Georgian Oil and Gas Corporation JSC

Consolidated Financial Statements
for 2018

Contents

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Independent Auditors' Report

To the Board of Directors of Georgian Oil and Gas Corporation JSC

Opinion

We have audited the consolidated financial statements of Georgian Oil and Gas Corporation JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Property, plant and equipment (PPE) register accuracy

Please refer to Note 13 to the consolidated financial statements

The Key audit matter	How the matter was addressed in our audit
The Group has a significant number of items of property, plant and equipment (PPE) spread across Georgia that are not always under the physical control of the Group due to the nature and location of the assets. The Group acquires a significant amount of assets on a recurring basis for various capital projects. The Group does not have formalized controls over the accuracy of the register and over the reconciliation between the register and the accounting software. The PPE register contained errors in respect of additions, disposals. Due to the above and the significance of the PPE balance, the accuracy of PPE is a Key Audit Matter.	Our audit procedures to address the Key Audit matter included the following: — Assessing the Group's capitalization policy for expenditure relating to PPE with reference to the requirements of IFRS; — Assessing, on a sample basis costs capitalized during the year by comparing the costs capitalized with the relevant underlying documentation, which included purchase agreements and invoices, and assessing whether the costs capitalized met the relevant criteria for capitalization; — Checking the date of transferring construction in progress to PPE by examining the inspection reports, on a sample basis; — Evaluating management's estimation of the carrying value of PPE uninstalled for longer than 24 months by collecting corroborative evidence from Group's technical personnel and considering our knowledge of the business; — Evaluating management's estimation of useful economic lives by considering our knowledge of the business and practices adopted in the wider oil transportation industry; — Testing the accuracy of the opening balances of the PPE register items by means of reconciling them with the financial records of prior periods; — Checking the completeness and accuracy of additions and disposals of PPE, by tracing respective contracts, underlying invoices and cash receipts to significant changes in the PPE register and vouching significant changes to respective source documents; — Reconciliation of the information from the PPE register with the respective disclosures in the financial statements.

Management Report

Management is responsible for the Management Report. Management report does not comprise consolidated financial statements and our auditors' report thereon. Management Report is expected to be made available to us after the date of this auditors' report.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Karen Safaryan

KPMG Georgia LLC

Tbilisi, Georgia

8 July 2019

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’000 GEL	Note	2018	2017
Assets			
Property, plant and equipment	13	958,401	778,419
Prepayments for non-current assets	14	62,681	59,535
Intangible assets		1,121	1,136
Finance lease receivable	15	67,854	62,873
Loans given	16	14,952	12,041
Trade and other receivables	17	18,959	21,169
Equity accounted investees	8	17,182	15,480
Non-current assets		**1,141,150**	**950,653**
Inventories		17,826	12,412
Taxes other than on income		2,171	-
Prepayments	14	50,301	50,791
Trade and other receivables	17	127,380	147,026
Restricted cash	18	5,607	-
Cash and cash equivalents	18	348,595	498,960
Current assets		**551,880**	**709,189**
Total assets		**1,693,030**	**1,659,842**
Equity	19		
Share capital		626,595	624,916
Additional paid in capital		71,718	71,718
Fair value reserve for non-cash owner contributions		(282,181)	(282,181)
Retained earnings		484,734	428,994
Equity attributable to owners of the Company		**900,866**	**843,447**
Non-controlling interests	24	91,560	69,063
Total equity		**992,426**	**912,510**
Liabilities			
Loans and borrowings	21	658,134	637,381
Non-current liabilities		**658,134**	**637,381**
Loans and borrowings	21	13,486	78,519
Trade and other payables	22	26,919	29,254
Current tax liabilities		-	113
Provisions		2,065	2,065
Current liabilities		**42,470**	**109,951**
Total liabilities		**700,604**	**747,332**
Total equity and liabilities		**1,693,030**	**1,659,842**

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 11 to 50.

'000 GEL	Note	2018	2017
Revenue	7	642,651	671,586
Cost of gas and oil		(367,473)	(392,649)
Depreciation		(37,798)	(37,322)
Personnel costs		(20,076)	(17,703)
Taxes, other than on income		(10,920)	(9,650)
Other expenses	9	(26,302)	(16,468)
Other income	10	2,042	8,028
Results from operating activities		**182,124**	**205,822**
Finance income	11	42,391	68,432
Finance costs	11	(64,505)	(53,889)
Net finance (costs)/income		**(22,114)**	**14,543**
Share of profit of equity accounted investees	8	1,335	2,100
Profit before income tax		**161,345**	**222,465**
Income tax expense	12	-	(2,059)
Profit and total comprehensive income for the year		**161,345**	**220,406**
Profit and total comprehensive income attributable to:			
Owners of the Company		138,848	191,529
Non-controlling interests		22,497	28,877
		161,345	**220,406**

These consolidated financial statements were approved by management on 8 July 2019 and were signed on its behalf by:

Givi Bakhtadze
General Director

Omar Ogbaidze
Financial Director

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 11 to 50.

	Attributable to owners of the Company						
'000 GEL	**Share capital**	**Additional paid in capital**	**Fair value reserve for non-cash owner contributions**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2017	617,093	71,718	(282,181)	264,778	671,408	40,186	711,594
Profit and total comprehensive income for the year	-	-	-	191,529	191,529	28,877	220,406
Transactions with owners of the Company							
Contributions and distributions							
Dividends (see note 19(c))	-	-	-	(27,313)	(27,313)	-	(27,313)
Increase in share capital (see note 19 (a))	7,823	-	-	-	7,823	-	7,823
Total contributions and distributions	**7,823**	**-**	**-**	**(27,313)**	**(19,490)**	**-**	**(19,490)**
Balance at 31 December 2017	**624,916**	**71,718**	**(282,181)**	**428,994**	**843,447**	**69,063**	**912,510**
Balance at 1 January 2018	624,916	71,718	(282,181)	428,994	843,447	69,063	912,510
Adjustment on initial application of IFRS 9 (note 5B(ii))	-	-	-	(5,966)	(5,966)	-	(5,966)
Balance at 1 January 2018	624,916	71,718	(282,181)	423,028	837,481	69,063	906,544
Profit and total comprehensive income for the year	-	-	-	138,848	138,848	22,497	161,345
Transactions with owners of the Company							
Contributions and distributions							
Dividends (see note 19(c))	-	-	-	(77,142)	(77,142)	-	(77,142)
Increase in share capital (see note 19(a))	1,679	-	-	-	1,679	-	1,679
Total contributions and distributions	**1,679**	**-**	**-**	**(77,142)**	**(75,463)**	**-**	**(75,463)**
Balance at 31 December 2018	**626,595**	**71,718**	**(282,181)**	**484,734**	**900,866**	**91,560**	**992,426**

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 11 to 50.

'000 GEL	**Note**	**2018**	**2017**
Cash flows from operating activities			
Cash receipts from customers*		731,564	759,289
Cash paid to suppliers and employees*		(510,424)	(513,090)
Restricted cash		(5,607)	-
Value added tax refund from the State	13	16,000	-
Cash from operations before income taxes and interest		**231,533**	**246,199**
Interest paid		(46,120)	(46,073)
Interest received		32,892	31,774
Net cash from operating activities		**218,305**	**231,900**
Cash flows from investing activities			
Acquisition of property, plant and equipment, including advances paid		(221,268)	(82,889)
Decrease in term deposit		-	69,129
Repayment of loans given		-	2,442
Loans given		(1,219)	(10,883)
Acquisition of equity accounted investee		(367)	(740)
Cash received from disposal of PPE		1,052	-
Net cash used in investing activities		**(221,802)**	**(22,941)**
Cash flows from financing activities	21		
Dividends paid		(77,142)	(27,313)
Proceeds from borrowings		-	69,914
Repayment of borrowings		(68,358)	(130,227)
Net cash used in financing activities		**(145,500)**	**(87,626)**
Net (decrease)/increase in cash and cash equivalents		**(148,997)**	**121,333**
Cash and cash equivalents at 1 January		498,960	391,609
Effect of exchange rate fluctuations on cash and cash equivalents		(1,368)	(13,982)
Cash and cash equivalents at 31 December	18	**348,595**	**498,960**

* During 2018 cash receipts from customers and cash paid to suppliers and employees contain VAT receipt and paid balances of GEL 73,890 thousand and GEL 70,220 thousand, respectively (2017: GEL 82,773 thousand and GEL 82,647 thousand, respectively).

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 11 to 50.

1. Reporting entity

(a) Organisation and operations

Georgian Oil and Gas Corporation JSC (the "Company") and its subsidiaries (the "Group") comprise Georgian Joint Stock and Limited Liability Companies as defined in the Law of Georgia on Entrepreneurs. The Company was established as a 100% state-owned enterprise by the order of the Ministry of Economy of Georgia on 21 March 2006, on the basis of three Georgian state-owned companies: Georgian International Oil Corporation JSC, Georgian Gas International Corporation JSC and Teleti Oil Company JSC.

The Company's registered office is 21 Kakheti Highway, Tbilisi 0190, Georgia. The Company has been registered by Tbilisi Tax Inspection and the registration number is # 4346/007.

The Group's principal activities are natural gas import, electricity generation and supply, rent of gas pipelines and oil and gas exploration and extraction in Georgia. Following the completion of the Gardabani Combined-Cycle Power Plant (CCPP) construction in July 2015, electricity generation was added to the Group's principal activities. On 7 September 2015, Gardabani CCPP obtained the licence on operation for an unlimited period from the Georgian National Energy and Water Supply Regulatory Commission (GNERC) and commenced generating revenue in accordance with the deregulated tariffs on the electricity market in Georgia. In accordance with the Government of Georgia order # 475 dated 14 September 2015 Gardabani CCPP was granted the status of guaranteed capacity operator until 1 October 2040.

Since December 2006, when the Company has been granted the status of National Oil Company on behalf of the State of Georgia, the Company receives and sells the State's share of extracted oil and gas in Georgia in accordance with Production Sharing Agreements signed between the State and investors.

Since 2017 the Company started construction of Gardabani II Combined-Cycle Thermal Power Plant, which is planned to be finished in the fourth quarter of 2019.

As at 31 December 2018 and 2017 the Group is wholly owned by Partnership Fund JSC (100% owned by the Georgian Government). The ultimate controlling party of the Group is the Government of Georgia. Related party transactions are disclosed in note 27.

(b) Business environment

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

2. Basis of accounting

(a) Statement of compliance

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

This is the first set of the Group's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 5.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand.

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 7(d) – revenue recognition in accordance with IFRS 15;
- Note 15 Finance lease receivables – determination of whether the initial arrangement contains a finance lease and the present value of the unguaranteed residual value at the end of the lease term, as well as, changes in the estimates for the net investments' present value calculation.
- Note 18 cash and cash equivalents – classification of term deposits with original maturities of more than three months as cash and cash equivalents;
- Note 24 Significant subsidiaries – determination of control over subsidiaries;
- Note 25 Capital and other commitments – assessment of the commitment related to the purchase and sale of gas;

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

- Note 23 measurement of ECL allowance for financial assets;
- Note 26 contingencies.

Measurement of fair values

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.

The information about the assumptions made in measuring fair values is included in note 23 (a) – accounting classifications and fair values.

5. Changes in significant accounting policies

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

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

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

A. IFRS 15 *Revenue from Contracts with Customers*

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

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

IFRS 15 did not have a material impact on the Group`s accounting policies with respect to the Group`s revenue streams – sale of natural gas, income from electricity generation and supply, income from rent of gas pipelines, oil transportation fee and income from crude oil sales (see note 7), therefore, there has been no impact of transition to IFRS 15 on retained earnings at 1 January 2018. No contract assets/liabilities were recognized as a result of transition to IFRS 15.

B. IFRS 9 *Financial Instruments*

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

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements,* which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in other expenses or finance costs. Consequently, the Group reclassified impairment losses recognised under IAS 39, from 'other expenses' to 'impairment loss on trade receivables "in the statement of profit or loss and OCI for the year ended 31 December 2018. Impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the consolidated statement of profit or loss and OCI due to materiality considerations.

Due to recognition of expected credit losses under IFRS 9, the impact of transition on retained earnings as at 1 January 2018 amounted to GEL 5,966 thousand decrease of the retained earnings.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

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

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note 29(k).

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

'000 GEL	
Loss allowance at 31 December 2017 under IAS 39	**2,102**
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables	5,944
Loan receivable at amortised cost	22
Loss allowance at 1 January 2018 under IFRS 9	**8,068**

Additional information about how the Group measures the allowance for impairment is described in Note 29.

(iii) Transition

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

6. Operating segments

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units, the Company's General Director reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

— *Gas supply:* Includes purchase and sale of natural gas.
— *Electricity generation and supply:* Includes electricity sales and guaranteed capacity fees.
— *Pipeline rental:* Includes rental income earned by the Group from the lease of gas pipelines to a related party, Georgian Gas Transportation Company LLC (see note 27).
— *Oil transportation:* Includes income from transportation of oil through the territory of Georgia.
— *Upstream activities:* Includes sale of oil from production-sharing arrangements.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before depreciation, personnel costs, net finance costs, other income/expenses and income and other taxes, as included in the internal management reports that are reviewed by the Company's General Director. The management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. The Company's General Director does not monitor segment assets or liabilities.

(i) Information about reportable segments:

	Gas supply		Electricity generation and supply		Pipeline rental		Oil transportation		Upstream activities		Total	
'000 GEL	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Revenue	361,655	379,560	209,090	199,711	42,053	59,847	18,367	18,315	11,486	14,153	642,651	671,586
Cost of gas and oil	(274,427)	(304,576)	(93,046)	(88,073)	-	-	-	-	-	-	(367,473)	(392,649)
Reportable segment profit before unallocated costs and income tax	**87,228**	**74,984**	**116,044**	**111,638**	**42,053**	**59,847**	**18,367**	**18,315**	**11,486**	**14,153**	**275,178**	**278,937**

'000 GEL	**2018**	**2017**
Revenues		
Total revenue for reportable segments	642,651	671,586
Profit or loss		
Reportable segments profit	275,178	278,937
Unallocated amounts:		
Depreciation	(37,798)	(37,322)
Personnel costs	(20,076)	(17,703)
Net finance (costs)/income	(22,114)	14,543
Taxes, other than on income	(10,920)	(9,650)
Other expenses	(26,302)	(16,468)
Other income	2,042	8,028
Share of profit of equity accounted investees	1,335	2,100
Consolidated profit before income tax	**161,345**	**222,465**

(ii) Geographical information

Majority of the Group's revenues are generated in Georgia and all non-current assets are located in Georgia.

(iii) Major customers

In 2018 sales to one customer in the gas supply segment represented GEL 340,681 thousand which represents approximately 53% of the Group's total revenue (2017: GEL 376,671 thousand, 56%).

In 2018 sales to one customer in electricity generation and supply segment represented GEL 115,880 thousand which represents approximately 18% of the Group's total revenue (2017: GEL 109,125 thousand, 16%).

7. Revenue

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

(a) Revenue streams

The Group's principal activities are natural gas import, electricity generation and supply, rent of gas pipelines and oil and gas exploration and extraction in Georgia.

'000 GEL	2018	2017
Revenue from contracts with customers:		
Sale of natural gas	361,655	379,560
Income from electricity generation and supply	209,090	199,711
Income from crude oil sales	11,486	14,153
Revenue from contracts with customers	**582,231**	**593,424**
Other revenue		
Income from rent of gas pipelines	42,053	59,847
Oil transportation fee under finance lease (note 15)	18,367	18,315
Total other revenue	**60,420**	**78,162**
Total revenues	**642,651**	**671,586**

Income from electricity generation and supply includes the income from guaranteed capacity fees of GEL 115,768 thousand (2017: GEL 103,166 thousand) and income from electricity generation of GEL 93,322 thousand (2017: GEL 96,545 thousand).

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

The Company rents its gas pipeline and related infrastructure to Georgian Gas Transportation Company LLC (GGTC). The rent agreement is non-cancellable and is valid until 1 January 2020. From 1 September 2011 till 1 September 2017 the lease payments were calculated based on the volume of gas transported through the leased gas pipeline at a rate of $6.80 per 1,000 cubic meters. Since 1 September 2017 the rent fee is fixed at GEL 3,500 thousand per month. GGTC is responsible for all costs related to the repair, maintenance, operation and security of the main gas pipeline system. The Company is responsible for capital expenditures only. Transactions with related parties are disclosed in note 27.

(b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 6).

	Gas supply		**Electricity generation and supply**		**Upstream activities**		**Total**	
'000 GEL	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Primary geographical markets:								
Georgia	361,655	379,560	209,090	199,711	11,486	14,153	582,232	593,424
Other	-	-	-	-	-	-	-	-
	361,655	**379,560**	**209,090**	**199,711**	**11,486**	**14,153**	**582,232**	**593,424**

(c) Contract balances

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

'000 GEL	Note	31 December 2018	1 January 2018
Receivables, which are included in 'trade and other receivables'	17	117,087	136,538

(d) Performance obligations and revenue recognition policies

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

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

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Gas supply	Customers obtain control of gas when it's transferred by pipelines to the customer. Invoices are generated no later than 15th of the following reporting month. Per contractual terms part of payments are made in advance (no later than 25th of each month) and remaining amount is paid by the end of the month following the reporting month. Per agreement late payment penalties are accrued on outstanding balances starting from the day following payment due date.	Revenue is recognised when the gas is delivered to the delivery points (Eastern, Southern and Northern Delivery Points, defined in the Gas Supply Agreement) i.e. performance obligation on delivery of gas is satisfied. The transaction price includes cost of gas and late payment penalties as variable consideration, and excludes estimates of the variable consideration that are constrained, that is allocated to that performance obligation.	Revenue was recognised when the gas was transferred to the customers via pipelines and consumed by the latter which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred, provided that a reasonable estimate of the returns could be made.
Upstream activities/ income from crude oil sales	Performance obligation is satisfied when the Group makes oil available to the customer at its premises (EXW – Incoterms). Invoice is issued on the sale of oil and payment is contractually agreed with individual customer.	Revenue from sales of oil is recognized when oil is transferred/ shipped from the Company's facilities to the customer.	Revenue from sales of oil was recognized when ownership, rights and obligations related to oil was transferred from the Group to the customer.
Electricity generation and supply	Performance obligation is satisfied when electricity is provided to and consumed by the wholesaler. Invoice is issued on a monthly basis. Payment for consumed electricity is made by the end of the month following reporting month.	Revenue is recognised on a monthly basis based on volume of electricity consumed by wholesalers. The consumed electricity is measured by meters. Capacity fees are based on RAB (Valuation of the Regulatory Asset Base) and fixed daily payment is being made during 300 days out of 365.	Revenue was recognised on a monthly basis based on volume of electricity consumed by wholesalers.

8. Equity accounted investees

’000 GEL	**2018**	**2017**
Interests in associates:		
Kartli Wind Power Station LLC - 49.99%	15,635	14,300
Enguri Pumped-Storage Power Plant LLC (EPSPP) – 40%	367	-
Other investments	1,180	1,180
Total	**17,182**	**15,480**

Kartli Wind Power Station LLC constructed the first wind power station in Georgia with a capacity of 20.7 MW. The construction of the station was completed in September 2016 and started operation from November 2016.

’000 GEL	**2018**	**2017**
Percentage ownership interest	49.99%	49.99%
Non-current assets	62,712	66,212
Current assets	20,316	17,796
Non-current liabilities	(45,411)	(48,478)
Current liabilities	(7,006)	(7,589)
Net assets (100%)	30,611	27,941
Group’s share of net assets	15,302	13,968
Revenue	14,744	14,106
Profit and total comprehensive income (100%)	2,670	4,200
Group’s share of profit and total comprehensive income	**1,335**	**2,100**

Movement of the equity-accounted investees during the year:

’000 GEL	**2018**	**2017**
Balance at 1 January	**15,480**	**12,640**
Contributions made during the year	367	740
The Group’s share of profit, net of income tax	1,335	2,100
Balance at 31 December	**17,182**	**15,480**

On 11 June 2018 Enguri Pumped-Storage Power Plant LLC (EPSPP) was founded by the Group, Engurhesi LLC and JSC Georgian Energy Development Fund with 40%, 40% and 20% shareholding, respectively. EPSPP was founded for research of feasibility of Pumped-Storage Power Plant project and in case of positive results of feasibility analysis EPSPP should implement this project. Initial investment to EPSPP per charter of the investee is USD 1,500 thousand, which should be paid by the founders according their shareholding. During 2018 the Group made contribution of GEL 367 thousand to the charter capital of EPSPP.

Additionally, Georgian Oil and Gas Corporation JSC owns interest in International Pipeline Company Sarmatia LLC and interest in AGRI LNG Project Company LLC, both constituting significant influence. Based on the order #775 of the Government of Georgia on 13 April 2017, Georgian Oil and Gas Corporation JSC can participate in the implementation of White Stream and Trans-Caspian Gas Pipeline projects. Based on the annual Partnership Meeting held on 9 July 2017, Partners of Sarmatia made the decision to increase the charter capital of Sarmatia LLC. Based on the above-mentioned decision, cash paid for the acquisition of equity accounted investees equaled to GEL 740 thousand.

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

9. Other expenses

'000 GEL	2018	2017
Transportation, materials, repair and maintenance	7,824	6,434
Legal fees*	6,747	1,737
Regulatory fees	2,034	2,091
Write off and disposal of assets	2,235	97
Representative and business trip expenses	777	650
Benefits to employees	601	597
Office expenses	590	1,231
Conversion expense	370	-
Professional services	288	227
Other	4,836	3,404
	26,302	**16,468**

* Legal fees relate to legal services received from Hogan Lovells International LLP based on the agreement between the Company and Hogan Lovells International LLP dated 6 November 2017, with respect to legal case initiated by Frontera Resources Georgian Corporation (note 26(b)).

The professional services above include fees paid to the audit firm for the provision of audit and other professional services.

10. Other income

'000 GEL	2018	2017
Income from sale of property, plant and equipment	706	-
Rent income	368	567
Oil processing	323	229
Excess inventory identified through stock count	223	1,747
Customer penalties for late payment	119	277
Reversal of impairment loss on trade receivables	-	1,340
Income from foreign exchange conversion transactions	-	1,064
Compensation for damage	-	786
Other	303	2018
	2,042	**8,028**

11. Finance income and finance costs

'000 GEL	2018	2017
Recognised in profit or loss		
Interest income under the effective interest method at amortized cost	34,630	36,948
Unwinding of discount on finance lease receivable (note 15)	4,981	3,836
Unwinding of discount on restructured receivable from related party (note 17)	2,780	-
Customer late payment penalty	-	20,851
Net foreign exchange gain	-	6,797
Finance income	**42,391**	**68,432**
Interest expense on loans and borrowings	(42,634)	(48,695)
Loss on derecognition of financial asset (note 17)	-	(5,194)
Net foreign exchange loss	(21,871)	-
Finance costs	**(64,505)**	**(53,889)**
Net finance (costs)/income recognised in profit or loss	**(22,114)**	**14,543**

12. Income tax expense

(a) Amounts recognized in profit or loss

The Groups applicable tax rate is the income tax rate of 17.64% (2017: 17.64%) applicable to Georgian companies.

’000 GEL	**2018**	**2017**
Current tax expense		
Current year	-	391
Under provided in prior years	-	1,668
Total tax expense	-	**2,059**

(b) Reconciliation of effective tax rate:

	2018		**2017**	
	’000 GEL	**%**	**’000 GEL**	**%**
Dividends declared	77,142*	-	27,313	100
Income tax expenses at applicable tax rate	-		4,820	17.65
Set off of the tax payable on dividends **	-		(4,429)	(16)
Under provided in prior years	-		1,668	6
	-	-	**2,059**	**8**

* On 17 July 2018 the Parent of the Group (Partnership Fund JSC) made a decision that the Company can distribute 35% of 2017 consolidated profit. The Tax code of Georgia specifically excludes certain transactions from distribution of dividends, particularly, distribution of earnings (except of dividends attributable to net earned profit during 2008-2016) between Georgian entrepreneurs (except to CIT exempt entity) having the status of legal entities registered in Georgia. As distribution of these dividends related to 2017 undistributed earnings, per Tax code of Georgia it is not deemed as a distribution of earnings, thus is not subject to CIT.

** According to the Tax code of Georgia, distribution of dividends attributable to net earned profit during 2008-2016 between Georgian entrepreneurs is also considered as distribution of earnings with the right to credit CIT attributable to 2008-2016 tax periods. However, further distribution of these dividends is not deemed as a distribution of earnings thus is not subject to CIT.

With respect to declared dividends in 2017 the Company set off of the tax payable on dividends that related to corporate income tax paid on the undistributed earnings in the years 2008 to 2016.

As at 31 December 2018 and 2017 total tax reimbursement available for offset against CIT applicable to distribution of dividends from net earned profit during 2008-2016, amounts to GEL 47,962 thousand.

13. Property, plant and equipment

’000 GEL	Gas and oil pipelines	Land and buildings	Electricity generating unit	Oil wells	Plant and equipment	Other	Under construction and uninstalled equipment	Total
Cost/deemed cost								
Balance at 1 January 2017	391,649	43,680	380,664	35,404	19,010	9,758	103,797	983,962
Additions	8,380	865	-	-	457	848	31,229	41,779
Transfers	13,054	(352)	525	-	384	249	(13,860)	-
Disposals	(683)	(118)	-	-	(73)	(11)	(695)	(1,580)
Reclassification	(603)	-	-	-	-	-	603	-
Balance at 31 December 2017	**411,797**	**44,075**	**381,189**	**35,404**	**19,778**	**10,844**	**121,074**	**1,024,161**
Balance at 1 January 2018	411,797	44,075	381,189	35,404	19,778	10,844	121,074	1,024,161
Additions	95	1,572	-	-	482	2,137	209,101	213,387
Transfers	15,374	729	214	-	(275)	19	(16,061)	-
Capitalised borrowing costs	-	-	-	-	-	-	7,050	7,050
Disposals	(694)	(1,907)	-	-	(64)	(309)	(1,229)	(4,203)
Reclassification	4,725	-	-	-	-	-	(4,725)	-
Balance at 31 December 2018	**431,297**	**44,469**	**381,403**	**35,404**	**19,921**	**12,691**	**315,210**	**1,240,395**
Depreciation and impairment losses								
Balance at 1 January 2017	135,964	6,496	22,106	24,223	9,109	4,283	6,270	208,451
Depreciation for the year	17,674	776	15,291	1,207	1,805	1,115	-	37,868
Disposals	(529)	(26)	-	-	(11)	(11)	-	(577)
Transfers to uninstalled equipment	6	-	-	-	-	-	(6)	-
Balance at 31 December 2017	**153,115**	**7,246**	**37,397**	**25,430**	**10,903**	**5,387**	**6,264**	**245,742**
Balance at 1 January 2018	153,114	7,246	37,397	25,430	10,903	5,387	6,265	245,742
Depreciation for the year	18,210	804	15,319	966	1,344	1,155	-	37,798
Disposals	(398)	(805)	-	-	(62)	(281)	-	(1,546)
Reclassification	3,703	-	-	-	-	-	(3,703)	-
Transfer	(478)	-	-	-	-	-	478	-
Balance at 31 December 2018	**174,151**	**7,245**	**52,716**	**26,396**	**12,185**	**6,261**	**3,040**	**281,994**
Carrying amounts								
At 31 December 2017	**258,682**	**36,829**	**343,792**	**9,974**	**8,875**	**5,457**	**114,810**	**778,419**
At 31 December 2018	**257,146**	**37,224**	**328,687**	**9,008**	**7,736**	**6,430**	**312,170**	**958,401**

Uninstalled equipment represents GEL 92,876 thousand (2017: GEL 61,635 thousand) from the total balance of GEL 312,170 thousand (2017: GEL 114,810 thousand), assets under construction and uninstalled equipment. Most of the uninstalled equipment consists of gas pipelines and turbines not yet put into use. Since the Georgian market is not developed, it is almost impossible to buy parts for thermal power plants quickly in urgent situations, hence the Company has to keep additional stock.

Assets under construction mostly contains the construction/rehabilitation works related to the gas pipelines. Significant increase in assets under construction of GEL 154,608 thousand from total additions balance of GEL 209,101 thousand relates to construction of Gardabani II Combined-Cycle Thermal Power Plant. The construction is planned to be finished in the fourth quarter of 2019.

During 2018 GEL 16,000 thousand (2017: nil) has been refunded as VAT on the purchases for Gardabani II Combined-Cycle Thermal Power Plant construction.

Capitalised borrowing costs related to the construction of the Gardabani II Combined-Cycle Thermal Power Plant amounted to GEL 7,050 thousand, with a capitalisation rate of 6.75%.

During 2018 the Government of Georgia contributed buildings of GEL 457 thousand, land plots of GEL 927 thousand, plant and equipment of GEL 263 thousand and in other category of GEL 32 thousand (2017: gas pipelines of GEL 7,421 thousand, land plots of GEL 313 thousand, other of GEL 89 thousand) in the form of an increase in share capital of the Company. Management believe that the nominal value of these assets at the contribution date into the Company's share capital approximate to their fair value based on third party valuation reports.

14. Prepayments

'000 GEL	**2018**	**2017**
Non-current assets		
Prepayments for non-current assets	62,681	59,535
Current assets		
Prepayments	50,301	50,791
	112,982	**110,326**

On 28 September 2016 the agreement was signed on engineering, procurement and construction of Gardabani II Combined-Cycle Thermal Power Plant, between Gardabani TTP 2 LLC and China Tianchen Engineering Corporation. As at 31 December 2018 advance payment of GEL 57,328 thousand (31 December 2017: GEL 59,535 thousand) was made to China Tianchen Engineering Corporation in accordance with the above agreement. The construction is planned to be finished in the fourth quarter of 2019.

Current portion of the prepayments balance were made mainly to South Caucasus Pipeline Option Gas Company Limited of GEL 33,860 thousand (201: GEL 31,136 thousand) and to Azerbaijan Gas Supply Company Limited (AGSC) of GEL 12,026 thousand (2017: GEL 11,636 thousand) for the supply of gas.

15. Finance lease receivable

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

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

During 2018, the Group revised the estimated unguaranteed residual value of the finance lease receivable reported as GEL 67,854 thousand in the consolidated statement of financial position as at 31 December 2018. This revision involved certain judgements in respect of the assumptions made which are inherently uncertain. All the changes to the key assumptions including a decrease in the discount rate used to calculate the present value of the unguaranteed residual value of the finance lease receivable and a decrease in projected cash flows from transit fees produced by these assets where considered in 2018 consolidated financial statements. The Group applied updated finance lease receivables' model from 1 January 2018 and unwinding of discount for 2018 was calculated so that the Group recognized GEL 4,981 thousand unwinding of discount on finance lease receivable in consolidated statement of profit or loss and other comprehensive income in 2018 (note 11).

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

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

16. Loans given

'000 GEL	**2018**	**2017**
Non-current assets		
Loan given to shareholder	13,613	12,041
Loan given to third party	1,339	-
	14,952	**12,041**

The loan given to the shareholder, JSC Partnership Fund, is unsecured subordinated loan and denominated in USD (USD 4,500 thousand), bears the contractual interest rate of 9.5% per annum. Repayment of principal and accrued interests should be done on maturity 31 May 2021.

In March 2018 the Company issued a loan to Georgian Oil and Gas Limited (non-related party) of USD 500 thousand. The loan bears contractual interest rate of 9.5% per annum. Repayment of principal and accrued interests should be done on maturity 16 March 2020.

The Group's exposure to credit risks and impairment losses related to loans are disclosed in note 23.

17. Trade and other receivables

'000 GEL	**2018**	**2017**
Non-current assets		
Restructured receivables*	18,959	21,169
Total non-current	**18,959**	**21,169**
Current assets		
Trade receivables	121,909	139,948
Restructured receivables*	4,510	4,510
Other receivables	961	2,568
Total current	**127,380**	**147,026**
	146,339	**168,195**

* On 16 November 2017 the Company and Georgian Gas Transportation Company LLC (a state owned entity) signed an agreement on restructuring the receivable related to the rent of the main gas pipeline. The counterparties agreed a payment schedule, based on which the total amount will be repaid by the end of 2025. The restructuring of the receivable signified a substantial modification of terms, therefore, at the date of the restructuring, the Company derecognized the existing receivable and recognised a new asset according to the new terms. The fair value of the new asset at initial recognition in 2017 was calculated based on the present value of the future payments discounted at the interest rate of 10.86% per annum, which was considered to be at market rate (note 11). In 2018 Georgian Gas Transportation Company LLC has made GEL 5,000 thousand payment in accordance with above mentioned payment schedule.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

18. Cash and cash equivalents and restricted cash balances

'000 GEL	**2018**	**2017**
Bank current accounts	230,237	203,711
Call deposits	118,358	295,249
Cash and cash equivalents in the consolidated statement of cash flows and in the consolidated statement of financial position	**348,595**	**498,960**

Call deposits represent term deposits with banks for which the Group has the unilateral right to withdraw the deposits any time of providing notification without incurring significant penalties or loss of accrued interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

Restricted cash

As at 31 December 2018 restricted cash balance of GEL 5,607 thousand (2017: nil) represent bank balances secured for letter of credit agreements in one Georgian bank.

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

19. Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares	
	2018	**2017**
Par value	GEL 20	GEL 20
On issue at 1 January	31,245,797	30,854,651
Issue of shares in exchange for non-cash assets contributed	83,971	391,146
On issue at 31 December	**31,329,768**	**31,245,797**

Ordinary shares

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

(b) Additional paid in capital

Additional paid in capital represents benefits provided to the Group by the Government of Georgia acting in its role of the shareholder.

(c) Dividends and other distribution to shareholders

In 2018 dividends of GEL 77,142 thousand were declared and paid (2017: GEL 27,313 thousand were declared and paid).

Based on the Order #531 issued by Government of Georgia on 27 March 2012, related to the distribution of net profit of the Company, from the net profit generated by the Company during 2012-2017, the maximum amount that can be distributed is 35% of prior year net profit. Same is applicable for 2018.

(d) Non-controlling interests

Non-controlling interest represents the Partnership Fund JSC’s contribution into the charter capital and its share of the cumulative retained earnings of Gardabani TPP LLC, a 51% subsidiary of the Group (see note 24).

20. Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group’s operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of the Group’s revenues and profit, and long-term investment plans mainly financed by the Group’s operating cash flows. With these measures the Group aims for steady profits growth.

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

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

21. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 23.

'000 GEL	2018	2017
Non-current liabilities		
Unsecured bond issue	658,134	637,381
	658,134	**637,381**
Current liabilities		
Unsecured loans	-	67,512
Current portion of unsecured bond issue	13,486	11,007
	13,486	**78,519**
	671,620	**715,900**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2018		31 December 2017	
'000 GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Loan from banks	USD	5.00%	2018	-	-	12,979	12,979
Loan from banks	USD	6.50%	2018	-	-	54,533	54,533
Unsecured bond issue	USD	6.75%	2021	669,150	671,620	648,050	648,388
Total interest-bearing liabilities				**669,150**	**671,620**	**715,562**	**715,900**

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

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

	Equity	Liabilities	
'000 GEL	Retained earnings	Loans and borrowings	Total
Balance at 1 January 2018	**423,028**	**715,900**	**1,138,928**
Repayment of borrowings	-	(68,358)	(68,358)
Dividend paid	(77,142)	-	(77,142)
Total changes from financing cash flows	**(77,142)**	**(68,358)**	**(145,500)**
Other changes			
The effect of changes in foreign exchange rates	-	20,514	20,514
Interest expense	-	42,634	42,634
Borrowing cost capitalized	-	7,050	7,050
Interest paid	-	(46,120)	(46,120)
Total liability-related other changes	**-**	**24,078**	**24,078**
Balance at 31 December 2018	**345,886**	**671,620**	**1,017,506**

	Equity	Liabilities	
’000 GEL	**Retained earnings**	**Loans and borrowings**	**Total**
Balance at 1 January 2017	**264,778**	**802,399**	**1,067,177**
Proceeds from borrowings	-	69,914	69,914
Repayment of borrowings	-	(130,227)	(130,227)
Dividend paid	(27,313)	-	(27,313)
Total changes from financing cash flows	**(27,313)**	**(60,313)**	**(87,626)**
Other changes			
The effect of changes in foreign exchange rates	-	(28,808)	(28,808)
Interest expense	-	48,695	48,695
Interest paid	-	(46,073)	(46,073)
Total liability-related other changes	**-**	**(26,186)**	**(26,186)**
Balance at 31 December 2017	**237,465**	**715,900**	**953,365**

22. Trade and other payables

’000 GEL	**2018**	**2017**
Trade payables	22,632	19,619
Payables for non-current assets	4,263	9,634
Other payables	24	1
	26,919	**29,254**

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

23. Fair values and risk management

(a) Accounting classifications and fair values

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

The 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 (b)(ii));
- liquidity risk (see (c));
- market risk (see (d)).

(i) Risk management framework

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

The Group's risk management policies are established to identify and analyze 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.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans given, term deposits and cash and cash equivalents.

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

The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
'000 GEL	**Note**	**2018**	**2017**
Trade and other receivables	17	146,339	168,195
Loans given	16	14,952	12,041
Cash and cash equivalents and restricted cash	18	354,202	498,960
		515,493	**679,196**

(iii) Trade and other 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 its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 7.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for corporate customers. Moreover, for some customers credit risk is managed by requesting prepayments from customers.

The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivable for which no loss allowance is recognised because of collateral.

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

	Carrying amount	
'000 GEL	**2018**	**2017**
Domestic	144,394	161,348
CIS countries	1,945	1,893
OECD countries	-	4,954
	146,339	**168,195**

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

	Carrying amount	
'000 GEL	**2018**	**2017**
Gas distributors	92,024	117,133
Electricity distributors	25,479	12,677
Gas pipeline rentals (note 17)	27,316	29,829
Oil trading	-	4,954
Others	1,520	3,602
	146,339	**168,195**

As at 31 December 2018 the Group had two customers whose balances exceeded 10% of total trade and other receivables (31 December 2017: two customers). The carrying value of these balances as at 31 December 2018 was GEL 91,856 thousand (31 December 2017: GEL 116,749 thousand) and GEL 27,316 thousand (31 December 2017: GEL 29,829 thousand).

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

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

Expected credit loss

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

’000 GEL	**2018**	**2018**	**2018**
Customer credit risk grade	**Not credit impaired**	**Credit impaired**	**Total**
Low risk	119,023	-	119,023
Medium risk	27,316	-	27,316
High risk	-	7,944	7,944
Total gross carrying amount	**146,339**	**7,944**	**154,283**
Loss allowance	(350)	(7,594)	(7,944)
Total net carrying amount	**145,989**	**350**	**146,339**

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

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

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

Comparative information under IAS 39

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

’000 GEL	Gross **2017**	Impairment **2017**
Not past due	38,690	-
Past due 0-30 days	35,892	-
Past due 31-365 days	87,539	-
Past due more than one year	6,074	2,102
	168,195	**2,102**

Movements in the allowance for impairment in respect of trade and other receivables and loans given

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

'000 GEL	**2018**	**2017**
Balance as at 1 January under IAS 39	**2,102**	**3,442**
Adjustment on initial application of IFRS 9	5,966	-
Balance at 1 January under IFRS 9	**8,068**	**3,442**
Reversal of impairment loss on trade receivables	-	(1,340)
Balance at 31 December	**8,068**	**2,102**

(iv) Loans given

In 2018 the Company provided a loan to third party – Georgian Oil and Gas Limited (GOGL). In 2017 the Company issue a loan to its shareholder Partnership Fund JSC (largest group of companies headed by the Government of Georgia), which has Fitch credit rating of BB-. Terms of the issued loans are described in note 16. Per management's assessment there is no credit risk associated with loans issued.

(v) Cash and cash equivalents and restricted cash balances

As at 31 December 2018 the Group had placements with 3 banks whose balances exceeded 10% of total cash and cash equivalents (31 December 2017: 3 banks). The carrying value of these balances as at 31 December 2018 was GEL 284,889 thousand (31 December 2017: GEL 410,469 thousand). As at 31 December 2018 approximately 97% of bank balances are held with 3 Georgian banks, out of which 2 banks have long-term Fitch credit rating of BB- and one is the Georgian subsidiary of a Russian bank with long-term Fitch rating of BB+. 3% of the bank balances are held with 4 Georgian banks with long-term Fitch credit rating of B+ and B.

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

No impairment allowance was recognised on initial application of IFRS 9 and during 2018 by the Group.

(c) Liquidity risk

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

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities at the reporting date. The amounts include estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

’000 GEL 2018	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-3 yrs**
Non-derivative financial liabilities					
Unsecured bond issue	671,620	782,069	22,584	22,584	736,901
Trade and other payables	26,919	26,919	26,919	-	-
	698,539	**808,988**	**49,503**	**22,584**	**736,901**

’000 GEL 2017	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-3 yrs**	**3-5 yrs**
Non-derivative financial liabilities						
Unsecured bond issues	648,388	801,153	21,872	21,872	87,487	669,922
Unsecured loans	67,512	70,070	1,973	68,097	-	-
Trade and other payables	29,254	29,256	29,256	-	-	-
	745,154	**900,479**	**53,101**	**89,969**	**87,487**	**669,922**

(d) 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 optimizing the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of Group entities. The currency in which these transactions primarily are denominated is USD. Generally, the Group’s borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without a need to enter into derivatives contracts.

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

Exposure to currency risk

’000 GEL	**USD-denominated 2018**	**USD-denominated 2017**
Trade and other receivables	1,949	6,793
Loans given	14,952	12,041
Cash and cash equivalents	64,042	88,761
Trade and other payables	(10,876)	(6,640)
Loans and borrowings	(671,620)	(715,900)
Net exposure	**(601,553)**	**(614,945)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2018	**2017**	**2018**	**2017**
USD	2.5345	2.5086	2.6766	2.5922

Sensitivity analysis

A reasonably possible 10% strengthening (10% in 2017) of the GEL, as indicated below, against USD at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and increased/(decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

'000 GEL	**Profit or (loss)**
31 December 2018	60,155
31 December 2017	61,495

A weakening of the GEL against USD at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant. There would be no impact directly in equity as a result of foreign currency fluctuations.

(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 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:

	Carrying amount	
'000 GEL	**2018**	**2017**
Fixed rate instruments		
Loans given	14,952	12,041
Cash and cash equivalents and restricted cash	354,202	498,960
Loans and borrowings	(671,620)	(715,900)
	(302,466)	**(204,899)**

Fair value sensitivity analysis for fixed rate instruments

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

24. Significant subsidiaries and non-controlling interest

In October 2013 a new subsidiary, Gardabani TPP LLC, was created by the Company and Partnership Fund JSC with 51% and 49% interest, respectively. The charter capital was defined at USD 100,000 thousand. The paid in charter capital as at 31 December 2018 amounted to GEL 175,185 thousand (2017: GEL 175,185 thousand).

In accordance with the charter of the subsidiary Gardabani TPP LLC, 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 the charter of the subsidiary for which only a simple majority of votes is required.

The subsidiary was created for the construction and operation of the Gardabani Combined-Cycle Power Plant (CCPP). The construction works were completed in July 2015. The Gardabani CCPP began generating revenue from September 2015.

The following table summarizes the information relating to the Group's subsidiary Gardabani TPP LLC that has material non-controlling interest (NCI):

'000 GEL	**2018**	**2017**
NCI percentage	**49%**	**49%**
Non-current assets	432,734	415,952
Current assets	58,337	57,142
Non-current liabilities	(288,088)	(321,530)
Current liabilities	(16,126)	(10,620)
Net assets	**186,856**	**140,944**
Carrying amount of NCI	**91,560**	**69,063**
Revenue	209,090	199,711
Profit	45,913	58,934
Total comprehensive profit	**45,913**	**58,934**
Profit allocated to NCI	**22,497**	**28,878**
Cash flows from operating activities	71,209	108,590
Cash flows used in investment activities	(35,472)	(3,204)
Cash flows used in (dividends to NCI: nil)	(50,577)	(84,593)
Net (decrease)/increase in cash and cash equivalents	**(14,840)**	**20,793**

In August 2016 a new subsidiary Gardabani II TPP LLC, with charter capital of GEL 10,000 thousand, was founded in which the Company holds 100% interest. During 2017 and 2018 the Group made additional investments in the capital of Gardabani II TPP LLC and as at 31 December 2018 the charter capital of the new subsidiary amounts to GEL 350,193 thousand. As at 31 December 2018 and for the year then ended the subsidiary had material balance of prepayments for non-current assets of GEL 62,681 thousand, out of which GEL 57,328 thousand was made to China Tianchen Engineering Corporation regarding engineering, procurement and construction of Gardabani II Combined-Cycle Thermal Power Plant. The construction of Gardabani II Combined-Cycle Power Plant with installed capacity of 230 MW is expected to be completed by the end of 2019 (note 14).

In August 2017 a new subsidiary GOGC Trading SA was incorporated with registered office situated in Geneva, Switzerland. The Group's purpose is to trade crude oil, petroleum products, petrochemicals and other commodities as well as logistics through this subsidiary. The Company holds 100% interest in the subsidiary with share capital fixed in the amount of 100,000 Swiss francs.

In 2018 additional amount of 350 thousand Swiss francs was contributed to the capital of GOGC Trading SA.

In October 2018 a new subsidiary Georgian Gas Storage Company LLC (GGSC) was founded with registered office in Tbilisi, Georgia, in which the Company holds 100% interest. The initial capital of GGSC per charter documentation is GEL 100 thousand. GGSC was founded for construction and operation of the first in Georgia Underground Gas Storage. As at 31 December 2018 the Company's investment to GGSC amounted to GEL 238 thousand (all cash contributions). By the end of 2018 construction of Underground Gas Storage was not commenced. The Company expects to start construction by the end of 2019.

25. Capital and other commitments

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

On 11 June 2018 Enguri Pumped-Storage Power Plant LLC (EPSPP) was founded by the Group, Engurhesi LLC and JSC Georgian Energy Development Fund with 40%, 40% and 20% shareholding, respectively. EPSPP was founded for research of feasibility of Pumped-Storage Power Plant project and in case of positive results of feasibility analysis EPSPP should implement this project. Initial investment to EPSPP per charter of the investee is USD 1,500 thousand, which should be paid by shareholders according their shareholding. During 2018 the Group made contribution of GEL 367 thousand to the charter capital of EPSPP.

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

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

26. Contingencies

(a) Insurance

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

(b) Litigation

Frontera Case:

In July 2018, the Company and SAOG (State Agency of Oil and Gas) submitted their statement of claim against Frontera Resources Georgia Corporation. SAOG and the Company inter alia are claiming that Frontera has materially breached certain provisions of the PSA (profit sharing agreement) including but not limited to the relinquishment of approximately 99% of the Contract Area. Apart from this the Company 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.

The Company and SAOG believe that there is a high likelihood that the arbitration tribunal will hold that Frontera breached its contractual obligations.

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

Management believe that the Company and SAOG have factual and legal bases to win the case, and that possibility for Frontera to win these claims is remote. The proceedings are in progress, next hearings are expected to take place in October 2019.

GGTC Case:

In October 2017 the Company has filed a case against GGTC (the defendant) seeking compensation for the loss of approximately GEL 10,029 thousand incurred by the Company due to the defendant's failure to provide the Company with the contractually required quantity of natural gas. Additionally, the Company seeks restitution amounting to GEL 706 thousand for the repair of damages incurred to the pipeline system, leased out to the defendant by the Company, during the period when it was operated by the latter. Tbilisi City Court, which is the court of first instance rejected the claim. The Company lodged an appeal before the Appellate Court. The Second Hearing in appellate court was held in March 2019, though hearing was not complete, process was not finished, thus additional hearing is scheduled on December, 2019.

As at 31 December 2018 and subsequent to the reporting date management estimates that the outcome of the litigation remains uncertain, as a result the Company has not recorded any receivable in respect of the above.

(c) Taxation contingencies

The taxation system in Georgia is relatively new and is characterized 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 Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

27. Related party transactions

(a) Control relationships

As at 31 December 2018 and 2017 Georgian Oil and Gas Corporation JSC is wholly owned by Partnership Fund JSC. The ultimate controlling party of the Group is the Government of Georgia. The Group's parent company produces publicly available financial statements.

(b) Transactions with key management personnel

Key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

'000 GEL	2018	2017
Salaries and bonuses	1,037	916

(c) Other related party transactions

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

Management estimates that the aggregate amounts of other income and expenses and the related balances with Government-related entities, except as disclosed below are not significant.

The Group's related party transactions are disclosed below. Transactions with the Government of Georgia are disclosed in notes 7, 12, 16, 17 and 19 of these consolidated financial statements.

(i) Revenue

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
'000 GEL	2018	2017	2018	2017
State controlled entities:				
Income from rent of gas pipelines*	42,053	59,847	27,316	29,829
Income from electricity generation and supply	171,947	180,420	17,891	11,268
	214,000	**240,267**	**45,207**	**41,097**

* Outstanding balance of the rent of pipeline includes the restructured receivable from GGTC (see note 17).

'000 GEL	
Net present value of GGTC receivables as at 1 January 2018	25,689
Repayment of receivable of GGTC during 2018	(5,000)
Unwinding of discount (note 11)	2,780
Net present value of GGTC receivables as at 31 December 2018	**23,469**

Outstanding balances related to the income from electricity generation and supply are to be settled in cash within six months at the end of the reporting period. None of the balances are secured.

***(ii)* Expenses**

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2018	**2017**	**2018**	**2017**
State controlled entities:				
Purchase of natural gas	5,357	31,516	748	30
	5,357	**31,516**	**748**	**30**

Outstanding balances are to be settled in cash within six months at the end of the reporting period.

***(iii)* Loans**

'000 GEL	Interest accrued		Outstanding balance	
	2018	**2017**	**2018**	**2017**
Loans given:				
Shareholder	1,221	376	13,613	12,041

28. Basis of measurement

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

29. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the adoption of IFRS 15 and IFRS 9 from 1 January 2018, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Non-controlling interests

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

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

(ii) Subsidiaries

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

(iii) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates.

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.

Interests in associates are accounted for using the equity method and are recognised initially at cost. 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 commences until the date that significant influence 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.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Revenue

The Group has initially applied IFRS 15 from 1 January 2018. Information about the Group's accounting policies relating to contracts with customers is provided in Note 5. The effect of initially applying IFRS 15 is described in Note 5.

(i) Rent of pipelines

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

(ii) Oil transportation

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

(c) Finance income and costs

The Group's finance income and finance costs include:

– interest income;
– unwinding of discount on finance lease receivable;
– interest expense;
– customer late payment penalties

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

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

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

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

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

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

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

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

(e) Employee benefits

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

(f) Income tax

Generally, Income tax expense comprises current tax.

(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 shareholders as a dividend. However, some other transactions are also considered as DE, for example non-arm’s length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes.

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.

(g) Inventories

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

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

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment contributed by the shareholder are initially measured at fair value. The cost of property, plant and equipment at the date of adopting IFRS, 1 January 2008, was determined by reference to its fair value at that date ("deemed cost").

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 capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, 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 recognized net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

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.

(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 lives 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:

– gas and oil pipelines	30-35 years;
– buildings	50 years;
– electricity generating unit	25 years;
– oil wells	4-9 years;
– plant and equipment	2-14 years;
– other	1-6 years.

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

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables 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 – Policy applicable from 1 January 2018

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.

Financial assets – Policy applicable before 1 January 2018

The Group classified its financial assets into loans and receivables category measured at amortised cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses

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

(iii) Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

Financial liabilities

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

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

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the 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.

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 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.

(j) Share capital

Ordinary shares

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

Increase of share capital

Share capital increase is effected through issuance of new shares. When share capital is increased, any difference between the registered amount of share capital and the fair value of the assets contributed is recognized as a separate component of equity as fair value adjustment reserve for non-cash owner contributions.

(k) Impairment

***(i)* Non-derivative financial assets**

Policy applicable from 1 January 2018

Financial instruments and contract 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 and contract assets are always measured at an amount equal to lifetime ECLs.

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

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

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

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

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 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. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 365 days past due based on historical experience of recoveries of similar assets. For corporate customers, 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.

Policy applicable before 1 January 2018

Non-derivative financial assets

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

Objective evidence that financial assets are impaired can include:

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

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Equity-accounted investees

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

(ii) **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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 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.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognized 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 recognized.

(l) Provisions

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

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(m) Leases

***(i)* Determining whether an arrangement contains a lease**

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of an arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(n) Leased assets

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

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

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

(o) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the General Director include items directly attributable to a segment.

30. New standards and interpretations not yet adopted

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

(a) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

(i) Leases in which the Group is a lessee

No significant impact is expected for the Group's finance leases since Group does not acts as a lessee.

(ii) Leases in which the Group is a lessor

The Group will reassess the classification of sub-leases in which the Group is a lessor.

No significant impact is expected for other leases in which the Group is a lessor.

(iii) Transition

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

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

Per management assessment IFRS 16 will not have a material impact on the Group's consolidated financial statements in the period of initial application.

(b) Other standards and interpretations

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

- IFRIC 23 *Uncertainty over Tax Treatments*.
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9).*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).*
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards.
- *Amendments to References to Conceptual Framework in IFRS Standards*.
- *IFRS 17 Insurance Contracts.*