usage related to oil transportation recognized in the consolidated statement of profit or loss and other comprehensive income during 2020 amounted to GEL 26,348 thousand (2019: GEL 21,168 thousand).

15. Loans receivable

’000 GEL	31 December 2020	31 December 2019
Non-current assets		
Loan receivable from the state controlled entity	898	604
Loan receivable from the third party	8,456	1,959
Total non-current	**9,354**	**2,563**
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	2,074	1,823
Total current	**2,074**	**1,945**
	11,428	**4,508**

16. Prepayments and other current assets

’000 GEL	31 December 2020	31 December 2019 restated	31 December 2018 restated
Prepayments to suppliers*	100,152	107,369	82,103
Taxes other than on income	-	5,910	3,717
Other receivables	1,295	4,870	5,309
Impairment allowance for other current assets	-	(2,157)	(2,178)
	101,447	**115,992**	**88,951**

*Prepayments to suppliers balance were made mainly to South Caucasus Pipeline Option Gas Company Limited of GEL 68,173 thousand (2019: GEL 42,933 thousand) and to Azerbaijan Gas Supply Company Limited (AGSC) of GEL 14,980 thousand (2019: GEL 13,332 thousand) for the supply of gas.

17. Trade receivables

’000 GEL	31 December 2020	31 December 2019
Non-current assets		
Restructured receivables *	14,514	15,718
	14,514	**15,718**
Current assets		
Trade receivables	510,898	622,409
Restructured receivables *	3,204	4,296
Allowance for trade receivables	(239,054)	(240,765)
	275,048	**385,940**
Total	**289,562**	**401,658**

* 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 on 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 2020 Georgian Gas Transportation Company LLC has made GEL 5,000 thousand payment in accordance with above mentioned payment schedule.

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

18. Cash and cash equivalents

'000 GEL	**31 December 2020**	**31 December 2019 restated**	**1 January 2019 restated**
Bank balances	218,369	295,869	511,645
Call deposits	248,518	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	**466,887**	**514,747**	**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 seven 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.

19. 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 2020, the Government of Georgia contributed land plots of GEL 9,797 thousand, building GEL 16,419 thousand, gas pipelines of GEL 1,604 thousand, power line GEL 902 thousand, movable property of GEL 464 thousand and other contributions of GEL 1,081 thousand. (2019: 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) in the form of an increase in the Groups's equity as 'Owner contributions'. Carrying amount of the contributed properties was determined to be equal to its fair value.

During 2020 by the decision of the Government of Georgia owner contribution of the Group was reduced by the amount of GEL 577,526 thousand by transferring ownership of Georgian State Electrosystem JSC (100% of shares), Electricity System Commercial Operator JSC (100% of shares) and Clinics Development Company LLC ('CDC LLC') to the Government of Georgia (Ministry of Economy and Sustainable Development of Georgia).

In addition, during 2020 management decided to return 67 land plots to the Government of Georgia with total area of 1,437,424 m2. Carrying amount of the transferred lands of GEL 44,100 thousand. Consequently, 'Owner contributions' were reduced by the above-mentioned amount. (see Note 9(b))

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.

(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 2019 or in 2020.

(e) Distribution to owner

In furtherance to the intention of the Government of Georgian (the "Government") to avoid increase of the end user gas tariffs for the population of Georgia and representing the ultimate shareholder of the Company, the Government instructed the latter to enter into Omnibus Agreement of amendments N16 to adjust the provisions of Gas Sales Agreement of 23 December 2011 ("GSA") signed between SOCAR GAS Export-Import ("SGEI") and Georgian Oil and Gas Company ("GOGC"), which resulted inter alia in (i) reduction of GOGC's receivables (GEL 108,475 thousand, excluding VAT) from SGEI through decrease of Social Gas Purchase Prices for the respective volumes of the social gas provided to the populace of Georgia during 2018-2020, and (ii)corresponding waiver by Azerbaijani Party of its right to receive and claim a discount USD 15 during 2021-2025 (the "compensation period") in accordance with amendments N12 of Omnibus Agreement.

As GOG represents the ultimate shareholder of the Group and as the transaction under consideration has been made by the Group as a result of the Government's instruction, rather than as a part of the normal course of the business, the management accounted for the transaction in equity as distribution to owner and retained earnings of the Group were reduced accordingly by GEL 108,475 thousand.

20. 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	**31 December 2020**	**31 December 2019 restated**	**1 January 2019 restated**
Non-current liabilities			
Unsecured bonds	1,637,434	2,137,717	1,994,799
Unsecured loans from financial institutions	-	917,639	443,154
Secured loans from financial institutions	97,759	120,138	1,954
Unsecured loans from related party	24,305	18,640	-
Secured loans from related party	-	10,865	-
	1,759,498	**3,204,999**	**2,439,907**
Current liabilities			
Current portion of unsecured bonds	888,055	68,970	62,086
Current portion of unsecured loans from financial institutions	144,484	188,448	754,763
Current portion of secured loans from financial institutions	46,766	20,685	97,979
Current portion of unsecured loans from related party	937	1,974	-
Current portion of secured loans from the Ministry of Finance	-	10,055	30,639
	1,080,242	**290,132**	**945,467**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2020		31 December 2019		01 January 2019	
’000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds:									
Unsecured bonds-long term	USD	6.75%	2021	829,148	828,152	725,675	722,024	669,150	671,620
Unsecured bonds-long term	USD	7.75%	2022	1,697,337	1,697,337	1,484,663	1,484,663	1,385,625	1,385,265
Unsecured loans from financial institutions:									
Ministry of Finance of Georgia – KfW	EUR	1%-1.5%	2025-2037	-	-	26,071	26,071	27,628	27,628
Ministry of Finance of Georgia – EBRD	EUR	Euribor+1%	2025-2028	-	-	54,508	54,508	57,170	57,170
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	-	-	73,938	73,938	73,869	73,869
Ministry of Finance of Georgia – WB	EUR	Variable interest rate	2038	-	-	139,711	139,711	125,367	125,367
Ministry of Finance of Georgia – KfW	EUR	0.25%-0.05%	2032	-	-	4,320	4,320	4,132	4,132
Ministry of Finance of Georgia – KfW	EUR	Euribor+0.35%	2034	-	-	-	-	-	-
-Ministry of Finance of Georgia – IBRD	EUR	Variable interest rate	2044	-	-	497	497	-	-
Ministry of Finance of Georgia – KfW	EUR	KFW reference rate + 4%	2028	-	-	253,097	243,598	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 – IBRD	EUR	Euribor + 1%	2027	-	-	108,342	107,987	107,325	107,325
Unsecured loan from financial institutions	USD	Libor+6.5%	2021	145,281	144,484	127,014	127,014	239,593	239,593
Unsecured loans from related parties:									
Unsecured loans from related parties	USD	Libor+6%	2023	25,242	25,242	20,614	20,614	-	-
Secured loans from financial institutions:									
Ministry of Finance of Georgia – IDA	USD	World Bank's lending treasury rates	2022	-	-	2,095	2,095	4,281	4,281
Secured loan from financial institution	USD	Libor+6%	2019	-	-	-	-	10,058	10,058
Secured loan from financial institution	USD	Libor+6%	2027	40,801	40,955	38,308	38,308	-	-
Secured loan from financial institution	EUR	5.3%	2026-2034	23,571	23,571	19,452	19,452	-	-
Secured loan from credit Suisse	USD	Libor+1.25%	2026	79,999	79,999	80,968	80,968	85,594	85,594
Secured loans from related parties:									
Ministry of Finance of Georgia	EUR	7.5%	2029	-	-	32,536	20,920	30,639	30,639
				2,841,379	**2,839,740**	**3,520,252**	**3,495,131**	**3,383,264**	**3,385,374**

Collateral for secured loans and borrowings is detailed in note 10.

Georgian Railway

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 was obtained for the sole purpose of the acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains, with the carrying amount of GEL 72,494 thousand as at 31 December 2020 (31 December 2019: GEL 74,274 thousand) (See Note 10 (d)).

As at 31 December 2020 a financial covenant related to Net debt to EBITDA ratio on the secured loan above was breached allowing the lender to request repayment on demand, however on 23 December 2020 the Group obtained a waiver from the lender on this covenant until 31 December 2021, consequently the Group classified the loan as long-term borrowings as at 31 December 2020.

Georgian Oil and Gas Corporation

Unsecured bonds maturing in April 2021 were issued by the Group to repay 2012 Bonds due in April, 2016.

From the beginning of the year 2020, the Group engaged a syndicate of leading investment banks with the aim to conduct market exercise as early as March of 2020. However, due to the spread of COVID-19 and subsequent downturn of the financial markets, Liability Management process was suspended due to unfavorable market conditions. Consequently, the Group, following the syndicate’s advice, decided to put transaction on hold and in parallel from April 2020 started to seek alternative financing options.

As a result of extensive negotiations with the EBRD, the Group signed a EUR 217 million (GEL 873 million as at year end 31 December 2020) 10-year unsecured loan agreement in September 2020 in order to refinance the amount payable on outstanding USD 250 million (GEL 819 million as at year end 31 December 2020) corporate Eurobond debt and accrued coupon.

USD 250 million corporate Eurobond debt principal and coupon due was fully repaid in April 2021 by utilizing of the loan facility from the EBRD amounted to GEL 853,734 thousand.

As at 31 December 2020 no tranche was withdrawn/utilized and the Group paid management fee of GEL 8,225 thousand, accounted as prepayments.

In 2018 the Group signed a loan agreement of EUR 150 million with KfW for financing construction of first underground gas storage in Georgia. As at 31 December 2020 no tranche was withdrawn/utilized and the Group paid commitment fee of GEL 904 thousand recognized in finance costs, (2019: management fee GEL 4,455 thousand and commitment fee of GEL 89.5 thousand).

In 2020, due to the financial difficulties caused by the outbreak of COVID -19 pandemic globally, the Ministry of Finance of Georgia issued a letter, dated 23 April 2020, according to which, a decision has been made to redirect the unused loan facility from KfW, designated for construction of Underground Gas Storage, in the amount of EUR 120 million out of EUR 150 million, into the State Budget of Georgia in order to support government programs aimed at prevention of the pandemic and its impact.

Therefore, as at 31 December 2020 the loan agreement between the Group and KfW was revised and reduced from EUR 150 million to EUR 30 million. As a result management fee paid in 2018-2019 years of about GEL 3,961 thousand was written off in other finance costs in 2020 (please see note 9).

As at 31 December 2020 a financial covenant related to Interest Coverage Ratio on the EBRD loan was breached, allowing the lender to request repayment on demand, however on 30 June 2021 the Group obtained a waiver from the lender on this covenant.

As the loan under consideration was not utilized as at 31 December 2020 and the Group obtained waiver in 2021, when the loan was used, management believes that the breach of covenant does not have impact on the Group's consolidated financial statements.

Partnership fund

During 2015, the Fund acquired a loan from an international bank, Credit Suisse, of USD 150,000 thousand, equivalent to GEL 360,705 thousand. Per initial contractual terms loan was repayable in September 2020. The purpose of the loan was to refinance existing loan exposures.

In September 2020, the terms were amended as follows: fixed part of the interest rate was increased from 5.95% to 6.5%, principal repayment was extended till September 2021 and financial covenants were removed from the agreement. This did not result in substantial modification of the contractual terms and loss on modification in the amount of GEL 1,009 thousand was recognised in the consolidated statement of profit or loss and other comprehensive income under the finance cost (note 9). The termination fee in the amount of GEL 630 thousand was included in the amount of the modified loan.

Aerostructure Technologies Cyclone

During 2019, the Group borrowed USD 12,995 thousand from Georgian commercial bank to refinance its existing loan and raise additional funds for operating activities. The loan is repayable by quarterly payments during 2020 starting on 11 May 2020 and monthly payments from 2021 with the last payment scheduled on 9 July 2027.

Borjomi Likani International

During 2019 the Group borrowed EUR 5 million and EUR 2 million, which matures respectively in 2034 and 2026, from Georgian commercial bank to raise additional funds for operating activities. As at 31 December 2020 Borjomi Likani international JSC was in breach of the covenants therefore Loans were classified as on demand.

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

'000 GEL	**2020**	**2019**
Balance at 1 January	3,495,131	3,385,374
Proceeds from borrowings	13,144	90,844
Repayment of borrowings	(33,590)	(184,962)
Total changes from financing cash flows	**(20,446)**	**(94,118)**
Changes arising from losing control of subsidiaries or other businesses	**(965,436)**	**-**
The effect of changes in foreign exchange rates	311,651	212,540
Interest expense	196,928	109,899
Interest expense capitalised as borrowing costs (see note 10 (a))	8,393	114,791
Interest paid	(187,490)	(211,427)
Modification loss/(gain) on financial liabilities (see note 20(a))	1,009	(21,928)
Total liability-related other changes	**330,491**	**203,875**
Balance at 31 December	**2,839,740**	**3,495,131**

21. Trade and other payables

'000 GEL	31 December 2020	31 December 2019 restated	1 January 2019 restated
Current			
Trade payables	128,267	141,776	94,366
Payable for non-current assets	41,006	106,221	138,531
Payables for construction works under BSTN project	-	30,039	32,365
Advances received from customers	18,829	19,657	14,699
Taxes other than on income	-	1,544	1,369
Other payables	21,844	47,680	50,356
	209,946	**346,917**	**331,686**

'000 GEL	31 December 2020	31 December 2019 restated	1 January 2019 restated
Non-current			
Payables for non-current assets	53,535	21,551	55,146
	53,535	**21,551**	**55,146**

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's estimate of the fair value of the unsecured bonds repayable in 2022 yielded a range of values from a fair value approximately equial to the carrying amount to a fair value approximately 5% higher than the carrying amount. On the other hand, fair value of the unsecured bonds repayable in 2021 yielded a range of values approximately equal to the carrying amount.

The carrying values of other financial assets and liabilities of the Group are a reasonable approximation of their fair values.

(b) Financial risk management

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

– credit risk (see note 21(c));
– liquidity risk (see note 21(d));
– market risk (see note 21(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		**31 December 2020**	**31 December 2019 restated**
Trade receivables	17	289,562	401,658
Other receivables	16	1,295	2,713
Loans receivable	15	11,428	4,508
Cash and cash equivalents	18	466,887	514,665
		769,172	**923,544**

(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 23% of the Group's revenue from the sale of railway transportation comes from two customers; 44% and 43% from the sale of gas and electricity comes from one customer respectively.

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	**2020**	**2019**
Domestic	272,011	383,007
CIS countries	17,551	18,651
	289,562	**401,658**

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

	Carrying amount	
'000 GEL	**2020**	**2019**
Gas distributors	159,187	239,010
Wholesale electricity customers	-	66,568
Electricity distributors	81,353	12,519
Railway transportation	23,281	24,144
Gas pipeline rentals	22,851	24,264
Other	2,890	35,153
	289,562	**401,658**

At 31 December 2020, the carrying amount of the Group's trade receivables from the two most significant customers was GEL 157,403 thousand (2019: GEL 226,603 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 2020 and 31 December 2019:

'000 GEL	**2020**	**2020**	**2020**
Customer credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	253,479	-	253,479
Medium risk	19,018	12,967	31,985
High risk*	-	243,152	243,152
Total gross carrying amount	**272,497**	**256,119**	**528,616**
Loss allowance	(853)	(238,201)	(239,054)
	271,644	**17,918**	**289,562**

'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*	-	237,261	237,261
Total gross carrying amount	**400,081**	**242,342**	**642,423**
Loss allowance	(4,826)	(235,939)	(240,765)
	395,255	**6,403**	**401,658**

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 Group has receivable from the Government of Georgia (hereinafter the Government or the GoG) with amount of GEL 25,205 thousand recognized as a result of the transfer of the property to the GoG, as according to the Bypass Project Memorandum of Understanding (MoU).

Due to uncertainties associated with the reimbursement of the above receivable, total balance of GEL 25,205 is impaired since 2017.

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

’000 GEL	**2020**	**2019**
Balance at 1 January	**240,765**	**200,322**
Increase during the year	11,989	38,788
Net write off during the year	-	1,655
Amounts derecognised due to discontinued operations	(24,263)	-
Net foreign exchange gain	10,563	-
Balance at end of the year	**239,054**	**240,765**

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 2020 and 2019.

(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 13). Consequently, management concluded that the latter does 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 at 31 December 2020, the Group maintains committed unused credit lines of GEL 64,766 thousand maturing in 2022 with the local banks (31 December 2019: GEL 146,708 thousand).

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

31 December 2020		**Contractual cash flows**			
'000 GEL	**Carrying amount**	**Total**	**0-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities					
Loans and borrowings**	2,839,740	3,071,443	1,159,109	1,886,482	25,852
Trade and other payables*	237,255	244,325	183,752	60,573	-
	3,076,995	**3,315,768**	**1,342,861**	**1,947,055**	**25,852**

31 December 2019 restated		**Contractual cash flows**			
'000 GEL	**Carrying amount**	**Total**	**0-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities					
Loans and borrowings***	3,495,131	4,040,204	386,680	2,930,634	722,890
Restructured liabilities	45,751	53,589	19,000	34,589	-
Trade and other payables	328,540	328,639	307,088	21,551	-
	3,869,422	**4,422,432**	**712,768**	**2,986,774**	**722,890**

31 December 2018 restated		**Contractual cash flows**			
'000 GEL	**Carrying amount**	**Total**	**0-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities					
Loans and borrowings	3,385,374	3,896,687	832,690	2,600,747	463,250
Restructured liabilities	59,031	71,694	17,000	54,694	-
Trade and other payables	353,014	353,014	353,014	-	-
	3,797,419	**4,321,395**	**1,202,704**	**2,655,441**	**463,250**

* Based on the agreement signed between the Group and the construction company responsible for the Modernization Project, there is a specified percentage of each milestone payment to be withheld (retention fee), to protect the Group from the contractor failing to adequately complete its obligations under the contract. Such retention fee is due to pay within two years after the completion of the project.

** At the reporting date, the largest refinancing risk faced by the Group is related to its USD 500 thousand Eurobonds due in July 2022. The Group has successfully refinanced its Eurobonds in June 2021, with new Eorobonds, which mature in 2026. See note 29.

*** As at 31 December 2019 financial covenant related to Debt Service Coverage Ratio on the unsecured loan of Credit Suisse was breached. As a result, the lender could have requested repayment on demand and the Fund has classified the loan in the amount of GEL 127,014 thousand as short-term borrowings. In September 2020, the terms were amended, and financial covenants were removed from the terms of the agreement.

Despite net current liability position as at 31 December 2020 of GEL 398,939 thousand, the Group has strong positive balance of cash and cash equivalents of GEL 466,887 thousand. The net current liability position as at 31 December 2020 was effectively caused by Eurobonds, maturing in April 2021 and Credit Suisse loan maturing in September 2021. As at 31 December 2020, the Group maintained unused loan facility of EUR 217 million from the EBRD. The loan facility was fully utilized in February 2021 in the amount of EUR 211.5 million for full repayment of Eurobonds in April 2021. In September 2021, the Fund has obtained new loan facility from an international institution. The loan facility was utilized for full repayment of loan from Credit Suisse. See note 29.

(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 2020**	**EUR - denominated 2020**	**USD - denominated 2019**	**EUR – denominated 2019**
Cash and cash equivalents	235,641	5	222,805	7
Trade and other receivables	21,016	-	9,733	59
Loans receivable	11,091	-	4,087	-
Loans and borrowings	(2,816,169)	(23,571)	(2,600,615)	(894,516)
Trade and other payables	(65,891)	-	(84,942)	(17,378)
Net exposure	**(2,614,312)**	**(23,566)**	**(2,448,932)**	**(911,828)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2020	**2019**	**2020**	**2019**
USD 1	3.1097	2.8192	3.2766	2.8677
EUR 1	3.5519	3.1553	4.0233	3.2095

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 2020	
USD (10% weakening)	(261,431)
EUR (10% weakening)	(2,357)

’000 GEL	**Profit or loss**
31 December 2019	
USD (10% weakening)	(244,893)
EUR (10% weakening)	(91,183)

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**		
	2020	**2019**	**2018**
Fixed rate instruments			
Financial assets	431,523	490,159	691,708
Financial liabilities	(2,549,060)	(2,476,317)	(2,309,757)
	(2,117,537)	**(1,986,158)**	**(1,618,049)**
Variable rate instruments			
Financial liabilities	(290,680)	(1,018,814)	(1,075,617)
	(290,680)	**(1,018,814)**	**(1075,617)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial instruments as FVTPL or FVOCI. 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**
2020		
Variable rate instruments	(2,907)	2,907
Cash flow sensitivity	**(2,907)**	**2,907**
2019		
Variable rate instruments	(10,188)	10,188
Cash flow sensitivity	**(10,188)**	**10,188**
2018		
Variable rate instruments	(10,756)	10,756
Cash flow sensitivity	**(10,756)**	**10,756**

(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	**2020**	**2019**
Total liabilities	3,174,584	4,097,616
Less: cash and cash equivalents	(466,887)	(514,747)
Net debt	**2,707,697**	**3,582,869**
Total equity	1,426,428	1,938,972
Debt to capital ratio at 31 December	**1.90**	**1.85**

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

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.

In August 2016 a new subsidiary Gardabani TPP 2 LLC, with charter capital of GEL 10,000 thousand, was founded in which Georgian Oil and Gas Corporation JSC holds 100% interest. As at 31 December 2020, the charter capital of Gardabani TPP 2 LLC amounted GEL 266,909 thousand. (2019: GEL 266,909 thousand).

The Major construction works of Thermal Power Plant were finalized on 12 February 2020 and taking over certificate was signed by Gardabani II and counterparty responsible for the construction of TPP on 28 February 2020. On 25 March 2020, Gardabani TPP 2 LLC obtained 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 electricity market in Georgia.

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. 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.

In February 2020, the Government of Georgia transferred the ownership (100% of shares) of Georgian State Electrosystem JSC to the Government of Georgia, resulting in a reduction of the Owner contribution reserve of the Fund by GEL 433,059 thousand and a reduction of the accumulated deficit of the Fund.

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.

In February 2020, the Government of Georgia reduced the Fund’s equity by transferring the ownership (100% of shares) of Electricity System Commercial Operator JSC to the Government of Georgia. Consequently the Owner contribution reserve of the Fund was reduced by GEL 4,461 thousand.

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.

24. Leases

The Group 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 2020 was GEL 8,838 thousand (2019: GEL 16,090 thousand) and is included in revenue.

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 2020, showing the undiscounted lease payments to be received after the reporting date.

’000 GEL	
2020 – Operating leases under IFRS 16	
Less than one year	4,013
Between one and five years	10,510
More than five years	27,526
	42,049
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

25. Capital commitments

As at 31 December 2020, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 367,643 thousand (2019: GEL 331,617 thousand) mainly relating to the Main Line Modernization project of GEL 65,369 thousand (2019: GEL 91,152 thousand) and Tbilisi Bypass project of GEL 301,993 thousand (2019: GEL 240,012 thousand, increased only due to foreign exchange rate fluctuation).

Management does not expect that the future 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 entered into contracts for construction of pipelines and purchase of property plant and equipment with outstanding capital commitments as at 31 December 2020 of GEL 3,841 thousand (2019: GEL 8,802 thousand-mainly related to construction of pipelines, GEL 45,030 thousand respectively-mainly related to TPP construction and GEL 2,266 related to purchasing of power transformer).

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 2020 the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 771,959 thousand (2019: GEL 783,315 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.

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

GGTC case:

In October 2017 Georgian Oil and Gas Corporation JSC has filed a case against GGTC (the defendant) seeking compensation for the loss of approximately USD 3,747 thousand incurred by Georgian Oil and Gas Corporation JSC due to the defendant's failure to provide Georgian Oil and Gas Corporation JSC with the contractually required quantity of natural gas.

Additionally, Georgian Oil and Gas Corporation JSC seeks restitution amounting to GEL 706 thousand for the repair of damages incurred to the pipeline system, leased out to the defendant by Georgian Oil and Gas Corporation JSC, during the period when it was operated by the latter. Tbilisi City Court, which is the court of first instance rejected the claim. Georgian Oil and Gas Corporation JSC lodged an appeal before the Appellate Court. As of date when the financial statements are authorized for issue, the proceedings are not complete. The next hearing in Tbilisi City Court scheduled for 24 April 2020 has been postponed due to COVID-19 pandemic.

As at 31 December 2020 and subsequent to the reporting date management estimates that the outcome of the litigation remains uncertain, as a result Georgian Oil and Gas Corporation JSC has not recorded any receivable in respect of the above.

Frontera case:

In July 2018, the Georgian Oil and Gas Corporation JSC and SAOG (State Agency of Oil and Gas) submitted their statement of claim against Frontera Resources Georgia Corporation (Frontera). SAOG and the Company 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 a 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 have considered 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 voluntarily 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 State 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, with a total amount of GEL 18,522 thousand. The arbitral award effectuates withdrawal of and dismisses 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.

According to the arbitral award, Georgian Oil and Gas Corporation JSC has legal right to GEL 18,522 thousand to be received from Frontera and expects to collect the amount it in full, however for the IFRS purposes it does not meet the strict recognition criteria of virtually certain realization of income, and therefore is not included in the consolidated financial statements.

(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.

27. Related parties

(a) Parent and ultimate controlling party

As at 31 December 2020 and 2019 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	**2020**	**2019**
Salaries and bonuses	**2,878**	**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 19.

(i) Revenue

'000 GEL	Transaction value		Outstanding balance as at 31 December	
	2020	2019	2020	2019
State controlled entities:				
Rent of pipelines	43,065	43,059	22,851	24,264
Income from electricity generation	139,136	8,095	31,377	16,309

(ii) Expenses

'000 GEL	Transaction value		Outstanding balance as at 31 December	
	2020	2019	2020	2019
State controlled entities:				
Transportation of gas	9,632	12,561	1,504	1,973
Purchase of balancing electricity	-	1,112	-	-

(iii) Loans

'000 GEL	Interest income/expense		Outstanding balance as at 31 December	
	2020	2019	2020	2019
Loans given:				
Shareholder	1,970	1,974	25,242	20,614
Ministry of Finance of Georgia	-	20,804	-	1,050,317

The interest rates and maturities of loans from related parties are disclosed in note 20 (a).

28. Impact of COVID-19

The COVID-19 outbreak started to have a significant impact in Georgia in late February, 2020. On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic and Georgian government started to take measures to contain the virus – imposed restrictions on the cross-border movement, instructed the business community to transfer employees to work from home, etc. To enhance social distancing the schools, restaurants, cinemas and sports activities have stayed suspended for most of the 2020.

The outbreak of COVID-19 has substantially affected the economy and the business environment globally and in Georgia. Georgia's real GDP year-over-year change for 2020 is estimated at negative 6.1% (according to Geostat) compared to positive 5.1% and 4.8% in 2019 and 2018 respectively. Although, the freight transportation sector tends to be more resilient than most of the other sectors, still COVID-19 did have a negative impact on the Group's passenger transportation segment and infrastructural project.

The major implications of COVID-19 pandemic on the business and the industry have been the following:

- The Group temporarily terminated the passenger transportation service, which has been restored from August 2020 till November 2020. See Note 7.
- The Group temporarily suspended capitalization of borrowing costs due to suspension on infrastructural projects. See note 10 (a).
- The slow-down of the economy affected the disposable income and the spending patterns of businesses.
- The local currency devaluation against US dollar by 12% (change in the year end exchange rates) had a favorable impact on the operating profit as the Group's revenues are mostly denominated in USD, while expenses are maintained in GEL. However, it negatively affected the net profit due to the currency revaluation of the Group's loans and borrowings denominated in USD.
- The management closely observed and actively managed the Group's short-term liquidity. As a result the Group maintained a strong cash liquidity throughout the year.
- The Group did not seek any additional indebtedness either for the liquidity purposes or for its ongoing capital investment projects.

Taking into account the Group's current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Group's financial position and operating results.

The management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group in the medium and longer term. The Group also considers negative development scenarios and is ready to adapt its operational plans accordingly.

29. Subsequent events

In February 2021 the Group established new subsidiary Gardabani TPP 3 LLC, with 100% ownership. The goal of the new subsidiary is the construction and subsequent operation of third power plant in Gardabani. The construction of third power plant is expected to commence in the second half of 2021.

The Group, based on N129 Resolution of Georgian Government dated 25 March 2021 was placed under obligation to establish 100% owned subsidiary, which will serve as a transmission system owner (as this term is defined under the law of Georgia on Energy and Water supply), and transfer to this subsidiary ownership rights over the Main Pipeline Gas System (MPGS). The subsidiary will be assigned the company's rights and interests in the rent agreement with GGTC and become a party to the rent agreement in place of the Company. The subsidiary - Georgian Natural Gas Transmission Network Owner LLC was registered according to the laws of Georgia in April, 2021. See note 1(a).

In April, 2021 the Group obtained short-term loan facilities from four Georgian banks and utilized GEL 134,677 thousand for financing of working capital.

USD 250 million (GEL 819 million as at year end 31 December 2020) corporate Eurobond debt principal and coupon due was fully repaid in April 2021 by utilizing of the loan facility from the EBRD amounted to GEL 853,734 thousand.

In June 2021 the Group has repurchased Eurobonds which were due in 2022, issued Green bonds with 4 percent coupon rate and paid costs related to early redemption, as well as refinancing costs. The Eurobonds were repurchased with tender offer with early consent method and approximately USD 52 million was paid. The Eurobonds mature in 2026.

In October 2020 the Group initiated negotiations with SOCAR Gas Export-Import ("SGEI") to adjust the contractual terms of natural gas supply to the Social Gas Sector of Georgia (including sale/purchase process of Georgian Gas and Social Gas) as set forth in the Gas Supply Agreement ("Agreement") of 23 December 2011 between the Group and SGEI entered into based on and in furtherance of the memorandum ("Memorandum") of 23 December 2011 between the Government of Georgia and SOCAR setting forth their mutual understandings regarding the supply of Social Gas to Georgia. Following the negotiations the parties have agreed amendments to the Memorandum and the Agreement, which should be presented to the Government for approval.

In September 2021, the Group has obtained new loan facility from international institution in the amount of EUR 32,000 thousand with interest rate of 4%+EURIBOR and maturity date of 17 September 2023. The loan facility was utilized for full repayment of loan from Credit Suisse.

30. Basis of measurement

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

31. Significant accounting policies

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

(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) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(c) Revenue

Information about the Group's accounting policies relating to contracts with customers is provided in Note 7.

(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.

(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.

(d) Finance income and costs

The Group's finance income and finance costs include:

- interest income on bank deposits and loans receivable;
- unwinding of discount on finance lease receivable;
- unwinding of discount on restructured receivable;
- customer late payments penalties;
- interest expense on financial liabilities;
- impairment loss on other financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities.

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 costs depending on whether foreign currency movements are in a net gain or net loss position.

(e) Foreign currency transactions

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

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

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

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

(f) Short-term employee benefits

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

(g) Income tax

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

(i) Current tax

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

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law 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 Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholder as a dividend. However, some other transactions are also considered as DE, for example non-arm’s length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes.

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

Set off the tax payable on dividends declared and paid is available for the corporate income tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

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

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally determined on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.
Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) 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:

- 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:

- 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
• 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 Group 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, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

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

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

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

(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

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.

(i) As a lessee

The Group does not have significant lease agreements where it acts as a lessee as at 31 December 2020 and 2019. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

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

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

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

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

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

32. New standards and interpretations not yet adopted

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

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

– *Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
– *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).*
– *COVID-19-Related Rent Concessions (Amendment to IFRS 16).*
– *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
– *Reference to Conceptual Framework (Amendments to IFRS 3).*
– *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
– *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*