GEORGIAN OIL & GAS CORPORATION

Unaudited Interim Consolidated Condensed Financial Statements for the six months ended 30 June 2019

Contents

'000 GEL	Note	30 June 2019 Unaudited	31 December 2018 Audited
Assets			
Property, plant and equipment	12	1,133,388	958,401
Prepayments for non-current assets		48,076	62,681
Intangible assets		1,112	1,121
Finance lease receivable	13	70,188	67,854
Loans given	14	15,281	14,952
Trade and other receivables		16,509	18,959
Equity accountable investees		14,519	17,182
Non-current assets		**1,299,073**	**1,141,150**
Loans given	14	1,673	-
Inventories		29,919	17,826
Taxes other than on income		16,902	2,171
Prepayments		90,377	50,301
Trade and other receivables		154,829	127,380
Restricted cash		-	5,607
Cash and cash equivalents	15	196,309	348,595
Current assets		**490,009**	**551,880**
Total assets		**1,789,082**	**1,693,030**
Equity			
Share capital	16	627,728	626,595
Additional paid in capital		71,718	71,718
Fair value adjustment reserve for non-cash owner contributions		(282,181)	(282,181)
Retained earnings		509,448	484,734
Equity attributable to owners of the Company		**926,713**	**900,866**
Non-controlling interests		99,088	91,560
Total equity		**1,025,801**	**992,426**
Liabilities			
Loans and borrowings	17	705,368	658,134
Non-current liabilities		**705,368**	**658,134**
Loans and borrowings	17	15,442	13,486
Trade and other payables		40,406	26,919
Provisions		2,065	2,065
Current liabilities		**57,913**	**42,470**
Total liabilities		**763,282**	**700,604**
Total equity and liabilities		**1,789,082**	**1,693,030**

The interim 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 7 to 22.

		Six months ended June	
		2019	2018
'000 GEL	**Note**	**Unaudited**	**Audited**
Revenue	8	433,803	335,671
Cost of gas		(309,722)	(236,111)
Depreciation and amortization		(19,253)	(19,488)
Personnel costs		(9,674)	(8,740)
Taxes, other than on income		(4,856)	(4,844)
Other expenses	9	(10,604)	(11,859)
Other income	10	1,188	1,567
Results from operating activities		**80,801**	**56,195**
Finance income	11	17,679	58,963
Finance costs	11	(66,983)	(24,160)
Net finance income		**(49,306)**	**34,803**
Share of profit of equity accounted investee		668	2,230
Profit before income tax		**32,243**	**93,228**
Income tax expense		-	-
Profit and total comprehensive income		**32,243**	**93,228**

These condensed consolidated interim financial statements were approved by management on 21 August 2019 and were signed on its behalf by:

Givi Bakhtadze
General Director

Omar Ogbaidze
Financial Director

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 7 to 22.

	Attributable to owners of the Company						
'000 GEL	**Share capital**	**Fair value reserve for non-cash owner contributions**	**APIC**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2018	**624,916**	**(282,181)**	**71,718**	**428,994**	**843,447**	**69,063**	**912,510**
Profit and total comprehensive income for 6 months of 2018	-	-	-	73,923	73,923	19,305	93,228
Contributions and distributions							
Increase in share capital	526	-	-	-	526	-	526
Distribution of non-cash assets	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
Balance at 30 June 2018	**625,442**	**(282,181)**	**71,718**	**502,917**	**917,897**	**88,368**	**1,006,265**
Balance at 1 January 2019	**626,595**	**(281,181)**	**71,718**	**484,734**	**900,866**	**91,560**	**992,426**
Profit and total comprehensive income for 6 months of 2019	-	-	-	24,715	24,715	7,528	32,243
Contributions and distributions							
Increase in share capital	1,133	-	-		1,133	-	1,133
Balance at 30 June 2019	**627,728**	**(281,181)**	**71,718**	**509,448**	**926,713**	**99,088**	**1,025,081**

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 7 to 22.

	Six months ended June	
	2019	**2018**
Cash flows from operating activities		
Cash receipts from customers	464,108	422,498
Cash paid to suppliers and employees	(446,364)	(350,484)
Value added tax refund from the State	4,000	-
Cash flows from operations before income taxes and interest paid	**21,744**	**72,014**
Income tax paid	-	(15)
Interest paid	(22,765)	(22,602)
Interest received	8,112	16,088
Cash flows from operating activities	**7,091**	**65,485**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(168,223)	(109,358)
Loans given	(152)	(1,219)
Cash flows used in investing activities	**(168,375)**	**(110,577)**
Cash flows from financing activities		
Reduction of capital in equity accounted investee	3,592	-
Net cash from/(used in) financing activities	**3,592**	-
Effect of exchange rate fluctuations on cash and cash equivalents	(201)	(5,635)
Net increase/(decrease) in cash and cash equivalents	**(157,692)**	**(45,090)**
Cash and cash equivalents at the beginning of the period	354,202	498,960
Cash and cash equivalents at 30 June	**196,309**	**448,235**

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 7 to 22.

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

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

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

As at 30 June 2019 and 31 December 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 20

(b) Business environment

The Group's operations are 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 condensed consolidated interim financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 5.

3. Functional and presentation currency

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

4. Use of estimates and judgments

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

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

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

- Note 13 Finance lease receivable – determination of whether the initial arrangement contains a finance lease and the fair value of the unguaranteed residual value at the end of the lease term;
- Note 15 Cash and cash equivalents – classification of term deposits with original maturities of more than three months as cash and cash equivalents;

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.

5. Changes in significant accounting policies

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

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

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

A. IFRS 15 *Revenue from Contracts with Customers*

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

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

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

B. IFRS 9 *Financial Instruments*

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

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

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

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

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

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

(ii) Impairment of financial assets

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

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

'000 GEL	
Loss allowance at 31 December 2017 under IAS 39	**2,102**
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables	5,944
Loan receivable at amortised cost	22
Loss allowance at 1 January 2018 under IFRS 9	**8,068**
Increase during the year	-
Loss allowance at 31 December 2018 under IFRS 9	**8,068**
Increase during 6 months	92
Loss allowance at 30 June 2019 under IFRS 9	**8,159**

(iii) Transition

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

6. Operating segments

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

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

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.

(iv) Information about reportable segments

'000 GEL	Gas supply		Pipeline rental		Upstream activities		Oil transportation		Electricity generation		Total:	
	6 months ended 30 June		6 months ended 30 June		6 months ended 30 June		6 months ended 30 June		6 months ended 30 June		6 months ended 30 June	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
External revenues	288,590	219,632	21,428	21,026	4,326	2,309	9,691	10,405	109,767	82,299	433,803	335,671
Cost of gas and oil	(264,639)	(206,728)							(45,083)	(29,384)	(309,722)	(236,111)
Reportable segment profit before unallocated costs, net finance cost and income tax	23,951	12,904	21,428	21,026	4,326	2,309	9,691	10,405	64,684	52,916	124,081	99,560

* Product sharing arrangements are considered as joint operations and the revenue from oil sales is recognised only when it is sold to third parties

	Six months ended 30 June	
'000 GEL	**2019**	**2018**
Revenues		
Total revenue for reportable segments	**433,803**	**335,671**
Profit or loss		
Total profit for reportable segments	124,801	99,560
Unallocated personnel expenses	(9,674)	(8,740)
Unallocated depreciation and amortization expenses	(19,253)	(19,488)
Net finance income/(costs)	(49,306)	34,803
Other net unallocated income/(costs)	(14,272)	(15,136)
Share of income/(loss) of equity accounted investees	668	2,230
Consolidated profit before income tax	**32,243**	**93,228**

(v) Geographical information

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

(vi) Major customer

During the 6 months of 2019, one customer in the gas supply segment represented approximately 67% of the Group's total revenue GEL 288,590 thousand, (2018: 65%, GEL 219,632 thousand).

7. Seasonality of operations

Gas supply and pipeline rental revenues follow a seasonal pattern with an annual base-load of gas and a large heating peak occurring during the winter season. Natural gas obtained from suppliers is utilized to meet the peak heating season requirements. The Group's other revenues remain relatively stable during the year.

8. Revenue

'000 GEL	Six months ended 30 June 2019	2018
Revenue from contracts with customers:		
Sales of natural gas	288,590	219,632
Income from electricity generation	109,767	82,299
Income from crude oil sales	4,326	2,309
Revenue from contracts with customers	**402,683**	**304,240**
Other revenue		
Income from rent of gas pipelines	21,428	21,026
Oil transportation fee under finance lease	9,691	10,405
Total other revenues	**31,119**	**31,431**
Total revenues	**433,803**	**335,671**

Income from electricity generation and supply includes the income from guaranteed capacity fees of GEL 63,355 thousand (2018: GEL 51,709 thousand) and income from electricity generation of GEL 46,412 thousand (2018: GEL 30,560 thousand).

The Company rents its gas pipeline to Georgian Gas Transportation Company LLC. The lease payments were contingent on the volume of gas transported through the pipeline. Since 1 September 2017 the rent fee is fixed at GEL 3,500 thousand per month. Transactions with related parties are disclosed in note 20.

9. Other expenses

'000 GEL	Six months ended 30 June 2019	2018
Banking, consulting and other professional services	(4,457)	(3,377)
Transportation, materials and repair and maintenance	(2,106)	(4,148)
Transfer of assets	(1,098)	-
Regulatory fees	(467)	(793)
Insurance costs	(448)	(478)
Utility costs	(408)	(447)
Representative and business trip expenses	(322)	(357)
Natural resources' fee	(297)	(313)
Employee benefits	-	(461)
Other	(1,002)	(1,484)
	(10,604)	**(11,859)**

10. Other income

	Six months ended 30 June	
'000 GEL	**2019**	**2018**
Oil processing	86	209
Rent income	281	238
Excess inventory identified through stock count	605	-
Other	216	1,120
	1,188	**1,567**

11. Finance income and finance costs

	Six months ended 30 June	
'000 GEL	**2019**	**2018**
Recognised in profit or loss		
Interest income under the effective interest method at amortized cost	15,296	19,762
Unwinding of discount on restructured receivable from related party	2,334	1,993
Customer late payment penalty	49	9,428
Net foreign exchange gain	-	27,726
Finance income	**17,679**	**58,963**
Interest expense on bank loans	-	(1,972)
Interest expense on bonds payable	(19,421)	(22,188)
Loss on derecognition of financial asset	(2,450)	-
Net foreign exchange loss	(45,112)	-
Finance costs	**(66,983)**	**(24,160)**
Net finance costs recognised in profit or loss	**(49,306)**	**34,803**

12. Property, plant and equipment

In thousand GEL	Gas and oil pipelines	Land and Buildings	Electricity Generating Unit	Oil wells	Plant and equipment	Other	CIP	Total
Opening net book amount as at 1 January 2019	**257,146**	**37,224**	**328,687**	**9,008**	**7,736**	**6,430**	**312,170**	**958,401**
Transfers	10,383	-	-	-	190	9	(10,582)	-
Additions	-	896	-	-	244	1,346	181,563	**183,633**
Capitalised borrowing costs	-	-	-	-	-	-	10,688	**10,688**
Disposals	-	(469)	-	-	(299)	(495)	-	**(1,193)**
Depreciation for 6 months	(8,770)	(737)	(8,167)	(355)	(618)	(603)	-	**(19,250)**
Depreciation on disposal	-	-	-	-	229	373	-	**602**
Closing net book amount as at 30 June 2019	**258,759**	**36,913**	**320,520**	**8,653**	**7,554**	**7,060**	**493,930**	**1,133,388**

13. Finance lease receivable

In 1996 the Government of Georgia entered into a 30 year arrangement with a consortium of oil companies that undertook major rehabilitation of existing pipeline from the border with Azerbaijan to the Georgian Black Sea coast and construction of Supsa oil terminal. The arrangement granted the oil companies the right to transport oil across Georgia through that pipeline. The pipeline infrastructure on Georgian territory, being the property of the Government of Georgia and ownership of this infrastructure was transferred to the Company in June-July 2010 through a contribution to its charter capital with a nominal value of GEL 269,299 thousand. In exchange for the oil company's use of the pipeline, the Group receives a transit fee for each barrel of oil transported through the pipeline. Management has determined that the initial arrangement contained a finance lease at inception.

The Group has recognized a lease receivable of GEL 39,229 thousand at the date that title was transferred to the business. The 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. The difference of GEL 230,070 thousand between the nominal amount and the present value of the net investment in the lease has been recognized in equity as fair value adjustment for non-cash owner contributions.

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

'000 GEL	30 June 2019	31 December 2018
Balance at the beginning of the year/date of title transfer	67,854	62,873
Unwinding of discount on finance lease receivable	2,334	4,981
Balance at the end of the period	**70,188**	**67,854**

Contingent rents related to oil transportation recognized in the consolidated statement of comprehensive income during six months of 2019 amounted to GEL 9,691 thousand (six months of 2018 GEL 10,405 thousand).

14. Loans given

'000 GEL	30 June 2019	31 December 2018
Non-current assets		
Loan given to shareholder	15,281	13,613
Total non-current	**15,281**	**13,613**
Current assets		
Loan given to third party	1,673	1,339
Total current	**1,673**	**1,339**

The loan given to a third party bears the contractual rate of interest of 9.5% per annum and matures within 4 years and is secured by the borrower's property, plant and equipment.

15. Cash and cash equivalents balances

'000 GEL	30 June 2019	31 December 2018
Cash and cash equivalents	196,309	230,237
Call deposits	-	118,358
Cash and cash equivalents in the consolidated statement of cash flows and in the consolidated statement of financial position	**196,309**	**348,595**

Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest.

Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

Term deposits represent deposits with maturity more than six months for which the Group does not have right to withdraw amounts until the end of its maturity date.

16. Equity

Share capital

Number of shares unless otherwise stated	Ordinary shares	
	30 June 2019	**31 December 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	56,637	83,971
On issue at the reporting date	**31,386,405**	**31,329,768**

Ordinary shares

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

17. Loans and borrowings

'000 GEL	**30 June 2019**	**31 December 2018**
Non-current liabilities		
Unsecured bond issue	705,368	658,134
	705,368	**658,134**
Current liabilities		
Loans from bank	-	-
Current portion of unsecured bond issue	15,442	13,486
	15,442	**13,486**
	720,810	**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 2017 the Group repaid outstanding part of 2012 Bonds. As a result as of today, the Group has remaining issued USD 250 million 6.75% bonds due in 2021.

18. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the twelve months ended 31 December 2018.

19. 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) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after six years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) 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.

20. Related party transactions

(a) Control relationships

As at 30 June 2019 Georgian Oil and Gas Corporation JSC is wholly owned by Partnership Fund JSC. The ultimate controlling party of the Group is the Government of Georgia. The Group's parent company produces publicly available financial statements.

(b) Transactions with key management personnel

(i) Key management remuneration

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

	Six months ended 30 June	
'000 GEL	**2019**	**2018**
Salaries and bonuses	**851**	**694**

(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.

(i) Revenue

	Transaction value for the six months ended 30 June		Outstanding balance as at 30 June	Outstanding balance as at 31 December
'000 GEL	**2019**	**2018**	**2019**	**2018**
State controlled entities:				
Rent of pipelines	21,428	21,026	16,509	27,316
Income from electricity generation	109,767	82,299	7,906	17,891
	131,196	**103,325**	**24,415**	**45,207**

(ii) Expenses

	Transaction value for the six months ended 30 June		Outstanding balance as at 30 June	31 December
'000 GEL	**2019**	**2018**	**2019**	**2018**
State controlled entities:				
Purchase of Gas	81	2	-	748
	81	**2**	**-**	**748**

21. New standards and interpretations not yet adopted

Standards and interpretations

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

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