Partnership Fund JSC

Consolidated Financial Statements for the year ended 31 December 2021

Contents

KPMG Georgia LLC
5th Floor GMT Plaza
Mtatsminda District, Liberty Square N4 (plot 66/4)
0105 Tbilisi, Georgia
IN 404437695
Telephone +995 322 93 57 13
Internet www.kpmg.ge

Independent Auditors' Report

To the Supervisory Board of Partnership 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 2021, 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 2021, 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.

Emphasis of Matter – Loss of Control Over Significant Subsidiaries

We draw attention to Note 26 of the consolidated financial statements, which describes events subsequent to the reporting period resulting in the loss of control over significant subsidiaries. Our opinion is not modified in respect of this matter.

Statement on 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 a material misstatement;
– contains all 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:

Vakhtang Kezheradze

KPMG Georgia LLC
Tbilisi, Georgia
23 January 2023

LIMITED LIABILITY COMPANY KPMG GEORGIA 404437695

’000 GEL	Note	31 December 2021	31 December 2020
Assets			
Property, plant and equipment	8	3,239,073	3,295,897
Investment property	9	108,251	103,457
Prepayments for non-current assets	10	90,476	64,758
Investments in equity-accounted investees	11	33,515	64,182
Finance lease receivable	12	80,898	79,962
Loans receivable		8,071	9,354
Trade receivables	14	12,056	14,514
Exploration and evaluation assets		10,836	-
Other non-current assets	10	57,656	52,866
Non-current assets		**3,640,832**	**3,684,990**
Inventories		62,318	61,861
Loans receivable		205	2,074
Prepayments and other current assets	13	111,327	101,447
Trade receivables	14	374,610	275,048
Current tax assets		-	8,161
Term deposits		3,254	-
Cash and cash equivalents	15	301,144	466,887
Current assets		**852,858**	**915,478**
Total assets		**4,493,690**	**4,600,468**
Equity			
Share capital	16	100,000	100,000
Owner contributions	16	2,152,187	2,145,965
Accumulated deficit		(693,530)	(832,509)
Equity attributable to owners of the Company		**1,558,657**	**1,413,456**
Non-controlling interests		8,895	12,972
Total equity		**1,567,552**	**1,426,428**
Liabilities			
Loans and borrowings	17	1,656,069	1,759,498
Advance received from the Government of Georgia	16(d)	46,594	46,594
Payables for non-current assets	18	56,198	53,535
Non-current liabilities		**1,758,861**	**1,859,627**
Loans and borrowings	17	865,466	1,080,242
Trade and other payables	18	215,964	168,940
Payables for non current assets	18	55,148	41,006
Liabilities to the Government of Georgia	16(c)	4,718	4,734
Provisions		16,856	19,491
Current tax liabilities		9,125	-
Current liabilities		**1,167,277**	**1,314,413**
Total liabilities		**2,926,138**	**3,174,040**
Total equity and liabilities		**4,493,690**	**4,600,468**

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 58.

'000 GEL	**Note**	**2021**	**2020**
Continuing operations			
Revenue	5	1,695,931	1,496,776
Operating expenses	6	(1,137,962)	(921,935)
Wages and other employee benefits		(226,773)	(207,803)
Depreciation and amortisation		(143,412)	(147,941)
Share of loss of equity accounted investees	11	(1,777)	(24,799)
Other income		24,765	31,000
Impairment reversal/(loss) on trade receivables	19	261	(12,174)
Impairment loss on loans receivable		(529)	-
Impairment loss on property, plant and equipment	8	(7,867)	-
Impairment loss on investments in equity-accounted investees	11	(33,705)	-
Results from operating activities		**168,932**	**213,124**
Finance income	7	249,660	47,679
Finance costs	7	(282,324)	(528,718)
Net finance costs		**(32,664)**	**(481,039)**
Profit/(loss) before income tax		**136,268**	**(267,915)**
Income tax expense		(1,366)	(2,207)
Profit/(loss) from continuing operations		**134,902**	**(270,122)**
Profit from discontinued operation, net of tax	25	-	74,290
Profit/(loss) and total comprehensive income/(loss) for the year		**134,902**	**(195,832)**
Profit/(loss) and total comprehensive income/(loss) attributable to:			
Owners		138,979	(189,245)
Non-controlling interests		(4,077)	(6,587)
		134,902	**(195,832)**

These consolidated financial statements were approved by management on 23 January 2023 and were signed on its behalf by:

David Saganelidze	Ioseb Mamukelashvili
Chief Executive Officer	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 58.

'000 GEL	Note	2021	2020
Continuing operations			
Revenue	5	1,695,931	1,496,776
Operating expenses	6	(1,137,962)	(921,935)
Wages and other employee benefits		(226,773)	(207,803)
Depreciation and amortisation		(143,412)	(147,941)
Share of loss of equity accounted investees	11	(1,777)	(24,799)
Other income		24,765	31,000
Impairment reversal/(loss) on trade receivables	19	261	(12,174)
Impairment loss on loans receivable		(529)	-
Impairment loss on property, plant and equipment	8	(7,867)	-
Impairment loss on investments in equity-accounted investees	11	(33,705)	-
Results from operating activities		**168,932**	**213,124**
Finance income	7	249,660	47,679
Finance costs	7	(282,324)	(528,718)
Net finance costs		**(32,664)**	**(481,039)**
Profit/(loss) before income tax		**136,268**	**(267,915)**
Income tax expense		(1,366)	(2,207)
Profit/(loss) from continuing operations		**134,902**	**(270,122)**
Profit from discontinued operation, net of tax	25	-	74,290
Profit/(loss) and total comprehensive income/(loss) for the year		**134,902**	**(195,832)**
Profit/(loss) and total comprehensive income/(loss) attributable to:			
Owners		138,979	(189,245)
Non-controlling interests		(4,077)	(6,587)
		134,902	**(195,832)**

These consolidated financial statements were approved by management on 23 January 2023 and were signed on its behalf by:

ი. მამუკელაშვილი

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 58.

	Equity attributable to shareholder					
'000 GEL	**Share capital**	**Owner contributions**	**Accumulated deficit**	**Total**	**Non-controlling interests**	**Total equity**
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 16(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**
Balance at 1 January 2021	100,000	2,145,965	(832,509)	1,413,456	12,972	1,426,428
Profit and total comprehensive income for the year	-	-	138,979	138,979	(4,077)	134,902
Transactions with owners, recorded directly in equity						
Owner contributions (see note 16(b))	-	7,857	-	7,857	-	7,857
Withdrawal of non-cash assets	-	(1,635)	-	(1,635)	-	(1,635)
Balance at 31 December 2021	**100,000**	**2,152,187**	**(693,530)**	**1,558,657**	**8,895**	**1,567,552**

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 58.

'000 GEL	**Note**	**2021**	**2020**
Cash flows from operating activities			
Profit/(loss) for the year		134,902	(195,832)
Adjustments for:			
Depreciation and amortisation		143,412	157,782
Income tax expense		1,366	2,207
Net finance costs	7	32,664	441,935
Share of loss of equity-accounted investees		1,777	24,799
Impairment (recovery)/loss on trade receivables		(261)	12,174
Impairment loss on loan receivables		529	-
Impairment loss on property, plant and equipment		7,867	-
Impairment loss on investments in equity-accounted investees		33,705	-
Gain on disposal of property, plant and equipment		(4,192)	(3,641)
Gain on disposal of investments in equity-accounted investees		-	(6,404)
Other non-cash items		12,896	(163)
		364,665	**432,857**
Changes in:			
Inventories		(2,380)	(7,675)
Trade receivables, prepayments and other current assets		(131,600)	(102,082)
Trade and other payables		62,816	11,584
Taxes assets/liabilities, other than on income		17,285	(4,101)
Provisions		(2,635)	(4,605)
Cash flows from operations before income taxes and interest paid		**308,151**	**325,978**
Interest paid	17(b)	(224,782)	(187,490)
Income tax paid		(866)	(1,693)
Net cash from operating activities		**82,503**	**136,795**
Cash flows from investing activities			
Interest received		28,909	25,907
Repayment of loans issued		800	125
Acquisition of property, plant and equipment and other non-current assets		(102,532)	(126,553)
Acquisition of exploration and evaluation assets		(9,170)	-
Proceeds from sale of property, plant and equipment		2,902	3,529
Acquisition of investments in equity-accounted investees	11	(4,815)	(8,922)
Placement of term deposit		(3,254)	-
Consideration received on sale of equity-accounted investees		-	40,431
Disposal of non-significant subsidiaries, net of cash disposed of		-	(147)
Disposal of discontinued operations, net of cash disposed of		-	(114,934)
Net cash used in investing activities		**(87,160)**	**(180,564)**
Cash flows from financing activities			
Proceeds from borrowings	17(b)	2,741,133	13,144
Repayment of borrowings	17(b)	(2,793,616)	(33,590)
Premium on early redemption of issued bonds	7	(115,686)	-
Other fees on loans and borrowings		(10,606)	(8,225)
Net cash used in financing activities		**(178,775)**	**(28,671)**
Net decrease in cash and cash equivalents		**(183,432)**	**(72,440)**
Cash and cash equivalents at 1 January		466,887	514,747
Effect of movements in exchange rates on cash and cash equivalents		17,689	24,580
Cash and cash equivalents at 31 December	15	**301,144**	**466,887**

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 58.

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 and war in Ukraine in 2022 further increased uncertainty in the business environment.

The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future environment may differ from management's assessment.

(b) Organisation and operations

The Partnership Fund JSC (the "Fund") is a joint stock company domiciled in Georgia. The consolidated financial statements include financial statements of the Fund and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in equity-accounted investees. All significant Group entities are Georgian joint stock and limited liability companies as defined in the "Law of Georgia on Entrepreneurs" and are disclosed innotes 1(c) and 21.

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 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.

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, electricity generation, operation of a nationwide railway system providing freight and passenger transportation services and transmission.

The Fund obtained control over significant subsidiaries pursuant to the decrees of the Government of Georgia dated 30 July 2012 and 14 August 2012, based on which 100% of ownership 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 equity 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 ownership (100% of shares) in Georgian State Electrosystem JSC and Electricity System Commercial Operator JSC to the Government of Georgia (Ministry of Economy and Sustainable Development of Georgia).

According to the decision issued on 6 February 2020, the Government of Georgia reduced Fund's equity by transferring subsidiaries of Clinics Development Company LLC, along with the land and buildings on which they operate to the Government 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 24.

(c) Group structure

As at 31 December 2021 and 2020 the Fund has direct and indirect ownership interests in the following entities:

Name	Country of incorporation and operation	2021 Ownership/ voting	2020 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)
Gardabani 3 TPP LLC	Georgia	100%	0%	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 Natural Gas Transmission Network Owner LLC	Georgia	100%	0%	Ownership of natural gas transmission network ownership
Georgian Gas Exchange LLC	Georgia	50%	0%	Natural gas market operator
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
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
Rukhi Trading Center LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall
Start-up Georgia LLC	Georgia	100%	100%	Venture capital

Name	Country of incorporation and operation	2021 Ownership/ voting	2020 Ownership/ voting	Principal activities
Imereti Greenery LLC	Georgia	100%	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	29.11%	29.11%	International investment company represented in Georgia and Armenia
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	7.54%	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

2. Basis of accounting

(a) Statement of compliance

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

(b) Going concern

Reduction of the financial burden for the populace of Georgia, by maintaining low gas sale prices, has impacted Georgian Oil and Gas Corporation JSC, resulting in a breach of financial and non-financial covenants in relation to the loan from EBRD (see also Note 17(a)), allowing the lender to request repayment of the loan on demand. As a result of the breach, the total outstanding amount of the loan was reclassified to current borrowings leading to an excess of current liabilities over current assets of Georgian Oil and Gas Corporation JSC by JSC of GEL 317,551 thousand as at 31 December 2021. Notwithstanding the above, consolidated financial statements of Georgian Oil and Gas Corporation JSC have been prepared on a going concern basis, which the management considers to be appropriate due to the following reasons:

Management of Georgian Oil and Gas Corporation JSC is in the process of negotiations with the lender to obtain a waiver for the breached loan covenants and repayment of the loan in accordance with the initial schedule. As Georgian Oil and Gas Corporation JSC has been generating sufficient cash inflows to repay the loan in accordance with the agreed schedule, management believes that it is reasonably certain for the lender not to exercise its right of early repayment of the entire balance of the outstanding loan.

Management of Georgian Oil and Gas Corporation JSC is discussing with the Government of Georgia ("GoG") a change in gas sale prices in order to avoid possible future breaches of covenants attached to the loan. Additionally, GoG has issued a support letter, stating that it is willing to provide, for the foreseeable future, support as is necessary to allow Georgian Oil and Gas Corporation JSC to continue its operational existence. As Georgian Oil and Gas Corporation JSC is of strategic importance to the GoG, management believes that in the unlikely worst case scenario of early repayment of the loan, GoG will support the Group until another source of financing is obtained.

Breach of the above mentioned covenants of the EBRD loan has led to a cross-default on the loan from Credit Europe Bank N.V. Per terms of agreement, when any creditor of Georgian Oil and Gas Corporation JSC (100% subsidiary) and Georgian Railway JSC (100% subsidiary) becomes entitled to declare any Financial Indebtedness due and payable prior to its specified maturity as a result of an event of default, Credit Europe Bank N.V. also becomes entitled to request repayment of the loan on demand.

Management obtained a waiver from Credit Europe Bank N.V. for the breached covenants and repayment of the loan in accordance with the initial schedule.

As a result of the breach, the entire outstanding balance of the loan was reclassified to current liabilities, leading to an excess of current liabilities over current assets of the Group by GEL 314,419 thousand as at 31 December 2021. Notwithstanding the above, these financial statements have been prepared on a going concern basis, which the management considers to be appropriate due to the reasons disclosed above.

Based on the foregoing, the management of the Group believes that there is no material uncertainty that may cast significant doubt over the Groups' ability to continue as a going concern.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the functional currency of the Fund and of all significant Group entities and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgments

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

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

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

- Note 2 (b) – going concern;
- Note 8 (a) – suspension of capitalization of borrowing costs;
- Note 8(c) – impairment of property, plant and equipment;
- Note 12 – classification of finance lease receivable;
- Note 17(a) –recognition of green bonds;
- Note 27(i) (iii) – useful lives and residual values of property, plant and equipment.

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

- Note 19(c) – measurement of ECL allowance for financial assets; and
- Note 8(c) – impairment of property, plant and equipment: key assumptions underlying recoverable amounts, including the recoverability of property, plant and equipment and sensitivity analysis;

Measurement of fair values

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

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

Further information about the fair value measurement of financial assets and liabilities is included in Note 19(a) – fair values of financial assets and liabilities.

5. Revenue

’000 GEL	2021	2020
Revenue from electricity		
Revenue from contracts with customers		
Electricity generation	370,376	308,982
Total revenue from electricity	**370,376**	**308,982**
Revenue from gas and oil sales and rent of pipelines		
Revenue from contracts with customers		
Sales of gas	647,465	585,093
Income from crude oil sales	24,731	9,471
Other revenue		
Rent of gas pipelines	44,567	43,065
Oil transportation fees	27,469	26,348
Total revenue from gas and oil sales and pipelines	**744,232**	**663,977**
Revenue from railway transportation		
Revenue from contracts with customers		
Freight traffic	423,795	389,308
Logistic services	69,371	54,106
Passenger traffic*	14,808	11,201
Freight car cross-border charge	9,910	14,147
Other revenue		
Rent of wagons and other rental income	4,647	8,838
Total revenue from railway transportation	**522,531**	**477,600**
Revenue from aerostructure parts		
Revenue from contracts with customers		
Sale of composite aerostructure parts	19,348	28,566
Total revenue from aerostructure parts	**19,348**	**28,566**
Other revenue from contracts with customers	**39,444**	**17,651**
Total revenues	**1,695,931**	**1,496,776**

Revenue from electricity

Income from electricity generation and supply includes income from guaranteed capacity fees and income from electricity generation. Income is fully attributable to Gardabani TPP LLC and Gardabani TPP 2 LLC.

Revenue from gas and oil sales and rent of pipelines

The Group rents its gas pipeline and related infrastructure to Georgian Gas Transportation Company LLC (GGTC – a state-owned entity outside the Group). The rent agreement is non-cancellable and is valid until 1 January 2023. Since 1 January 2020, tfixed rent fee has been set at GEL 43,065 thousand per annum (excluding VAT). From 1 January 2021, the fixed rent was increased to GEL 44,500 thousand per annum (excluding VAT). GGTC is responsible for all costs related to repair, maintenance, operation and security of the main gas pipeline system. The Group is responsible for capital expenditures only.

Oil transportation fee is generated from 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 Article 64 of the Railway Code of Georgia, which came into force on 1 July 2005, the Government of Georgia allowed the Group to set prices for all services provided, including freight transportation, freight transportation-related additional services and passenger transportation.

Tariffs for freight transportation are based on 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, major revenue streams and timing of revenue recognition.

'000 GEL	**Railroad transportation**		**Gas supply**		**Electricity generation and supply**		**Upstream activities**		**Other**	
Primary geographical markets	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Domestic	507,974	454,615	647,465	585,093	370,376	308,982	24,731	9,471	58,792	46,217
Foreign	9,910	14,147	-	-	-	-	-	-	-	-
Total	**517,884**	**468,762**	**647,465**	**585,093**	**370,376**	**308,982**	**24,731**	**9,471**	**58,792**	**46,217**

(b) Contract balances

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

'000 GEL	**31 December 2021**	**31 December 2020**
Receivables, which are included in 'trade receivables'	365,113	267,021
Advances received from customers	19,507	18,829

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

(c) Performance obligations and revenue recognition policies

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

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

Revenue Type	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Electricity generation and supply	Performance obligation is satisfied when electricity is delivered to and consumed by the wholesaler. Invoices are issued on a monthly basis. Payment for consumed electricity is made by the end of the month following the reporting month.	Revenue is recognized on a monthly basis based on the volume of electricity consumed by wholesalers. The consumed electricity is measured by meters. Guaranteed Capacity fees are determined by the resolution of GNERC and fixed daily payment was made during 284 days out of 365 in 2021 (290 days in 2020)
Sale of natural gas	Customers obtain control of gas when 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 portion of gas sales), per contractual terms, a portion 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. In accordance with the agreement, late payment penalties are accrued on outstanding balances starting from the day following the payment due date. In the second type, payment terms vary for each customer, but in most cases payments should be made 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 is satisfied on delivery of gas. The transaction price includes cost of gas and late payment penalties as a variable consideration.
Income from crude oil sales	Performance obligation is satisfied when the Group makes oil available to the customer at its premises (EXW – Incoterm). Invoice is issued upon sale of oil and payment terms are contractually agreed with individual customers.	Revenue from sales of oil is recognized when oil is 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 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 service charge	Freight car cross-border service charge stream is 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 on a daily basis.
Sale of composite aerostructure parts	Sale of composite aerorsturcture parts revenue is recognised at a point in time when sale has been made and control over goods is transferred.	Revenue from the sale of finished goods is recognised when the Group satisfies the performance obligation, i.e. at a point in time when the control over the goods has passed to the customer, generally on delivery of the goods.
Other revenue	Other revenue is recognised at a point in time when sale has occurred and control over the goods is transferred to the customer.	Revenue is recognised at a point in time when the goods have been accepted by customers at the Group`s warehouse.

6. Operating expenses

'000 GEL	**2021**	**2020**
Cost of gas and oil	918,941	746,056
Electricity and materials used in railroad transportation	54,567	41,411
Taxes, other than on income	45,946	37,727
Logistic services	32,918	21,105
Transportation, materials, repair and maintenance	11,723	8,893
Security	9,731	9,917
Freight car cross border charge	4,065	3,688
Other*	60,071	53,138
	1,137,962	**921,935**

*Other operating expenses above include audit fees paid to audit firms of approximately GEL 1,426 thousand (2020: GEL 869 thousand).

7. Finance income and finance costs

'000 GEL	**2021**	**2020**
Recognised in profit or loss		
Net foreign exchange gain	217,611	-
Interest income under the effective interest method	29,130	24,622
Unwinding of discount on restructured receivable from related party	1,983	2,283
Modification gain on financial instruments	-	13,946
Unwinding of discount on finance lease receivable	936	6,828
Finance income	**249,660**	**47,679**
Interest expense on financial liabilities measured at amortised cost	(162,779)	(192,886)
Premium on early redemption of issued bonds (note 17)	(115,734)	-
Modification loss on financial instruments	(1,927)	(1,009)
Unwinding of discount on restructured liabilities	(987)	(1,225)
Other finance costs	(897)	(3,961)
Net foreign exchange loss	-	(329,637)
Finance costs	**(282,324)**	**(528,718)**
Net finance costs recognised in profit or loss	**(32,664)**	**(481,039)**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19.

8. Property, plant and equipment

	Lands, buildings and constructions	Rail track infrastructure	Electricity generating unit	Gas and oil pipelines	Oil wells	Power transmission lines	Transport, machinery, equipment and other	Assets under construction and uninstalled equipment*	Total
Cost or deemed cost									
Balance at 1 January 2020	1,002,145	981,565	400,198	451,242	29,827	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 (8(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**	**473,449**	**29,827**	**-**	**1,131,467**	**1,607,609**	**5,932,643**
Balance at 1 January 2021	762,123	1,019,852	908,316	473,449	29,827	-	1,131,467	1,607,609	5,932,643
Additions	9,333	472	5,247	-	-	-	6,569	71,586	93,207
Disposals and write-offs	(2,889)	(4,441)	-	-	-	-	(642)	(629)	(8,601)
Transfers/Reclassifications	17,960	13,067	(17,465)	-	-	-	8,989	(22,551)	-
Balance at 31 December 2021	**786,527**	**1,028,950**	**896,098**	**473,449**	**29,827**	**-**	**1,146,383**	**1,656,015**	**6,017,249**
Depreciation and impairment losses									
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 (8(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**
Balance at 1 January 2021	251,868	650,016	117,679	211,934	27,664	-	772,334	605,251	2,636,746
Depreciation for the year	3,911	30,093	47,291	19,422	386	-	38,157	-	139,260
Disposals and write-offs	(685)	(4,612)	-	-	-	-	(400)	-	(5,697)
Impairment	-	-	-	-	-	-	132	7,735	7,867
Transfers/Reclassificaitons	1,136	-	(1,136)	-	-	-	-	-	-
Reallocation of depreciation and impairment	(4)	639	-	-	-	-	11	(646)	-
Balance at 31 December 2021	**256,226**	**676,136**	**163,834**	**231,356**	**28,050**	**-**	**810,234**	**612,340**	**2,778,176**
Carrying amounts									
At 1 January 2020	707,377	376,895	318,595	257,927	2,748	216,380	843,533	1,632,443	4,355,898
At 31 December 2020	510,255	369,836	790,637	261,515	2,163	-	359,133	1,002,358	3,295,897
At 31 December 2021	**530,301**	**352,814**	**732,264**	**242,093**	**1,777**	**-**	**336,149**	**1,043,675**	**3,239,073**

*Uninstalled equipment in the amount of GEL 105,995 thousand (2020: 105,877 thousand) 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 consist of 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 above projects in September 2010 and November 2010, respectively. The Group issued unsecured bonds in 2010 to partly finance theese projects. During 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see also Note 17(a)).

No borrowing costs were capitalized in 2021 and 2020 due to significant slowdown of the works performed on Modernization project, mainly linked with COVID-19 pandemic situation in Georgia.

(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 on 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 have been 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 discussions 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 locationas a result of which the existing bypass infrastructure may become redundant. The alternative scenarios also included the determination of the future use of the existing infrastructure, should it become redundant. The options of future use of the infrastructure were bypass automobile road, light rail/extension of the Tbilisi Metro System, freight depot, etc., however, as at 31 December 2021, and as of the date these consolidated financial statements were authorized for issue, no decision has been 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 other scenarios, and also considering the fact that Management does not expect that the Project will generate any future economic benefits 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 of GEL 14,689 thousand, representing the fair value of land included within "assets under construction" caption above.

During 2021 and 2020, no event or change in circumstances have occurred, which would result in a reversal of the previously recognized impairment losses against the Project assets.

(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 amount or previously recognized impairment loss is subject to reversal.

At 31 December 2018, impairment testing was carried out by the Group for the CGU comprising 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 losses 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, limited to the fair value less costs to sell of individual items.

The recoverable amount of the CGU was based on its value in use, determined by discounting future cash flows to be generated through the continuing use of the CGU.

In 2020, the Group revisited some of its key assumptions with respect to longer-term prospects of growth as a result of new developments in the market, outside of the control of the Group. Consequently, the Group conducted an impairment test at 31 December 2020. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

As at 31 December 2021, the management analyzed impairment indicators (external and internal) and concluded that there is a need to perform an impairment test, because of significant changes in market trends during 2021 and considering that the impairment test conducted at 31 December 2020 was sensitive to changes in key assumptions. The management conducted a new impairment test at 31 December 2021. As a result, neither additional impairment, nor reversal of previously recognized impairment losses was 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 2022, adjusted for the GDP growth rate of 5.2% - 5.8% in Georgia during the projected years. 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 2022, adjusted for changes in the US CPI forecast. The forecast resulted in an increase of 4.3% and 1.9% during the first two projected years and 2.2% 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 52.1 million associated with the Modernization project above.
- A pre-tax discount rate of 10.76% 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 the long-term inflation forecast for USD, which is 2.04%.

The key assumptions to which the impairment test 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 135,000 thousand;
- Volume growth – A decrease of 5% in the projected transported volumes would have resulted in impairment loss of approximately GEL 66,000 thousand;
- Terminal growth – A decrease of 1% point in the terminal growth rate would have resulted in an impairment loss of approximately GEL 84,000 thousand.

Georgian Oil and Gas Corporation JSC:

As at 31 December 2021, management analyzed indicators of impairment and identified that Georgian Gas Storage Company LLC's (100% subsidiary of the Group) property, plant and equipment may be impaired. Due to significant uncertainties associated with either the continuation of the existing underground gas storage project or implementation of any other scenarios, and also considering the fact that management does not expect that the existing assets, representing mainly feasibility and engineering studies capitalized on construction in progress, will generate any future economic benefits to Georgian Gas Storage Company LLC either individually, or in combination with other non-current assets, the carrying amount of the property, plant and equipment in the amount of GEL 4,987 thousand was written down to its recoverable amount of GEL 499 thousand, representing the fair value of land.

No other impairment indicators were identified as at 31 December 2021.

(d) Security

At 31 December 2021, property, plant and equipment of GEL 70,252 thousand (31 December 2020: GEL 72,494 thousand) is pledged in respect of a secured loan, see also Note 17.

At 31 December 2021, property, plant and equipment (land plots and other items) with a carrying amount of GEL 121,614 thousand (31 December 2020: GEL 126,491 thousand) were pledged as a security against loans and borrowings from local Georgian banks (see note 17).

(e) Disposal of ownership interest in subsidiary

During 2020, pursuant the decision of the Government of Georgia, equity of the Fund was reduced in the amount of GEL 437,520 thousand by transferring ownership over Georgia State Electrosystem JSC (100% of shares) and Electricity System Commercial Operator JSC (100% of shares) to the Government of Georgia, represented by 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 were initiated for Clinics Development Company LLC (‘CDC”), as a result of which the Fund’s 100% ownership interest in the investee was fully disposed of. Clinics Development Company LLC’s subsidiaries, along with the land and buildings on which they operate, were fully transferred to the Government of Georgia pursuant to the decision of 6 February 2020 by the GoG. Consequently, owner contribution reserve of the Fund was reduced by GEL 140,006 thousand, representing carrying amount of the property, plant and equipment and investment property of GEL 125,494 thousand and GEL 11,864 thousand, respectively. The sole purpose of CDC LLC was to manage the subsidiary operating hospitals and related properties.

9. Investment property

’000 GEL	**2021**	**2020**
Balance at 1 January	**103,457**	**134,864**
Additions	6,331	24,557
Disposal of ownership interest in subsidiary (8(e))	-	(11,864)
Disposals	(1,537)	(44,100)
Balance at 31 December	**108,251**	**103,457**

Additions during 2021 are comprised of capital contributions of land plots and buildings with a fair value of GEL 6,331 thousand (2020: GEL 24,557 thousand).

In 2021, the main items under these investment properties additions represent land located in Didi Lilo (GEL 4,991 thousand), land located in Tbilisi (GEL 501 thousand) and building under construction with related land located in Chakvi (GEL 839 thousand), obtained from the Government of Georgia. In 2020, the main additions represent a building under construction and related land located in Tbilisi (GEL 18,472 thousand). In addition, investment properties include land plots in Kobuleti (GEL 18,711 thousand).

During 2020, management decided to return 67 land plots to the Government of Georgia with a total area of 1,437,424 square meters. Carrying amount of the transferred lands amounted to GEL 44,100 thousand. Consequently, ‘owner contribution reserve’ of the Group was reduced by the same amount.

Management estimates that carrying amount of investment properties are a 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.

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

’000 GEL	**31 December 2021**	**31 December 2020**
Prepayments for construction of railway infrastructure*	87,650	63,719
Other prepayments for non-current assets	2,826	1,039
Total prepayments for non-current assets	**90,476**	**64,758**
Construction materials for railway infrastructure	35,058	26,084
Intangible assets	20,386	24,704
Other	2,212	2,078
Total other non-current assets	**57,656**	**52,866**

*Prepayments for construction of railway infrastructure are mainly related to Tbilisi Bypass project, which was suspended as at 31 December 2021 and 2020. Management is of the view that the prepayments are fully recoverable based on the performance guarantee from a foreign bank.

11. Investments in equity accounted investees

’000 GEL	**2021**	**2020**
Balance at 1 January	64,182	114,084
Impairment losses	(33,705)	-
Contributions to equity of associates	4,815	8,922
Group’s share of loss of equity-accounted investees recognized in profit or loss	(1,777)	(24,799)
Decrease of the investment in associates/jointly controlled entities	-	(40,431)
Gain on sales of shares	-	6,406
Balance at 31 December	**33,515**	**64,182**

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

The following table describes details of movements in the Group’s investments in equity-accounted investees’ during 2021. Investments in equity-accounted investees presented in note 1(c) that have not been disclosed in the below table represent dormant entities that do not carry out business operations and do not generate any revenue.

Gain on the sales of shares of equity-accounted investees was recognized as ‘other income’ in the consolidated statement of profit or loss and other comprehensive income.

Associate	Ownership 2021	Ownership 2020	Business activity	'000 GEL Balance as at 31 December 2020	'000 GEL Contribution	'000 GEL Profit (loss) attributable to the Fund	'000 GEL Impairment	'000 GEL Balance as at 31 December 2021
Nenskra Hydro JSC	7.5%	8.07%	Development, construction and operation of hydropower plant in Svaneti, Georgia	34,706	-	(1,001)	(33,705)	-
Tsinandali Estates LLC	33.43%	33.43%	Hotel and spa resort in village Tsinandali	11,382	-	(2,159)	-	9,223
Gazzele Fund LP	29.10%	29.10%	International investment company represented in Georgia	10,719	3,552	986	-	15,257
Caucasus Clean Energy I, LLP	8%	8%	Investment fund	7,041	1,263	37	-	8,341
Caucasian SUS Heritage LLC	49.9%	49.9%	Hog farm	334	-	360	-	694
				64,182	**4,815**	**(1,777)**	**(33,705)**	**33,515**

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 2021 and 2020.

(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 till 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 accordance 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 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 resulting in the postponement of Financial Close.

Besides, per the initial timelines stated in the Implementation Agreement, 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.

Considering the failure to achieve the above milestone, difficulties with execution of new a EPC Contract and Financial close, management determined that there are indicators of impairment and conducted an impairment test as at 31 December 2021. As a result, the management deemed that investment in Nenskra Hydro JSC is fully impaired and recognized an impairment loss of GEL 33,705 thousand as at 31 December 2021.

12. Finance lease receivable

In 1996, the Government of Georgia entered into a 30-year arrangement with a consortium of oil companies that undertook the construction and development of an oil pipeline system from Georgian-Azerbaijan state border to the Supsa oil terminal on the Georgian Black Sea coast. The arrangement granted certain 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. Ownership of the above pipeline was transferred to Georgian Oil and Gas Corporation in June-July, 2010 in the form of contribution to the equity. 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 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	2021	2020
Finance lease receivable at 1 January	79,962	73,134
Unwinding of discount on finance lease receivable	936	6,828
Finance lease receivable at 31 December	**80,898**	**79,962**

Variable lease payments depending on usage related to oil transportation recognized in the consolidated statement of profit or loss and other comprehensive income during 2021 amounted to GEL 27,469 thousand (2020: GEL 26,348 thousand).

13. Prepayments and other current assets

’000 GEL	31 December 2021	31 December 2020
Prepayments to suppliers*	110,697	100,152
Other receivables	630	1,295
	111,327	**101,447**

*As at 31 December 2021, prepayments to suppliers include amounts paid to South Caucasus Pipeline Option Gas Company Limited of 84,544 thousand (31 December 2020: GEL 68,173 thousand) and to Azerbaijan Gas Supply Company Limited (AGSC) of GEL 14,636 thousand (31 December 2020: GEL 14,980 thousand) for supply of gas.

14. Trade receivables

’000 GEL	31 December 2020	31 December 2020
Non-current assets		
Restructured receivables *	12,056	14,514
	12,056	**14,514**
Current assets		
Trade receivables	603,872	510,898
Restructured receivables *	2,925	3,204
Allowance for impairment for trade receivables	(232,187)	(239,054)
	374,610	**275,048**
Total	**386,666**	**289,562**

* 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 was assesses as a substantial modification of terms, therefore, at the date of the restructuring, the Group derecognized the existing receivable and recognised a new financial asset based on the new terms. The fair value of the new asset at initial recognition in 2017 was calculated based on the present value of future payments discounted at the interest rate of 10.86% per annum, which was considered to be a market rate. In 2021, Georgian Gas Transportation Company LLC made a payment of GEL 5,000 thousand in accordance with restructured payment schedule.

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 19.

15. Cash and cash equivalents

’000 GEL	**31 December 2021**	**31 December 2020**
Bank balances	118,346	218,369
Call deposits	182,757	248,518
Petty cash	41	-
Total Cash and cash equivalents	**301,144**	**466,887**

Call deposits represent term deposits with banks with original maturities greater than three months but for which the Group has a 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 19.

16. 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 dated 8 May 2012, share capital of the Fund was determined to be 100,000,000 ordinary shares with a par value of GEL 1.

(b) Owner contributions

During 2021, the Government of Georgia contributed land plots of GEL 6,830 thousand and other contributions of GEL 1,027 thousand (2020: land plots of GEL 9,797 thousand, a building of GEL 16,419 thousand, gas pipelines of GEL 1,604 thousand, power transmission line of GEL 902 thousand, movable property of GEL 464 thousand and other contributions of GEL 1,081 thousand) in the form of an increase in the Fund’s equity as ‘Owner contributions’. Carrying amount of the contributed properties was determined to approximateto fair values.

During 2020, by the decision of the Government of Georgia, owner contribution of the Group was reduced in the amount of GEL 577,526 thousand by transferring ownership interest in 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 represented by the Ministry of Economy and Sustainable Development of Georgia.

In addition, during 2020, the management decided to return 67 land plots to the Government of Georgia with a total area of 1,437,424 square meters. Carrying amount of the transferred lands amounted to GEL 44,100 thousand. Consequently, ‘Owner contributions’ were reduced by the same amount,(see also Note 11).

(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 shareholder.

(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 expressed interest and intention 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 removal of railway infrastructure from Tbilisi city center and had plans to construct a new bypass railway route. Lands freed up were planned to be developed for other purposes. The Government agreed to pay to the Group GEL equivalent of CHF 138 million through reduction in the amount of dividends payable to the Government.

In 2012, 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 would represent a consideration due from the Government for future sale of land plots in accordance with the Bypass Project Memorandum. As a result, the dividend payable was reclassified to an advance received from the Government for the sale of land. As of the date these consolidated financial statements were authorized for issue, no decision has been made by the Government about these advances and no indication has been identified that would lead management to believe thatthe amount is due on demand. As at 31 December 2021 and 2020, none of the aforementioned land plots have been transferred to the Government.

(e) Distribution to shareholder

During 2020, in furtherance to the intention of the the “GOG” to avoid the increase of the end-user gas tariffs for the population of Georgia and representing the ultimate shareholder of the Company, the GOG instructed the latter to enter into an 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 related volumes of the social gas provided to the population of Georgia during 2018-2020, and (ii) a corresponding waiver by SGEI of its right to receive and claim a discount of USD 15 per 1,000 cubic meters of social gas sold to the population of Georgia during 2021-2025 (the “Compensation period”) in accordance with amendments to N12 Omnibus Agreement.

As GoG represents the ultimate shareholder of the Group and as the transaction under consideration was affected by the Group as a result of the GOG acting in its capacity as a shareholder rather than as a part of the normal course of business, the management accounted for the transaction in equity, as a distribution to owner and retained earnings of the Group were reduced accordingly by GEL 108,475 thousand as at 31 December 2020.

17. 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 19.

’000 GEL	**31 December 2021**	**31 December 2020**
Non-current liabilities		
Unsecured bonds	1,540,715	1,637,434
Secured loans from financial institutions	89,191	97,759
Unsecured loans from a related party	26,163	24,305
	1,656,069	**1,759,498**
Current liabilities		
Current portion of unsecured bonds	8,703	888,055
Current portion of unsecured loans from financial institutions	819,104	144,484
Current portion of secured loans from financial institutions	32,364	46,766
Current portion of unsecured loans from a related party	-	937
Unsecured loans	5,295	-
	865,466	**1,080,242**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2021		31 December 2020	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds							
Unsecured bonds-long term	USD	6.75%	2021	-	-	829,148	828,152
Unsecured bonds-long term	USD	7.75%	2022	-	-	1,697,337	1,697,337
Unsecured bonds-long term	USD	4.00%	2028	1,546,776	1,543,098	-	-
Unsecured bonds-long term	USD	8.50%	On demand	6,320	6,320	-	-
Unsecured loans from financial institutions:							
Unsecured loans from financial institutions	USD	Libor+6.5%	2021	-	-	145,281	144,484
Unsecured loans from financial institutions	EUR	Euribor+4%	On demand	113,399	108,101	-	-
Unsecured loans from financial institutions	EUR	3.3%	On demand	716,914	711,003	-	-
Unsecured loans from related parties:							
Unsecured loans related parties	USD	Libor+6.0%	2023	26,163	26,163	25,242	25,242
Secured loans from financial institutions:							
Secured loan from financial institution	USD	Libor+6.0%	2027	37,469	37,469	40,801	40,955
Secured loan from financial institution	EUR	5.3%	2026-2034	19,777	19,777	23,535	23,571
Secured loan from Credit Suisse	USD	Libor+1.25%	2026	67,460	63,734	79,999	79,999
Secured loan from financial institution	USD	36%	On demand	171	171	-	-
Secured loan from financial institution	GEL	11%	On demand	404	404	-	-
Other:							
Unsecured loans	EUR	6-8%	On demand	5,295	5,295	-	-
Total interest-bearing liabilities				**2,540,148**	**2,521,535**	**2,841,343**	**2,839,740**

Collateral for secured loans and borrowings is detailed in Note 8.

Georgian Railways

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

A portion of theesbonds were used for an early redemption of the unsecured bonds of USD 250 million issued by the Group in 2010.

The secured loan, with a carrying amount of GEL 63,734 thousand as at 31 December 2021, was obtained for the sole purpose of acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains, with a carrying amount of GEL 70,252 thousand as at 31 December 2021 (31 December 2020: GEL 72,494 thousand) (see also Note 8(d)). As at 31 December 2021, a financial covenant related to Net debt to EBITDA ratio on the above secured loan was breached allowing the lender to request repayment on demand. However, on 27 December 2021, the Group obtained a waiver from the lender on the breached covenant. Consequently, the Group classified the loan as long-term borrowing as at 31 December 2021 (As at 31 December 2020, the same breach occurred and was waived by the lender before 31 December 2021).

In June 2021, the Group successfully issued USD 500 million worth of green bonds on the London Stock Exchange due in 2028, carrying an interest rate of 4%. The proceeds from the issuance were used for redemption of the USD 500 million unsecured bonds.

As a result of early redemption, the green bonds were considered as a new financial instrument and accounted for at amortized cost using the effective interest rate method. The Group incurred directly attributable costs of GEL 8,999 thousand in connection with the issue of the green bonds, including, amongst other, legal counsel fees, rating agency expenses, listing expenses etc. These expenses were accounted for as transaction costs and were included in the calculation of the effective interest rate of the green bonds and are amortized over 7 years. A portion of the transaction costs were deducted directly from the proceeds from green bonds and are offset against the proceeds from bonds in the consolidated statement of cash flows.

In addition, the Group paid premia and fees in connection with the new issuance and the tender offer and consent solicitation (early redemption premium) of GEL 115.7 million (see also Note 7), which were expensed, since these fees were associated with the repayment of previous Eurobonds issued in 2012.

Georgian Oil and Gas Corporation

As a result of extensive negotiations with the EBRD, the subsidiary signed a EUR 217 million 10-year unsecured loan agreement in September, 2020 to refinance its USD 250 million corporate Eurobond debt and accrued coupon. The USD 250 million corporate Eurobond debt principal and coupon due was fully repaid in April, 2021 by utilizing the loan facility from EBRD amounting to GEL 853,734 thousand.

In 2018, the subsidiary signed a loan agreement of EUR 150 million with KfW for financing construction of first underground gas storage in Georgia. In 2020, due to 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 Company and KfW was revised and reduced from EUR 150 million to EUR 30 million. As at 31 December 2021, no tranche was withdrawn and the Company paid a commitment fee of GEL 204 thousand recognized in finance costs (2020: GEL 904 thousand). As at 31 December 2021, financial covenant related to Net Financial Debt to EBITDA was breached, subsequent to 31 December 2021, the Group obtained a waiver from the lender for the breached covenant.

As at 31 December 2021, the subsidiary had access to unused credit lines from Georgian banks (aggregate credit line limit amounted to USD 47,500 thousand). As of the date of these consolidated financial statements were authorized for issue, both credit lines were expired subsequent to the reporting date.

As at 31 December 2021, financial covenants related to Interest Coverage Ratio and Net Financial Debt to EBITDA on the EBRD loan, with a carrying amount of 711,003 thousand, were breached, allowing the lender to request repayment on demand. Consequently, total carrying amount of the loan was reclassified to current liabilities. Additionally, subsequent to the reporting date, the Group breached a non-financial covenant related to the timing of furnishing the lender with audited IFRS financial statements. As of the date of issuance of these consolidated financial statements, the Group was in process of obtaining a waiver.

Partnership Fund

In September 2021, the Fund acquired a loan from an international bank, Credit Europe Bank, of EUR 32,000 thousand, equivalent to GEL 116,572 thousand. Per contractual terms, the loan is repayable in September, 2023.

As at 31 December 2021, a non-financial covenant related to 'cross-default' was breached, allowing the lender to request repayment on demand. Breach of a non-financial covenant occurred due to the above-mentioned EBRD loan of Georgian Oil and Gas Corporation. Additionally, subsequent to the reporting date, the Fund breached another non-financial covenant related to the timing of furnishing the lender with audited IFRS financial statements. Subsequent to 31 December 2021, the Group obtained a waiver from the lender on this covenant. Consequently, as at 31 December 2021 the entire balance of the loan of GEL 108,101 thousand was reclassed to current liabilities.

(b) Reconciliation of movements of cash flows arising from financing activities

'000 GEL	**2021**	**2020**
Loans and borrowings as at 1 January	**2,839,740**	**3,495,131**
Proceeds from borrowings	2,741,133	13,144
Repayment of borrowings	(2,793,616)	(33,590)
Transaction costs related to loans and borrowings	(10,606)	-
Total changes from financing cash flows	**(63,089)**	**(20,446)**
Changes arising from obtaining/(losing) control over subsidiaries or other businesses	**12,190**	**(965,436)**
The effect of changes in foreign exchange rates	(197,003)	311,651
Interest expense	162,957	196,928
Interest expense capitalised as borrowing costs (see note 8 (a))	914	8,393
Interest paid	(224,782)	(187,490)
Modification loss on financial liabilities (see note 17(a))	-	1,009
Other	(9,392)	-
Total liability-related other changes	**(267,306)**	**330,491**
Loans and borrowings as at 31 December	**2,521,535**	**2,839,740**

18. Trade and other payables

’000 GEL	31 December 2021	31 December 2020
Trade payables	164,944	128,267
Advances received from customers	19,507	18,829
Other payables	31,513	21,844
	215,964	**168,940**

‘000 GEL	31 December 2021	31 December 2020
Non-current		
Payables for non-current assets	56,198	53,535
Current		
Payable for non-current assets	55,148	41,006
	111,346	**94,541**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 19.

19. 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 2028 yielded a range of values from a fair value approximately equal to the carrying amount to a fair value approximately 5% higher than the carrying amount.

The existing green bonds traded with a lower yield (approx. 3.9%) compared to the initial yield of 4%.

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 19(c));
- liquidity risk (see note 19(d));
- market risk (see note 19(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 trade receivables, 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 2021**	**31 December 2020**
Trade receivables	14	386,666	289,562
Other receivables		630	1,295
Loans receivable		8,276	11,428
Term deposits		3,254	-
Cash and cash equivalents	15	301,103	466,887
		699,929	**769,172**

(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 the country, in which customers operate.

Approximately 18% and 54% of the Group's revenue from the sale of railway transportation services and sale of gas is originated from two customers, respectively; 23% from electricity sales relates to one customer.

Credit risk is managed by requesting prepayments from customers or assessing their creditworthiness prior to extending credit, as well as through monthly monitoring of receivable balances and requiring immediate repayment of 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	**2021**	**2020**
Domestic	377,837	272,011
CIS countries	8,829	17,551
	386,666	**289,562**

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

	Carrying amount	
'000 GEL	**2021**	**2020**
Gas distributors	255,271	159,187
Electricity distributors	95,857	81,353
Gas pipeline rentals	19,357	22,851
Railway transportation	13,626	23,281
Other	2,555	2,890
	386,666	**289,562**

At 31 December 2021, the carrying amount of the Group's trade receivables from two most significant customers amounted to GEL 287,912 thousand (31 December 2020: GEL 157,403 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 losses

The following table provides information about the exposure to credit risk and ECLs for trade receivables from customers as at 31 December 2021 and 2020:

'000 GEL	**2021**	**2021**	**2021**
Customer credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	368,130	-	368,130
Medium risk	15,716	-	15,716
High risk*	-	235,007	235,007
Total gross carrying amount	**383,846**	**235,007**	**618,853**
Loss allowance	(1,248)	(230,939)	(232,187)
	382,598	**4,068**	**386,666**

'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**

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 are unlikely to reduce the ability of the borrower to fulfil its contractual cash flow obligations. With equivalent to external credit rating of BB- to B (Fitch).

Medium risk - the borrower has restructured contractual cash flow obligations to meet in the near term and adverse changes in economic and business conditions in the longer term are likely to reduce the ability of the borrower to fulfil its contractual cash flow obligations. Restructured receivables are considered to be Stage 2 instruments.

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

* The Group has outstanding receivable from the Government of Georgia in the amount of GEL 25,205 thousand recognized as a result of the transfer of property to the GoG, pursuant to the Bypass Project Memorandum of Understanding (MoU). Due to uncertainties associated with the recovery of the above receivable, ECLs were charged against the entire gross outstanding balance of GEL 25,205 thousand in 2017.

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

’000 GEL	**2021**	**2020**
Balance at 1 January	**239,054**	**240,765**
(Net recovery)/charge for the period	(261)	11,989
Amounts derecognised due to discontinued operations	-	(24,263)
Net foreign exchange (loss)/gain	(6,606)	10,563
Balance at end of the year	**232,187**	**239,054**

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 significant credit risk relating to the loans issued, as these instruments are not past due as at 31 December 2021 and 2020.

(iv) Cash and cash equivalents and term deposits

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

ECLs on cash and cash equivalents have 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 also Note 12). Consequently, management concluded that the latter does not bear credit risk and is outside of scope of IFRS 9 impairment-related 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 loan agreements.

As at 31 December 2021, the Group maintains access to committed unused credit lines of GEL 62,976 thousand maturing in 2022 with the local banks (31 December 2020: GEL 64,766 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 2021			**Contractual cash flows**			
'000 GEL	**Carrying amount**	**Total**	**On Demand**	**0-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Loans and borrowings**	2,521,535	2,915,343	842,142	97,847	349,337	1,626,017
Trade and other payables*	299,327	299,327	-	243,158	56,169	-
	2,820,862	**3,214,670**	**842,142**	**341,005**	**405,506**	**1,626,017**

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**

* 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 be paid within two years after the completion of the project.

** As disclosed in note 17, the Group has loans for which there was a breach of financial and non-financial covenants as at 31 December 2021 resulting in the reclassification of the loans to current liabilities. However, considering that the Group is in the process of negotiation to obtain waiver letter from the lender for EBRD loan and has obtained waiver letter for Credit Europe Bank loan subsequent to the reporting period end, the management expects that the repayment of the secured loan will follow the contractual schedule.

The net current liability position as at 31 December 2021 was effectively caused by loans and borrowings, reclassified to current liabilities due to breaches of covenants, see also note 2 (b) for management's assessment of the going concern assumption.

(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 is the Georgian Lari (GEL). The currencies in which these transactions are primarily denominated and are settled are U.S. Dollar (USD) and Euro (EUR).

Exposure to currency risk

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

'000 GEL	**USD-denominated 2021**	**EUR - denominated 2021**	**USD-denominated 2020**	**EUR - denominated 2020**
Cash and cash equivalents	60,756	30	235,641	5
Trade and other receivables	13,189	-	21,016	-
Loans receivable	8,076	-	11,091	-
Loans and borrowings	(1,676,955)	(844,176)	(2,816,169)	(23,571)
Trade and other payables	(69,660)	-	(65,891)	-
Net exposure	**(1,664,594)**	**(844,146)**	**(2,614,312)**	**(23,566)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2021	**2020**	**2021**	**2020**
USD 1	3.2209	3.1097	3.0976	3.2766
EUR 1	3.5249	3.5519	3.3772	4.0233

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 2021	
USD (10%)	(166,459)
EUR (10%)	(84,415)

'000 GEL	**Profit or loss**
31 December 2020	
USD (10%)	(261,431)
EUR (10%)	(2,357)

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**	
	2021	**2020**
Variable rate instruments		
Financial liabilities	(235,467)	(290,680)
	(235,467)	**(290,680)**

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**
2021		
Variable rate instruments	(2,355)	2,355
Cash flow sensitivity	**(2,355)**	**2,355**
2020		
Variable rate instruments	(2,907)	2,907
Cash flow sensitivity	**(2,907)**	**2,907**

(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 to shareholder 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	**2021**	**2020**
Total liabilities	2,926,138	3,174,040
Less: cash and cash equivalents	(301,144)	(466,887)
Less: term deposits	(3,254)	-
Net debt	**2,621,740**	**2,707,697**
Total equity	1,567,552	1,426,428
Debt to capital ratio at 31 December	**1.67**	**1.90**

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.

20. Significant subsidiaries

Georgian Railway JSC ("GR") 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 ("GOGC") was established as a 100% state-owned enterprise by the decree of the Ministry of Economy of Georgia dated 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 is the import 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 a Presidential decree #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 establied by GOGC and Partnership Fund JSC with 51% and 49% ownership interest, respectively. The charter capital was determined to be USD 100,000 thousand. The paid-in charter capital as at 31 December 2021 amounted to GEL 175,185 thousand (31 December 2020: GEL 175,185 thousand). The subsidiary was formed for the construction and operation of Gardabani Combined Cycle Power Plant (CCPP). Construction works were completed in July 2015. The Gardabani CCPP began its operations starting from September 2015.

In August 2016. a new subsidiary Gardabani TPP 2 LLC, with a charter capital of GEL 10,000 thousand, was founded in which Georgian Oil and Gas Corporation JSC holds 100% ownership interest. As at 31 December 2021, the charter capital of Gardabani TPP 2 LLC amounted to GEL 266,909 thousand. (31 December 2020: 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 the counterparty responsible for the construction of TPP on 28 February 2020. On 25 March 2020, Gardabani TPP 2 LLC obtained a license on the operation for an unlimited period of time 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.

Aerostructure Technologies Cyclone JSC (“ATC”) was established in Georgia in March, 2015 by Partnership Fund JSC, 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 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 majority of votes is required.

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

21. 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 excluding rent of pipeline recognised by the Group during 2021 amounted to GEL 4,647 thousand (2020: GEL 8,838 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 2021, showing the undiscounted lease payments to be received after the reporting date.

’000 GEL	
2021 – Operating leases under IFRS 16	
Less than one year	4,397
Between one and five years	5,920
More than five years	16,861
	27,178
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

22. Capital commitments

As at 31 December 2021, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 362,972 thousand (2020: GEL 367,643 thousand) mainly relating to the Main Line Modernization project of GEL 87,486 thousand (2020: GEL 65,369 thousand) and Tbilisi Bypass project of GEL 274,881 thousand (2020: GEL 301,993 thousand, decreased 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 2021 of GEL 5,518 thousand (2020: GEL 3,841 thousand).

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 at predetermined prices, which are significantly below the current market price of natural gas. As at 31 December 2021, the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 611,253 thousand (2020: GEL 771,959 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 offset 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 customers of the Group.

23. 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 (GOGC) filed an appeal against Georgian Gas Transportation Company LLC (GGTC) (the “defendant”) seeking compensation for the loss of approximately USD 3,747 thousand incurred by GOGC due to the defendant's failure to provide GOGC with the contractually required quantity of natural gas.

Additionally, GOGC seeks restitution amounting to GEL 706 thousand for the repair of damages incurred on the pipeline system, leased out to the defendant by GOGC, during the period when it was operated by the latter. Tbilisi City Court, which is the court of first instance rejected the claim. GOGC lodged an appeal before the Appellate Court. As of date these consolidated financial statements were authorized for issue, the proceedings were in process.

As at 31 December 2021, management estimates that the outcome of the litigation remains uncertain, as a result the Group has not recorded any receivable in respect of the above.

Frontera case:

In July 2018, Georgian Oil and Gas Corporation JSC (GOGC) and SAOG (State Agency of Oil and Gas) submitted their statement of claim against Frontera Resources Georgia Corporation (Frontera). SAOG and GOGC, 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, GOGC 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 the Company and never reimbursed by Frontera.

In September 2018, Frontera filed a counterclaim, claiming USD 3.5 billion as lost profits for the period 2012 through 2027 for certain alleged breaches of the PSA by GOGC and SAOG. The Company 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 legal costs allegedly incurred in obtaining land access to Block XII in the amount of USD 74 thousand.

In 2019, Frontera applied to the arbitration tribunal with a statement on voluntary withdrawal of the counterclaims. GOGC 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 the Company'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 a 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 the Company on behalf of Frontera as well as the costs incurred by GOGC in the course of the arbitration proceedings, in the 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, GOGC has legal right to GEL 18,522 thousand to be received from Frontera and expects to collect the amount in full, however for management believes that IFRS purposes it does not meet the strict recognition criteria of virtually certain realization of income, and therefore is not included in these consolidated financial statements.

On 13 January 2021, an order was issued by the Grand Court of Cayman Island pursuant to which the liquidation of Frontera has been brought under supervision of the Grand Cayman Court and the JVLs were appointed as joint official liquidators of Frontera (JOL).

On 10 February 2021, JOL made a declaration of Frontera's insolvency.

(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.

24. Related parties

(a) Parent and ultimate controlling party

As at 31 December 2021 and 2020 the Group was wholly owned and controlled 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	**2021**	**2020**
Salaries and bonuses	**3,439**	**2,878**

(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 16.

(i) Revenue

	Transaction value		**Outstanding balance as at 31 December**	
	2021	**2020**	**2021**	**2020**
State controlled entities:				
Rent of pipelines	44,567	43,065	19,357	22,851
Income from electricity generation	251,605	139,136	64,132	31,377

(ii) Expenses

’000 GEL	**Transaction value**		**Outstanding balance as at 31 December**	
	2021	**2020**	**2021**	**2020**
State controlled entities:				
Transportation of gas	9,455	9,632	1,511	1,504

(iii) Loans

’000 GEL	**Interest income/expense**		**Outstanding balance as at 31 December**	
	2021	**2020**	**2021**	**2020**
Loans and borrowings:				
Shareholder	2,056	1,970	26,163	25,242

The interest rates and maturities of loans from related parties are disclosed in note 17 (a).

25. Discontinued operations

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

(a) Results of discontinued operations

'000 GEL	**2020**
Revenue	149,295
Elimination of intragroup revenue	(5,760)
External revenue	**143,535**
Expenses	(139,106)
Elimination of intragroup expenses	30,013
External expense	**(109,093)**
Other income	744
Results from operating activities	**35,186**
Net finance income	39,104
Profit before income tax	**74,290**
Income tax expense	-
Profit from discontinued operations, net of tax	**74,290**

(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)**

26. Subsequent events

During 2022, the Group obtained short-term loan facilities from four Georgian banks with a total of GEL 210,757 thousand for working capital financing. As of the date these consolidated financial statements were authorized for issue, the amounts drawn under these facilities amounted to GEL 97,024 thousand.

In September 2022, the Fund repaid the loan from Credit Europe Bank in the amount of EUR 17,291 thousand. Repayment was made in accordance with contractual terms.

According to the decision of the GoG of 29 November 2022, the GoG reduced the Fund's equity by transferring to the National Agency of State Property, ownership interests (100% of shares) in Georgian Railway JSC, which had total equity of GEL 413,129 thousand and generated revenues of GEL 547,868 thousand for the year ended 31 December 2021 and 100% of shares in Georgian Oil and Gas Corporation JSC, which had total equity of GEL 1,045,048 thousand and generated revenues of GEL 1,114,608 thousand for the year ended 31 December 2021.

27. Basis of measurement

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

28. 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 5.

(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 2023.

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.

(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;
- early repayment premiums
- customer late payments penalties;
- interest expense on financial liabilities;
- foreign currency gains and losses 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.

Non- monetary assets and liabilities denominated in foreign currancies that are measured at fair value 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 enhance 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 properties

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 2021 and 2010. 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.

(q) Exploration and evaluation assets

Exploration and evaluation activity involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation activity include:

- Researching and analysing historical exploration data;
- Gathering exploration data through geophysical studies;
- Exploratory drilling and sampling;
- Determining and examining the volume and grade of the resource; Surveying transportation and infrastructure requirements;
- Conducting market and finance studies.

Expenditures related to the exploration and evaluation activity above are capitalized as exploration and evaluation assets.

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate an impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash generating units of production fields that are located in the same geographical region.

29. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2022 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 (Amendments to IFRS 16).*
– *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
– *References 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.*