Georgian Oil and Gas Corporation JSC

Consolidated Financial Statements
for 2019

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 (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Going concern considerations related to the COVID-19 outbreak	
Please refer to the Note 2 (b) in the consolidated financial statements.	
The key audit matter	***How the matter was addressed in our audit***
The Group's consolidated financial statements are prepared on a going concern basis. The World Health Organization declared on 11 March 2020 the coronavirus (COVID-19) outbreak a pandemic. The Georgian government authorities have taken a number of measures to counter the effects of the outbreak, including border closures, quarantine, severe limitations imposed on cross-border and	As part of our audit, we performed the following procedures: We analysed management's assessment of the going concern basis of accounting, including their evaluation of business and liquidity risks arising from the COVID-19 outbreak, and plans for further actions in response to the risks identified. As part of the procedure we also made corroborating inquiries of the Group's CFO and other senior members of management.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

domestic transportation, ban on social, cultural, leisure or sport events. As a result, the Group was forced to temporarily transfer part of its personnel to working from home and adjust operating plans. The Group's going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Group will have sufficient resources to continue in operational existence for the foreseeable future. Cash flow forecast, in the base-case scenario, reflected a number of assumptions, including those considered by management to be severe but plausible, such as refinancing of existing USD 250 million Eurobond. As part of the assessment, management also performed stress-test of the base-case scenario – for details, please see Note 2(b). The COVID-19 pandemic is an unprecedented challenge for the global economy, and at the date of the consolidated financial statements, its effects are subject to a significant degree of uncertainty. The Group's use of the going concern basis of accounting is a key audit matter due to high level of management judgment required and inherent uncertainty involved in forecasting and evaluating financial impact of current economic environment and measures planned by the management.	We tested the reasonableness and feasibility of the plans for future actions in order to alleviate the effects of the outbreak by performing the following: — Challenging the key assumptions used in the cash flow forecast in the base-case scenario. This primarily included challenging cash flows from operating activities and planned capital expenditure based on our understanding of the Group's activities and by reference to publicly available industry/market reports; — Examining the reasonableness of the alternative scenarios considered by management related to refinancing of Eurobonds maturing in April 2021; — Performing an analysis of the going concern conclusion's sensitivity to changes in the key assumptions adopted in the going concern assessment, by reviewing the reasonableness of stress-test for the base-case scenario, and considering whether there were any indicators of management bias in the assessment. We assessed the availability of banking and other financing facilities and arrangements by inspecting the underlying documentation, such as banking facility agreements signed before and after the reporting period end, and assessing the impact of any covenants and other restrictive terms therein. We also considered whether any additional relevant facts or information have become available since the date on which the management made its assessment. We evaluated the adequacy of the Group's disclosures in respect of the going concern assessment and any related uncertainties in the consolidated financial statements.

Material right given to the customer under IFRS 15

Please refer to Note 7 to the consolidated financial statements

The key audit matter	***How the matter was addressed in our audit***
As described in Note 7 to the consolidated financial statements, the Group undertook obligation to provide USD 15 discount to the most significant customer related to gas supply for each thousand cubic meters of natural gas for the volume of gas sold by the customer to the population of Georgia during the Facilitation Period (please refer to Note 7). Gas sales at discounted price by the Group to the customer will take place during 2021-2025 years ("Compensation period"). Consequently, the Group determined that the option given to the customer to purchase additional gas at a discount gives the customer the right to acquire additional goods at a price that does not reflect the stand-alone selling price.	We have performed the following audit procedures to address the key audit matter: - Performed inquiries of management to obtain an understanding of the process for the identifying material right; - Involved our own valuation specialists to challenge assumptions related to expected inflation and foreign exchange rates used in the model, used to estimate stand-alone selling price, prepared by the management; - Compared the budgeted sales revenues for the years ended 31 December 2018 and 31 December 2019 to the actual results for the same periods to assess management's ability to accurately budget the expected results;

As a result, respective contract liability was recognized in year 2019 with corresponding reduction of the revenue for the year ended 31 December 2019. Identifying a material right which gives rise to a performance obligation is a Key Audit Matter due to level of judgment involved in the Management`s analysis and inherent estimation uncertainties involved in the determination of stand-alone selling price and forecasting future sales.	- Evaluated the adequacy of the disclosures made in Note 7 of the consolidated financial statements by reference to the requirements of *IFRS 15 – Revenue from contracts with customers* and *IAS 1 – Presentation of financial statements.*

Management Report

Management is responsible for the Management Report. 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

When we read the Management Report, we conclude whether the other information:

- is consistent with the consolidated financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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
21 May 2020

’000 GEL	Note	2019	2018
Assets			
Property, plant and equipment	13	1,175,484	958,401
Prepayments for non-current assets	14	97,170	62,681
Intangible assets		1,421	1,121
Finance lease receivable	15	73,134	67,854
Loans given	16	16,154	14,952
Trade and other receivables	17	15,718	18,959
Equity accounted investees	8	2,021	17,182
Non-current assets		**1,381,102**	**1,141,150**
Loans given	16	1,692	-
Inventories		20,475	17,826
Taxes other than on income		437	2,171
Prepayments	14	66,198	50,301
Trade and other receivables	17	281,628	127,380
Restricted cash	18	60	5,607
Cash and cash equivalents	18	135,815	348,595
Current assets		**506,305**	**551,880**
Total assets		**1,887,407**	**1,693,030**
Equity	19		
Share capital		642,905	626,595
Additional paid in capital		59,797	71,718
Fair value reserve for non-cash owner contributions		(282,181)	(282,181)
Retained earnings		531,422	480,665
Equity attributable to owners of the Company		**951,943**	**896,797**
Non-controlling interests	24	104,728	91,560
Total equity		**1,056,671**	**988,357**
Liabilities			
Loans and borrowings	21	705,122	658,134
Contract liability	7	4,621	-
Non-current liabilities		**709,743**	**658,134**
Loans and borrowings	21	16,902	13,486
Trade and other payables	22	95,477	30,988
Current tax liabilities		6,549	-
Provisions		2,065	2,065
Current liabilities		**120,993**	**46,539**
Total liabilities		**830,736**	**704,673**
Total equity and liabilities		**1,887,407**	**1,693,030**

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

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 55.

'000 GEL	Note	2019	2018
Revenue	7	880,581	642,651
Cost of gas and oil		(617,269)	(367,473)
Depreciation		(38,342)	(37,798)
Personnel costs		(23,004)	(20,076)
Taxes, other than on income		(15,742)	(10,920)
Impairment loss on trade receivables and contract assets		(2,668)	-
Other expenses	9	(30,535)	(30,371)
Other income	10	10,097	2,042
Results from operating activities		**163,118**	**178,055**
Finance income	11	22,828	42,391
Finance costs	11	(66,301)	(64,505)
Net finance (costs)/income		**(43,473)**	**(22,114)**
Share of profit of equity accounted investees	8	1,731	1,335
Profit before income tax		**121,376**	**157,276**
Income tax expense	12	-	-
Profit and total comprehensive income for the year		**121,376**	**157,276**
Profit and total comprehensive income attributable to:			
Owners of the Company		107,226	134,779
Non-controlling interests		14,150	22,497
		121,376	**157,276**

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

These consolidated financial statements were approved by management on 21 May 2020 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 55.

	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 2018	**624,916**	**71,718**	**(282,181)**	**428,994**	**843,447**	**69,063**	**912,510**
Adjustment on initial application of IFRS 9	-	-	-	(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	-	-	-	134,779	134,779	22,497	157,276
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)**	**480,665**	**896,797**	**91,560**	**988,357**
Balance at 1 January 2019	**626,595**	**71,718**	**(282,181)**	**480,665**	**896,797**	**91,560**	**988,357**
Profit and total comprehensive income for the year	-	-	-	107,226	107,226	14,150	121,376
Transactions with owners of the Company							
Contributions and distributions							
Dividends (see note 19(c))	-	-	-	(56,469)	(56,469)	(982)	(57,451)
Increase in share capital (see note 19(a))	16,310	(11,921)	-	-	4,389	-	4,389
Total contributions and distributions	**16,310**	**(11,921)**	**-**	**(56,469)**	**(52,080)**	**(982)**	**(53,062)**
Balance at 31 December 2019	**642,905**	**59,797**	**(282,181)**	**531,422**	**951,943**	**104,728**	**1,056,671**

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

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 55.

’000 GEL	**Note**	**2019**	**2018**
Cash flows from operating activities			
Cash receipts from customers		849,046	731,564
Cash paid to suppliers and employees		(777,353)	(510,424)
Restricted cash		-	(5,607)
Value added tax refund from the State		23,891	16,000
Cash from operations before income taxes and interest		**95,584**	**231,533**
Interest paid	21	(47,880)	(46,120)
Interest received		12,917	32,892
Net cash from operating activities		**60,621**	**218,305**
Cash flows from investing activities			
Acquisition of property, plant and equipment, including advances paid		(234,084)	(221,268)
Investments in equity-accounted investees	8	(474)	(367)
Sale of equity-accounted investee	8	20,620	-
Loans given		(119)	(1,219)
Reduction of capital in equity accounted investee	8	3,591	-
Cash received from disposal of property, plant and equipment		2,447	1,052
Net cash used in investing activities		**(208,019)**	**(221,802)**
Cash flows from financing activities			
Dividends paid		(60,982)	(77,142)
Repayment of borrowings		-	(68,358)
Management fee on KfW loan	21	(4,455)	-
Net cash used in financing activities		**(65,437)**	**(145,500)**
Net decrease in cash and cash equivalents		**(212,835)**	**(148,997)**
Cash and cash equivalents at 1 January		348,595	498,960
Effect of exchange rate fluctuations on cash and cash equivalents		55	(1,368)
Cash and cash equivalents at 31 December	18	**135,815**	**348,595**

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

The Group has classified short-term lease payments and payments for leases of low-value as operating activities.

The Group has not restated comparative information.

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 55.

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 license on operation for an unlimited period from the Georgian National Energy and Water Supply Regulatory Commission (GNERC) and commenced generating revenue in accordance with the deregulated tariffs on the electricity market in Georgia. In accordance with the Government of Georgia order # 475 dated 14 September 2015 Gardabani CCPP was granted the status of guaranteed capacity operator until 1 October 2040.

Since 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. The construction of Gardabani II Combined-Cycle Thermal Power Plant was finalized in December 2019. Electricity generation license was issued to Gardabani II by Georgian National Energy and Water Supply Regulating Commission on 25 March 2020. As a result, Gardabani II Thermal Power Plant started operation in 2020.

As at 31 December 2019 and 2018 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 28.

(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 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 16 Leases has been applied. The related changes to significant accounting policies are described in Note 5.

(b) Going concern - the COVID-19 outbreak

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

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

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

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

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

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

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

The Group operates in the energy sector. Its main activities include electricity generation, gas trading, and pipeline operations. With the completion of Gardabani II, to which electricity generation license was issued in March 2020 (please see note 1(a)), electricity generation will account for more than 70% of EBITDA. The Company is also the national oil company in Georgia, which also implies its dominant role in gas supply in the country. The Company operates pipelines that transport gas produced in the Caspian Sea by the Shah-Deniz consortium, led by BP Exploration (Caspian Sea) and State Oil Company of the Azerbaijan Republic (SOCAR), from Azerbaijan via Georgia to Turkey and, in the future, to Southern Europe. Under supplemental and optional gas agreements, the Company is able to buy certain volumes of Azerbaijani gas below the social gas price set in Georgia (please see note 7(d)). However, all extra volumes in case of need must be purchased from SOCAR on market terms.

Management believes that the Group`s operations have not been significantly affected by the outbreak of COVID-19. The Group's sales remained at relatively stable levels and its operations including supplies were not interrupted. Based on the publicly available information at the date these consolidated financial statements were authorized for issue, management has considered a number of severe but plausible scenarios with respect to the potential development of the outbreak and its expected impact on the Group and economic environment in which the Group operates, including the measures already taken by the Georgian government and governments in other countries, where the Group's major business partners are located.

In order to mitigate the risks resulting from potential adverse scenarios, management started to implement the measures, including:

- implementation of work from home program for a significant group of administrative employees as well as employees in sales and procurement departments;
- employees in production department have been trained to adhere to very strict precautionary standards including social distancing;

As at 31 December 2019, the Group's working capital and the available unused credit lines amounted GEL 341,257 thousand and USD 45,000 thousand, respectively. Management strongly believes that no significant decrease in demand is expected as the Group`s main operating activities are related to provision of essential services for the population of Georgia, such as supply of natural gas and electricity to social sector. Estimated cash receipts from customers and cash flows from operations in year 2020, based on the revised cash flow forecast taking adverse effects of COVID-19 on the economy into account ,are GEL 1,056,923 thousand (2019: GEL 849,046 thousand) and GEL 229,602 thousand (2019: GEL 95,584 thousand), respectively. Estimated increase in cash receipts from customers and cash flows from operations in 2020 is mainly related to cash flows from Gardabani II by GEL 160,875 thousand and GEL 59,804 thousand, respectively, which started operations in 2020.

The Company is facing a large USD 250 million Eurobond (GEL 722,024 thousand) maturing in April 2021 (please see note 21). Given the current turbulence on international financial markets, refinancing is the key challenge for the Group. The Gardabani II power station, launched in 2020, should add more EBITDA stability and improve the Group`s cash flows. However, based on the management expectation, the Group is unlikely to generate enough internal liquidity sources to repay the Eurobonds.

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

The authorities will take additional stringent measures to contain the COVID-19 pandemic, including extending the current restrictions imposed by the Government of Georgia until the end of the second quarter of 2020. The average dollar exchange rate during the year will make up to 3.25 GEL.

Based on this scenario, management assumes that the Company will be able to tap the capital markets in autumn of 2020 to issue Eurobonds (EUR 300 million) for refinancing existing bonds and difference between cash inflow from the issuance and cash outflow to repay the existing bonds will amount to GEL 252,500 thousand that will be mostly allocated to construction of Gardabani III power station.

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

Management also performed stress-test for the base-case scenario based on the following assumptions:

- capital markets will not be accessible for emerging markets in 2020 and in the first quarter of 2021 and existing USD 250 million Eurobond (with maturity in April 2021), which represents essentially all of the Group`s debt, will be refinanced by alternative source of financing (discussed below), resulted in GEL 252,500 thousand decrease in estimated net cash flow from financing activities in the base-case scenario;
- planned capital expenditures for Gardabani III thermal power plant in 2020 amounted to GEL 162,500 thousand will be deferred to the subsequent periods (2021-2023);
- cash receipts from customers from oil-related activities, income from crude oil and oil transportation fee, will be 50% of the estimated amount in the base-case scenario (mainly due to the fact that global oil demand has dramatically decreased leading to oversupply.

The later may affect income from oil transportation because the fee is variable, based on transported volume. It may also affect income from crude oil sales), resulted in GEL 23,206 thousand decrease in cash flow from operating activities in base-case scenario;

Based on the assumptions considered in the stress-test presented above, estimated net cash flow in base-case scenario in year 2020 will reduced by GEL 113,206 thousand, resulted net change in cash and cash equivalents amounted to GEL 44,106 thousand.

The following alternative scenarios are considered by management for the refinancing existing bonds:

- obtain financing from international financial institutions. Management has ongoing negotiation with two International Financial Institutions (IFIs) on long term borrowings for refinancing existing bonds in case of the bond issuance will not occur in autumn 2020 or in spring 2021, or in case the IFIs offer more favorable terms. Bridge financing is also considered by management;
- approach the Government of Georgia for financial support. Management considers the probability of such scenario as remote, however, strongly believes that, considering strategic importance of the Group for the whole country the Government will support the Group. The Government of Georgia expressed its intention to support the Company in addressing the respective challenges and fulfillment of its obligations at least 12 month from the date of the Company`s consolidated and separate IFRS financial statements for the year ended 31 December 2019 are authorized for issue;
- sell property, plant and equipment. However, management strongly believes that likelihood of such scenario is too low and considers in a worst case one.

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

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari (“GEL”), which is the 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 judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, 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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 2 (b) – Going concern: the effect of COVID-19 on the Group`s operations and significant judgments related to going concern assumption;
- Note 7(d) – Material right given to the customer under IFRS 15 - Recognition of contract liability;
- term;
- Note 24 – Significant subsidiaries – determination of control over subsidiaries;
- Note 26 – 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 to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

– Note 23 measurement of ECL allowance for financial assets;
– Note 27 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

IFRS 16

The Group initially applied IFRS 16 Leases from 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 31 (m).

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

(b) As a lessee

The Group does not have high value lease contracts where it acts as a lessee as at 1 January 2019 and 31 December 2019 (for details, see note 25 (a)).

(c) As a lessor

The Company leases out gas pipeline and related infrastructure, its own property, to a related party, Georgian Gas Transportation Company LLC (see note 28). The Group has classified the named lease as an operating lease, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

In addition to the gas pipeline lease, the Company leases out oil pipeline and receives a transit fee for each barrel of oil transported. Management has determined that the initial arrangement contained a finance lease at inception date, as the lease agreement transferred substantially all of the risks and rewards incidental to ownership to the lessee. The Group has classified the named lease as a finance lease (see note 15).

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group is not involved in a sub-lease transactions.

(d) Impact on financial statements

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

For the details of accounting policies under IFRS 16 and IAS 17, see Note 31(m).

Amendments to IAS 23 *Borrowing Costs*

The Group has adopted amendments to IAS 23 *Borrowing Costs* issued by the International Accounting Standards Board as part of Annual Improvements to IFRS Standards 2015–2017 Cycle from 1 January 2019 and apply them to borrowing costs incurred on or after that date. The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Therefore, the Group treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. Borrowings that were intended to specifically finance qualifying assets which are now ready for their intended use or sale – or any non-qualifying assets – the Group includes in its general pool.

There was no additional borrowing costs capitalised by the Group during 2019 as a result of this revised approach.

A number of other new standards and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements, except those described above.

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 28).
– *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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Revenue	576,123	361,655	225,126	209,090	43,059	42,053	21,168	18,367	15,105	11,486	880,581	642,651
Cost of gas and oil	(505,135)	(274,427)	(112,134)	(93,046)	-	-	-	-	-	-	(617,269)	(367,473)
Reportable segment profit before unallocated costs and income tax	**70,988**	**87,228**	**112,992**	**116,044**	**43,059**	**42,053**	**21,168**	**18,367**	**15,105**	**11,486**	**263,312**	**275,178**

'000 GEL	2019	2018
Revenues		
Total revenue for reportable segments	880,581	642,651
Profit or loss		
Reportable segments profit	263,312	275,178
Unallocated amounts:		
Depreciation	(38,342)	(37,798)
Personnel costs	(23,004)	(20,076)
Net finance costs	(43,473)	(22,114)
Impairment loss on trade receivables and contract assets	(2,668)	-
Taxes, other than on income	(15,742)	(10,920)
Other expenses	(30,535)	(30,371)
Other income	10,097	2,042
Share of profit of equity accounted investees	1,731	1,335
Consolidated profit before income tax	**121,376**	**157,276**

(ii) Geographical information

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

(iii) Major customers

In 2019 sales to one customer in the gas supply segment represented GEL 472,850 thousand which represents approximately 54% of the Group's total revenue (2018: GEL 340,681 thousand, 53%).

In 2019 sales to one customer in electricity generation and supply segment represented GEL 119,996 thousand which represents approximately 14% of the Group's total revenue (2018: GEL 115,880 thousand, 18%).

7. Revenue

(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	2019	2018
Revenue from contracts with customers:		
Sale of natural gas	576,123	361,655
Income from electricity generation and supply	225,126	209,090
Income from crude oil sales	15,105	11,486
Revenue from contracts with customers	**816,354**	**582,231**
Other revenue		
Income from rent of gas pipelines	43,059	42,053
Oil transportation fee under finance lease (note 15)	21,168	18,367
Total other revenue	**64,227**	**60,420**
Total revenues	**880,581**	**642,651**

Income from electricity generation and supply includes the income from guaranteed capacity fees of GEL 115,191 thousand (2018: GEL 115,768 thousand) and income from electricity generation of GEL 109,935 thousand (2018: GEL 93,322 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 2021. 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. From 1 September 2017 till March 2019 the rent fee was fixed at GEL 3,500 thousand per month (excluding VAT) and from 1 March till 31 December 2019 monthly rent fee was fixed at GEL 3,600 thousand per month (excluding VAT). Since 1 January 2020 the fixed rent fee is GEL 43,000 thousand per annum (excluding VAT). GGTC is responsible for all costs related to the repair, maintenance, operation and security of the main gas pipeline system. The Company is responsible for capital expenditures only (see note 25 (b)(2)). Transactions with related parties are disclosed in note 28.

(b) Disaggregation of revenue from contracts with customers

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

	Sale of natural gas		**Income from electricity generation and supply**		**Income from crude oil sales**		**Total**	
'000 GEL	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Primary geographical markets:								
Georgia	576,123	361,655	225,126	209,090	15,105	11,486	816,354	582,231
	576,123	**361,655**	**225,126**	**209,090**	**15,105**	**11,486**	**816,354**	**582,231**

(c) Contract balances

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

'000 GEL	**Note**	**31 December 2019**	**31 December 2018**
Receivables, which are included in 'trade and other receivables'		271,478	117,087
Contract liabilities	7	(4,621)	-

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

(d) Material right

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

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

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

There was no balance of contract liabilities recognized at the beginning of the periods recognized as revenue for the period ended 31 December 2019.

There was no revenue recognised in the period ended 31 December 2019 from performance obligations satisfied (or partially satisfied) in previous periods.

(e) 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 policies**
Sale of natural gas	Customers obtain control of gas when it's transferred by pipelines to the customer. Invoices are generated no later than 15th of the following reporting month. There are two main types of payment terms. In the first case (which is related to the most significant part of gas sales), per contractual terms, part of payments are made in advance (no later than 25th of each month) and the remaining amount is paid by the end of the month following the reporting month. Per agreement late payment penalties are accrued on outstanding balances starting from the day following payment due date. In the second type, payment terms vary for each customers but in most cases payments should be done in arrears, no later than 25th day following the reporting month.	Revenue is recognised when the gas is delivered to the delivery points (pre-determined in the agreements with each customer) i.e. performance obligation on delivery of gas is satisfied. The transaction price includes cost of gas and late payment penalties as variable consideration, and excludes estimates of the variable consideration that are constrained, that is allocated to that performance obligation.
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.
Income from 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.

8. Equity accounted investees

’000 GEL	2019	2018
Interests in associates:		
Kartli Wind Power Station LLC - 49.99%	-	15,635
Enguri Pumped-Storage Power Plant LLC (EPSPP) – 40%	813	367
Other investments	1,208	1,180
Total	**2,021**	**17,182**

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.

In December 2019 the Group disposed its share (49.99%) in Kartli Wind Power Station LLC at gain of GEL 6,845 thousand. Compensation of GEL 20,620 thousand for disposed investment was fully received in cash on 30 December 2019.

’000 GEL	31 December 2019	31 December 2018
Percentage ownership interest	0%	49.99%
Non-current assets	59,213	62,712
Current assets	17,466	20,316
Non-current liabilities	(49,305)	(45,411)
Current liabilities	(497)	(7,006)
Net assets (100%)	26,877	30,611
Group’s share of net assets	-	15,302
Revenue for the year ended	16,545	14,744
Profit and total comprehensive income (100%) for the year ended	3,464	2,670
Group’s share of profit and total comprehensive income	**1,731**	**1,335**

Movement of the equity-accounted investees during the year:

’000 GEL	2019	2018
Balance at 1 January	**17,182**	**15,480**
Contributions made during the year	474	367
Reduction of investment	(3,591)	-
Disposal of associate	(13,775)	-
The Group’s share of profit, net of income tax	1,731	1,335
Balance at 31 December	**2,021**	**17,182**

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 and 2019 the Group made contribution of GEL 367 thousand and GEL 446 thousand, respectively, 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	**2019**	**2018**
Legal fees*	8,445	10,816
Transportation, materials, repair and maintenance	10,051	7,824
Regulatory fees	2,759	2,034
Write off and disposal of assets	843	2,235
Office expenses	806	590
Utility costs	755	370
Representative and business trip expenses	689	777
Professional services	206	288
Benefits to employees	-	601
Other	5,981	4,836
	30,535	**30,371**

* 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 related to Frontera Resources Georgian Corporation (note 27(b)).

In 2019 the Company received an invoice amounted to GEL 4,069 thousand related to the services provided by Hogal Lovells International LLP in 2018. In preparing these consolidated financial statements the management decided to correct comparative information for the invoice amount by increasing other expenses and trade and other payables for the year ended 31 December 2018.

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	Note	2019	2018
Gain on disposal of equity accounted investee	8	6,845	-
Rent income		728	368
Excess inventory identified through stock count		619	223
Oil processing		466	323
Income from sale of property, plant and equipment		290	706
Customer penalties for late payment		152	119
Other		997	303
		10,097	**2,042**

11. Finance income and finance costs

’000 GEL	2019	2018
Recognised in profit or loss		
Interest income under the effective interest method at amortized cost	14,999	34,630
Unwinding of discount on finance lease receivable (note 15)	5,280	4,981
Unwinding of discount on restructured receivable from related party (note 17)	2,549	2,780
Finance income	**22,828**	**42,391**
Interest expense on loans and borrowings	(28,850)	(42,634)
Net foreign exchange loss	(37,451)	(21,871)
Finance costs	**(66,301)**	**(64,505)**
Net finance costs recognised in profit or loss	**(43,473)**	**(22,114)**

12. Income tax expense

On 19 July 2019 the Parent (Partnership Fund JSC) made a decision that the Company can distribute 35% of 2018 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 2018 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.

As at 31 December 2019 and 2018 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 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**
Balance at 1 January 2019	431,297	44,469	381,403	35,404	19,921	12,691	315,210	1,240,395
Additions	2,055	1,963	-	-	322	2,437	217,798	224,575
Transfers	10,533	1,355	4,016	18	7	-	(15,929)	-
Capitalised borrowing costs	-	-	-	-	-	-	33,174	33,174
Disposals	-	-	-	(17)	(249)	(478)	(2,310)	(3,054)
Reclassification	1,646	-	-	-	-	-	(1,646)	-
Balance at 31 December 2019	**445,531**	**47,787**	**385,419**	**35,405**	**20,001**	**14,650**	**546,297**	**1,495,090**
Depreciation and impairment losses								
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**
Balance at 1 January 2019	174,151	7,245	52,716	26,396	12,185	6,261	3,040	281,994
Depreciation for the year	18,195	621	15,451	700	1,783	1,592	-	38,342
Disposals	(133)	-	-	-	(16)	(581)	-	(730)
Reclassification	952	-	-	-	-	-	(952)	-
Balance at 31 December 2019	**193,165**	**7,866**	**68,167**	**27,096**	**13,952**	**7,272**	**2,088**	**319,606**
Carrying amounts								
At 31 December 2018	**257,146**	**37,224**	**328,687**	**9,008**	**7,736**	**6,430**	**312,170**	**958,401**
At 31 December 2019	**252,366**	**39,921**	**317,252**	**8,309**	**6,049**	**7,378**	**544,209**	**1,175,484**

Uninstalled equipment represents GEL 92,475 thousand (2018: GEL 92,876 thousand) from the total balance of GEL 546,297 thousand (2018: GEL 315,210 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 Group 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 177,290 thousand (2018: GEL 154,068 thousand) from total additions balance of GEL 217,798 thousand (2018: GEL 209,101 thousand) relates to construction of Gardabani II Combined-Cycle Thermal Power Plant. The construction was finalized in December 2019. Electricity generation license was issued to Gardabani II by Georgian National Energy and Water Supply Regulating Commission on 25 March 2020. Gardabani II Thermal Power Plant started operation in 2020.

During 2019 GEL 23,891 thousand (2018: GEL 16,000 thousand) 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 in 2019 amounted to GEL 33,174 thousand (2018: GEL 7,050 thousand), with a capitalisation rate of 6.75%.

During 2019 the Parent of the Company contributed land plots of GEL 1,773 thousand, pipelines of GEL 1,854 thousand (2018: 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) in the form of an increase in share capital of the Company.

14. Prepayments

’000 GEL	**2019**	**2018**
Non-current assets		
Prepayments for non-current assets	97,170	62,681
Current assets		
Prepayments	66,198	50,301
	163,368	**112,982**

On 28 September 2016 the agreement was signed on engineering, procurement and construction of Gardabani II Combined-Cycle Thermal Power Plant, between Gardabani TTP 2 LLC and China Tianchen Engineering Corporation. As at 31 December 2019 advance payment of GEL 89,953 thousand (31 December 2018: GEL 57,328 thousand) was made to China Tianchen Engineering Corporation in accordance with the above agreement.

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

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

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.

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

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

16. Loans given

'000 GEL	**2019**	**2018**
Non-current assets		
Loan given to shareholder	15,983	13,613
Loan given to third party	171	1,339
	16,154	**14,952**
Current assets		
Loan given to third party	1,692	-
	1,692	**-**
Total loans given	**17,846**	**14,952**

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. GOGL paid interest on outstanding loan and maturity on the repayment of principal was prolonged until 31 December 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	**2019**	**2018**
Non-current assets		
Restructured receivables*	15,718	18,959
Total non-current	**15,718**	**18,959**
Current assets		
Trade receivables	275,677	121,909
Restructured receivables*	4,296	4,510
Other receivables	1,655	961
Total current	**281,628**	**127,380**
	297,346	**146,339**

* 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 2019 Georgian Gas Transportation Company LLC has made GEL 4,990 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	**2019**	**2018**
Bank balances	71,141	230,237
Call deposits	64,674	118,358
Cash and cash equivalents in the consolidated statement of cash flows and in the consolidated statement of financial position	**135,815**	**348,595**

Call deposits represent callable deposits with maturities of three months or less from the acquisition date.

Restricted cash

As at 31 December 2019 restricted cash balance of GEL 60 thousand (2018: GEL 5,607 thousand) 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	
	2019	**2018**
Par value	GEL 20	GEL 20
On issue at 1 January	31,329,768	31,245,797
Issue of shares in exchange for non-cash assets contributed	815,482	83,971
On issue at 31 December	**32,145,250**	**31,329,768**

Ordinary shares

During 2019, the Parent of the Company made decisions to contribute into the Company's share capital property, plant and equipment (land plots and pipelines) with nominal amount of GEL 15,548 thousand as an in-kind contribution and undertook liability of GEL 762 thousand for capital contributions to be made in 2020. The difference between the nominal value of the in-kind contribution and fair value of contributed property, plant and equipment, at the contribution dates, amounted to GEL 11,921 thousand, is recognized as a reduction of APIC.

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.

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 additional paid in capital. During 2019 details about movement in additional paid in capital is presented in note 19(a) (2018: no movement).

(c) Dividends and other distribution to shareholders

In 2019 dividends of GEL 56,469 thousand were declared by the Company (2018: GEL 77,142 thousand were declared and paid) and GEL 60,000 thousand was paid to JSC Partnership Fund. Difference between amounts of declared and paid dividends was recognized by the Company as prepaid dividends and will be set-off with dividends that will be distributed in 2020.

In 2019 Gardabani TPP LLC declared dividends of GEL 2,000 thousand out of which GEL 982 thousand was paid to non-controlling interest holder - JSC Partnership Fund.

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 2019 and 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	**2019**	**2018**
Non-current liabilities		
Unsecured bond issue	**705,122**	**658,134**
Current liabilities		
Current portion of unsecured bond issue	**16,902**	**13,486**
	722,024	**671,620**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2019		**31 December 2018**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bond issue	USD	6.75%	2021	716,925	722,024	669,150	671,620
Total interest-bearing liabilities				**716,925**	**722,024**	**669,150**	**671,620**

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

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

It is expected that 1st tranche of KfW loan will be utilized in 2020 and 2nd tranche during active phase of the construction of first underground gas storage, subject to "go decision" based on the results of the phase one. For the date when these consolidated financial statements are authorized for issue KfW loan is not utilized.

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

	Equity	Equity	Liabilities	
’000 GEL	**Retained earnings**	**Non-controlling interests**	**Loans and borrowings**	**Total**
Balance at 1 January 2019	**480,665**	**91,560**	**671,620**	**1,243,845**
Dividend paid	(60,000)	(982)	-	(60,982)
Total changes from financing cash flows	**(60,000)**	**(982)**	**-**	**(60,982)**
Other changes				
The effect of changes in foreign exchange rates	-	-	36,260	36,260
Interest expense	-	-	28,850	28,850
Borrowing cost capitalized	-	-	33,174	33,174
Interest paid	-	-	(47,880)	(47,880)
Total liability-related other changes	**-**	**-**	**50,404**	**50,404**
Balance at 31 December 2019	**420,665**	**90,578**	**722,024**	**1,233,267**

	Equity	Equity	Liabilities	
’000 GEL	**Retained earnings**	**Non-controlling interests**	**Loans and borrowings**	**Total**
Balance at 1 January 2018	**423,028**	**69,063**	**715,900**	**1,207,991**
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**	**69,063**	**671,620**	**1,086,569**

22. Trade and other payables

’000 GEL	**2019**	**2018**
Trade payables	69,612	22,632
Payables for non-current assets	23,072	4,263
Other payables	2,793	4,093
	95,477	**30,988**

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**	**2019**	**2018**
Trade and other receivables	17	297,346	146,339
Loans given	16	17,846	14,952
Cash and cash equivalents and restricted cash	18	135,875	354,202
		451,067	**515,493**

(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	**2019**	**2018**
Domestic	295,742	144,394
CIS countries	1,604	1,945
	297,346	**146,339**

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

	Carrying amount	
’000 GEL	**2019**	**2018**
Gas distributors	239,010	92,024
Electricity distributors	24,822	25,479
Gas pipeline rentals (note 17)	24,264	27,316
Others	9,250	1,520
	297,346	**146,339**

At 31 December 2019, the carrying amount of the Group’s two most significant customers was GEL 226,603 thousand (2018: GEL 119,133 thousand).

Expected credit loss assessment for corporate customers

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. 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 and other receivables for customers as at 31 December 2019:

’000 GEL	**2019**	**2019**	**2019**
Customer credit risk grade	**Not credit impaired**	**Credit impaired**	**Total**
Low risk	279,191	-	279,191
Medium risk	21,047	-	21,047
High risk	-	7,944	7,944
Total gross carrying amount	**300,238**	**7,944**	**308,182**
Loss allowance	(2,892)	(7,944)	(10,836)
Total net carrying amount	**297,346**	**-**	**297,346**

’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.

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.

’000 GEL	**2019**	**2018**
Balance at 1 January under IFRS 9	8,068	8,068
Net charge for the year	2,958	-
Balance at 31 December	**11,026**	**8,068**

(iv) Loans given

In 2019 the Company provided a loan amounted to EUR 50 thousand to its associate – W-Stream Pipeline Company Limited. In 2018 the Company provided a loan to third party – Georgian Oil and Gas Limited (GOGL). In 2017 the Company issued a loan to its shareholder Partnership Fund JSC (largest group of companies headed by the Government of Georgia). Terms of the issued loans are described in note 16. Per management’s assessment none of the loans issued balances are credit-impaired as at 31 December 2019. Partnership Fund JSC to whom the most significant balance of loans given are related to was classified as low risk. All loans given are categorized in Stage 1 and impairment allowance is calculated based on 12 month expected losses, accordingly.

(v) Cash and cash equivalents and restricted cash balances

As at 31 December 2019 the Group had placements with 2 banks whose balances exceeded 10% of total cash and cash equivalents (31 December 2018: 3 banks). The carrying value of these balances as at 31 December 2019 was GEL 121,010 thousand (31 December 2018: GEL 284,889 thousand). As at 31 December 2019 approximately 99% 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 S&P Global rating of BB with stable outlook.

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 by the Group during 2019.

(vi) Finance lease receivable

Balance of finance lease receivable represents unguaranteed residual value at the end of the lease term discounted at the interest rate implicit in the lease (see note 15). Consequently, management concluded that the latter is not bear credit risk and is outside of IFRS 9 impairment requirements, consequently no expected credit losses were recognised with respect to finance lease receivable.

(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 remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

'000 GEL 2019	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-3 yrs**
Non-derivative financial liabilities					
Unsecured bond issue	722,024	789,513	24,196	24,196	741,121
Trade and other payables	95,477	95,477	95,477	-	-
	817,501	**884,990**	**119,673**	**24,196**	**741,121**

'000 GEL 2018	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-3 yrs**
Non-derivative financial liabilities					
Unsecured bond issues	671,620	782,069	22,584	22,584	736,901
Trade and other payables	30,988	30,988	30,988	-	-
	702,608	**813,057**	**53,572**	**22,584**	**736,901**

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

As at 31 December 2019 the Company has obtained two credit lines from two Georgian banks (credit line limits amounted to USD 30,000 thousand and USD 15,000 thousand, respectively), which have not been utilized as at reporting date.

(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 2019	USD-denominated 2018
Trade and other receivables	1,604	1,949
Loans given	17,675	14,952
Cash and cash equivalents	14,561	64,042
Trade and other payables	(58,407)	(12,396)
Loans and borrowings	(722,024)	(671,620)
Net exposure	**(746,591)**	**(603,073)**

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

in GEL	Average rate		Reporting date spot rate	
	2019	**2018**	**2019**	**2018**
USD	2.8192	2.5345	2.8677	2.6766

Sensitivity analysis

A reasonably possible 10% strengthening (10% in 2018) 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 2019	74,659
31 December 2018	60,307

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	**2019**	**2018**
Fixed rate instruments		
Loans given	17,846	14,952
Cash and cash equivalents and restricted cash	135,875	354,202
Loans and borrowings	(722,024)	(671,620)
	(568,303)	**(302,466)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial instruments at FVTPL or FVOCI. Therefore a change in interest rates at the reporting date would not have an effect on profit or loss or on 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 2019 amounted to GEL 175,185 thousand (2018: 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	**2019**	**2018**
NCI percentage	**49%**	**49%**
Non-current assets	424,114	432,734
Current assets	60,945	58,337
Non-current liabilities	(255,757)	(288,088)
Current liabilities	(15,571)	(16,126)
Net assets	**213,731**	**186,857**
Carrying amount of NCI	**104,728**	**91,560**
Revenue	224,966	209,090
Profit	28,878	45,913
Profit and total comprehensive profit	**28,878**	**45,913**
Profit allocated to NCI	14,150	22,497
Cash flows from operating activities	89,726	71,209
Cash flows used in investment activities	(9,050)	(35,472)
Cash flows used in financing activities (dividends to NCI: GEL 982 thousand)	(80,894)	(50,577)
Net decrease in cash and cash equivalents	**(218)**	**(14,840)**

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. In February 2019 the Company made decision to reduce charter capital of Gardabani II TPP LLC to GEL 266,909 thousand. In February 2019 the Company reduced its investment in Gardabani TPP II LLC by GEL 83,297 thousand, consequently annulling investment payable and provided amount to the subsidiary in the form of a loan.

As at 31 December 2019 and for the year then ended the subsidiary had material balance of prepayments for non-current assets of GEL 95,560 thousand, out of which GEL 89,953 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 was completed by the end of 2019 and put into exploitation in 2020 (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 and 2019 additional amount of 350 thousand and 450 thousand Swiss francs, respectively, was contributed into 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 2019 the Company's investment to GGSC amounted to GEL 34,473 thousand (cash and non-cash contributions). By the end of 2019 construction of Underground Gas Storage was not commenced. The Company expects to start construction in 2020.

25. Leases

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

(a) Leases as lessee

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

(b) Leases as lessor

(i) Finance lease

The Group leases out oil pipeline and receives a transit fee for each barrel of oil transported. Management has determined that the initial arrangement contained a finance lease at inception date, as the lease agreement transferred substantially all of the risks and rewards incidental to ownership to the lessee. The Group has classified oil pipeline lease as a finance lease under IAS 17.

The Group has recognized the finance lease receivable at the date when the title of the pipelines was transferred to the Group. The finance lease receivable is the present value of the assets' unguaranteed residual value at the end of the lease term (see Note 15).

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

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

(ii) Operating lease

The Company leases out gas pipeline and related infrastructure, its own property, to a related party, Georgian Gas Transportation Company LLC. The rent agreement is non-cancellable and is valid until 1 January 2021.

The Group has classified gas pipeline lease as operating one, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets (see Note 7 (a)).

Rental income recognised by the Group during 2019 was GEL 43,059 thousand (2018: GEL 42,053 thousand).

26. Capital and other commitments

The Group had entered into contracts for construction of pipelines and the Gardabani II Combined-Cycle Power Plant and for purchasing of power transformer with outstanding capital commitments as at 31 December 2019 of GEL 8,802 thousand, GEL 45,030 thousand and GEL 2,266 thousand, respectively (2018: GEL 16,825 thousand, GEL 220,576 thousand and nil, 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 2019 the Group made contribution of GEL 446 thousand (GEL 367 thousand during 2018) 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 2019 the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 783,315 thousand (31 December 2018: GEL 827,864 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.

27. 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 (Frontera). SAOG and the Company inter alia are claiming that Frontera has materially breached certain provisions of the PSA (profit sharing agreement) including but not limited to the relinquishment of approximately 99% of the Contract Area. Apart from this 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.

In September 2018 Frontera made a counterclaim, claiming USD 3.5 billion as lost profits for the period 2012 through 2027 for certain alleged breaches of the PSA by the Company and SAOG. The Company and SAOG have considered the counterclaim to be without merit and contested it vigorously. In addition to the claim for the lost profits, Frontera asserted a claim for taxes (VAT and excise tax) in amount of USD 3.5 million and claimed for legal costs allegedly incurred in obtaining land access to Block XII in the amount of USD 74 thousand.

In 2019, Frontera applied to the arbitration tribunal with a statement on voluntarily withdrawal of the counterclaims. The Company and SAOG objected Frontera's request but later withdrew their opposition to the proposed withdrawal.

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

Currently, the Company and SAOG are considering further steps aimed at enforcement of the award and implementation of the rights and remedies granted under the PSA.

GGTC case:

In October 2017 the Company has filed a case against GGTC (the defendant) seeking compensation for the loss of approximately USD 3,747 (approximately GEL 10,029 thousand as of the date of the claim) 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. As of date when the financial statements are authorized for issue, the proceedings are not complete. The next hearing in Tbilisi City Court scheduled in 24 April 2020 has been postponed due to COVID-19 pandemic.

As at 31 December 2019 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 characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are more significant than in other countries with more developed taxation systems. 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.

28. Related party transactions

(a) Control relationships

As at 31 December 2019 and 2018 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 prepared in accordance with IFRSs.

(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	**2019**	**2018**
Salaries and bonuses	**1,285**	**1,037**

(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	**2019**	**2018**	**2019**	**2018**
State controlled entities:				
Income from rent of gas pipelines*	43,059	42,053	24,264	27,316
Income from electricity generation and supply	119,996	115,879	11,991	11,950
Associate of Parent:				
Income from electricity generation and supply	37,997	56,068	4,318	5,941
	201,052	**214,000**	**40,573**	**45,207**

* 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 2019	23,469
Repayment of receivable of GGTC during 2019	(4,990)
Expected credit loss recognized during 2019	(1,014)
Unwinding of discount (note 11)	2,549
Net present value of GGTC receivables as at 31 December 2019	**20,014**

Outstanding balances related to the income from electricity generation and supply are to be settled in cash within three 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**	
	2019	**2018**	**2019**	**2018**
State controlled entities:				
Purchase of natural gas	6,466	5,357	887	748
	6,466	**5,357**	**887**	**748**

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

(iii) Loans

'000 GEL	**Interest accrued**		**Outstanding balance**	
	2019	**2018**	**2019**	**2018**
Loans given:				
Shareholder	**1,409**	**1,221**	**15,983**	**13,613**

29. Subsequent events

The first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the Georgian Lari. These developments are further increasing the level of uncertainty in the Georgian business environment.

The Group was preparing to do a liability management exercise in April 2020 - one year ahead of maturing of USD 250 million Eurobonds. However, recent developments made it impossible to proceed with the transaction as financial markets across different asset classes are experiencing significant shocks driven by accelerating COVID-19 outbreak globally. These shocks are further boosted by turmoil in oil market.

The Group intends to tap the market in Autumn 2020 for issuing Eurobonds, however, considers alternative scenarios for raising funds in order to refinance existing Eurobonds maturing in April 2021 (for details, see note 2(b)).

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

In March two members of Supervisory Board Teimuraz Gochitashvili and Omar Kutsnashvili were replaced by new Supervisory Board members Leontina Galdava and Shota Etsadashvili by decision of JSC Partnership Fund dated on 10 March 2020. Subsequently, in May, Shota Etsadashvili and Leontina Galdava were replaced by Vaja Khidasheli and Giorgi Chikovani by decision of JSC Partnership Fund dated on 13 May 2020.

On 12 March 2020 the Company paid GEL 5 million to JSC Partnership Fund which represents part of dividends distributable from 2020 consolidated profit paid in advance.

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

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

30. Basis of measurement

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

31. Significant accounting policies

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

(a) Basis of consolidation

(i) 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 and a joint venture.

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

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

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

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

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Revenue

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

(i) Rent of pipelines

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

Revenue from rent of gas pipelines represents fixed rent payment and is recognized in profit or loss on a monthly basis (please see note 7).

Finance lease:

The Company leases out oil pipeline and receives a transit fee for each barrel of oil transported. Variable lease payments are recognized in profit or loss on a monthly basis (please see note 15).

(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;
– unwinding of discount on restructured receivable
– interest expense;
– customer late payment penalties;
– the foreign currency gain or loss on financial assets and financial liabilities

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.

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

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

Foreign currency differences 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 and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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 components of equity as fair value adjustment reserve for non-cash owner contributions or additional paid in capital.

(k) Impairment

(i) Non-derivative financial assets

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 and debt securities at FVOCI 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.

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, 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.

(m) Leases

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

Policy applicable from 1 January 2019

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

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

(i) As a lessee

The Group did not have significant lease agreements where it acts as a lessee as at 31 December 2019 and 2018.

(ii) As a lessor

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

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

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

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

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

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

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

Policy applicable before 1 January 2019

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

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessor

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

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

(n) 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.

32. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

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