Georgian Oil and Gas Corporation JSC

Consolidated Financial Statements for 2021

Contents

KPMG Georgia LLC
5th Floor GMT Plaza
Mtatsminda District, Liberty Square N4 (plot 66/4)
0105 Tbilisi, Georgia
IN 404437695
Telephone +995 322 93 5713
Internet www.kpmg.ge

Independent Auditors' Report

To the Supervisory board of Georgian Oil and Gas Corporation JSC

Opinion

We have audited the consolidated financial statements of Georgian Oil and Gas Corporation JSC the ("Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 2 b of the consolidated financial statements which indicates that in 2021 the Company has breached financial covenants in relation to the loan from EBRD, giving right to the lender to request immediate repayment of the whole loan amount, as a result of which, as at 31 December 2021 the Group's current liabilities exceeded its current assets by GEL 317,551 thousand. Our opinion is not modified in respect of this matter.

Management Report

Management is responsible for the Management Report. The 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 the information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Irina Gevorgyan

KMPG Georgia LLC
07 September 2022

'000 GEL	Note	31 December 2021	31 December 2020
Assets			
Property, plant and equipment	12	1,232,781	1,284,885
Prepayments for non-current assets	13	2,826	1,039
Intangible assets		57	61
Finance lease receivable	14	80,898	79,962
Loans given	15	20,990	20,121
Trade and other receivables	16	12,056	14,514
Exploration and evaluation asset	1	10,836	-
Equity accounted investees	7	2,155	2,021
Non-current assets		**1,362,599**	**1,402,603**
Loans given	15	13	1,513
Inventories		17,900	14,477
Taxes other than on income		-	3,991
Prepayments	13	103,039	94,566
Trade and other receivables	16	360,873	252,090
Restricted cash	17	-	924
Cash and cash equivalents	17	56,280	74,034
Current assets		**538,105**	**441,595**
Total assets		**1,900,704**	**1,844,198**
Equity	18		
Share capital		646,260	646,044
Additional paid in capital		59,797	59,797
Fair value reserve for non-cash owner contributions		(282,181)	(282,181)
Retained earnings		503,408	402,749
Equity attributable to owners of the Company		**927,284**	**826,409**
Non-controlling interests	23	117,764	80,856
Total equity		**1,045,048**	**907,265**
Liabilities			
Loans and borrowings	20	711,003	828,152
Trade and other payables	21	134,478	106,171
Current tax liabilities		8,110	545
Provisions		2,065	2,065
Current liabilities		**855,656**	**936,933**
Total liabilities		**855,656**	**936,933**
Total equity and liabilities		**1,900,704**	**1,844,198**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 49.

'000 GEL	Note	2021	2020
Revenue	6	1,114,608	997,212
Cost of gas and oil		(918,941)	(746,056)
Depreciation and amortization		(70,869)	(58,814)
Personnel costs		(32,928)	(24,163)
Taxes, other than on income		(15,488)	(13,789)
Impairment reversal on trade receivables and loans given	22(b)	3,422	1,386
Impairment loss on property, plant and equipment	12	(4,987)	-
Other expenses	8	(26,143)	(21,661)
Other income	9	12,763	9,854
Profit from operating activities		**61,437**	**143,969**
Finance income	10	123,244	17,066
Finance costs	10	(47,114)	(157,838)
Net finance income/(costs)		**76,130**	**(140,772)**
Profit before income tax		**137,567**	**3,197**
Income tax expense	11	-	-
Profit and total comprehensive income for the year		**137,567**	**3,197**
Profit and total comprehensive income attributable to:			
Owners of the Group		100,659	(6,071)
Non-controlling interests		36,908	9,268
		137,567	**3,197**

These consolidated financial statements were approved by management on 7 September 2022 and were signed on its behalf by:

Giorgi Chikovani
General Director

Ekaterine Sisauri
Financial and Property
Management 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 9 to 49.

	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 2020	**642,905**	**59,797**	**(282,181)**	**540,696**	**961,217**	**90,669**	**1,051,886**
Profit and total comprehensive income for the year	-	-	-	(6,071)	(6,071)	9,268	3,197
Transactions with owners of the Company							
Contributions and distributions							
Dividends (see note 18(c))	-	-	-	(42,482)	(42,482)	-	(42,482)
Distribution to owner (see note 18 (e))	-	-	-	(108,475)	(108,475)	-	(108,475)
Other changes (see note 18(d))	-	-	-	19,081	19,081	(19,081)	-
Increase in share capital (see note 18(a))	3,139	-	-	-	3,139	**-**	3,139
Total contributions and distributions	**3,139**	**-**	**-**	**(131,876)**	**(128,737)**	**(19,081)**	**(147,818)**
Balance at 31 December 2020	**646,044**	**59,797**	**(282,181)**	**402,749**	**826,409**	**80,856**	**907,265**
Balance at 1 January 2021	**646,044**	**59,797**	**(282,181)**	**402,749**	**826,409**	**80,856**	**907,265**
Profit and total comprehensive income for the year	-	-	-	100,659	100,659	36,908	137,567
Transactions with owners of the Company							
Contributions and distributions							
Increase in share capital (see note 18(a))	216	-	-	-	216	-	216
Total contributions and distributions	**216**	**-**	**-**	**-**	**216**	**-**	**216**
Balance at 31 December 2021	**646,260**	**59,797**	**(282,181)**	**503,408**	**927,284**	**117,764**	**1,045,048**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 49.

’000 GEL	Note	2021	2020
Cash flows from operating activities			
Cash receipts from customers		1,149,510	1,020,519
Cash paid to suppliers and employees		(1,115,473)	(933,655)
Restricted cash		924	(924)
Value added tax refund from the State		18,336	6,985
Cash from operations before income taxes and interest		**53,297**	**92,925**
Interest paid	20	(59,339)	(54,964)
Interest received		4,341	6,909
Net cash (used in)/from operating activities		**(1,701)**	**44,870**
Cash flows from investing activities			
Acquisition of property, plant and equipment, including advances paid		(24,386)	(63,678)
Acquisition of exploration and evaluation asset		(9,170)	-
Contribution to equity-accounted investee		(128)	-
Cash received from disposal of property, plant and equipment		-	1,199
Net cash used in investing activities		**(33,684)**	**(62,479)**
Cash flows from financing activities			
Dividends paid		-	(38,951)
Proceeds from borrowings	20	1,047,171	10,067
Repayment of borrowings	20	(1,064,049)	(10,000)
Other fee on loans		(1,482)	(8,225)
Net cash used in financing activities		**(18,360)**	**(47,109)**
Net decrease in cash and cash equivalents		**(53,745)**	**(64,718)**
Cash and cash equivalents at 1 January		74,034	135,815
Effect of exchange rate fluctuations on cash and cash equivalents		35,991	2,937
Cash and cash equivalents at 31 December	17	**56,280**	**74,034**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 49.

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 a 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.

In 2017 the Company started construction of Gardabani II Combined-Cycle Thermal Power Plant (TPP). The major construction works of the Thermal Power Plant (TPP) were finalized on 12 February 2020 and taking over certificate was signed by Gardabani II and the counterparty responsible for the construction of TPP on 28 February 2020. On 25 March 2020, Gardabani II obtained a 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.

From December 2006, when the Company was 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.

On 16 March 2018 the Company and investors, participating in Production Sharing Agreements, executed the "Loan and Pledge Agreement" according to which, in exchange for the loan borrowed by investors from the Company, Georgian Oil and Gas Corporation JSC was granted an option to acquire a 22% interest in Production Sharing Agreements for a net payment of USD 3,500,000 in aggregate. On 23 July 2021, investors and the Company entered into a non-binding Memorandum of understanding, according to which investors expressed their willingness to transfer to the Company 22% of the Contractor's participating interest in Production Sharing Agreements covering specified license areas. On 6 December 2021 the Government of Georgia issued order # 2147 and consented to exercise the option by the Company to acquire 22% of the investor's participating interest in the mentioned Production Sharing Agreements. The transaction of acquisition of the participating interest was conducted on 29 December 2021, when the Company and investors entered into a joint operation agreement on the specified license areas. As a result of this transaction exploration and evaluation asset of GEL 10,836 thousand has been recognised.

The New law of Georgia on Energy and Water Supply ("The Law") was introduced and entered in force on 27 December 2019. The Law requires adoption of a number of by-laws, such as electricity market concept design ("EMCD") and natural gas market concept design ("NGMCD"), accompanied by certain institutional developments. The Group will follow the schedule set forth by the Law, which was not intended to have immediate effect on the Georgian electricity and gas markets and their participants (including the Group).

Based on the decree N89 by the Government of Georgia dated 28 February 2022, legislative changes in the market concept were postponed again until 1 September 2022.

Natural gas market concept design (NGMCD) was approved in September 2021. The regulation obliged the Company and Georgian Gas Transportation Company LLC (GGTC) to establish a natural gas market operator, with the purpose to form a liquid competitive market for natural gas. However, NGMCD do not restrict the Company from selling natural gas through two-way agreements signed directly with customers.

On 15 October 2021, Georgian Oil and Gas Corporation JSC together with the Georgian Gas Transportation Company LLC (GGTC), with the participating interest of 50% each, established natural gas market operator "Georgian Gas Exchange LLC" according to the requirements of the NGMCD. The commencement of the operations of the natural gas market operator is planned in 2023-2024 year.

Therefore, from the Group's perspective, the latter will not have effect on the Group's operations till 2023.

Electricity operations

The management of the Group believes that operations of Gardabani TPP LLC and Gardabani TPP 2 LLC will not be affected by the adoption of the Law under discussion, such as EMCD as their activities and performance results are backed by the respective implementation agreements entered into by the Company, its respective subsidiaries, the Government of Georgia and JSC Electricity System Commercial Operator ("ESCO") and power purchase agreements ("PPAs") concluded with the latter.

Main gas pipelines system of Georgia

Based on the Law and governmental resolution No. 129 of 25 March 2021 "On approval of the action plan for unbundling of Georgian transmission system operator" an independent system operator model was selected. Pursuant to the said model, the Company remains indirect owner of the main gas pipeline system of Georgia ("MGPS"). MGPS was transferred to a wholly owned subsidiary of the Company, Georgian Natural Gas Transmission Network Owner LLC, which was assigned the Company's rights and interests to MGPS in the rent agreement with Georgian Gas Transportation Company LLC (GGTC).

Unbundling does not have an effect on the Group's operations (on the Group level), as the company to which MGPS is transferred is a 100% subsidiary of the Georgian Oil and Gas Corporation JSC. For more information about the Company's significant subsidiaries, see note 23.

As at 31 December 2021 and 2020 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 26.

(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 COVID-19 coronavirus pandemic and war in Ukraine has further increased uncertainty in the business environment.

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

(b) Going Concern

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

Management is in the process of negotiations with the lender to obtain a waiver for the breached loan covenants and repayment of the loan in accordance with the initial schedule. As the Group has been generating enough cash inflows to repay the loan in accordance with the agreed schedule, management believes that it is reasonably certain for the lender not to exercise its right of early repayment of the whole amount of the outstanding loan.

Management is discussing with Government of Georgia ("GoG") a change in gas sale prices in order not to breach the covenant for the loan in the future. Additionally, GoG has issued a support letter, stating that it is willing to provide, for the foreseeable future, support as is necessary to allow the Group to continue its operational existence. As the Group is of a strategic importance to the GoG, Management believes that in case of early repayment of the loan, GoG will support the Group until another source of financing is obtained.

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

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's and its subsidiaries' 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 thousands, except when otherwise indicated.

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, and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 and carry a significant risk of resulting in a material adjustment within the next financial year is included in Note 22 – measurement of ECL allowance for financial assets;

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 22 - measurement of ECL allowance for financial assets;
– Note 25 - recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Measurement of fair values

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

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

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

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

Further information about the assumptions made in measuring fair values is included in note 22 (a) – accounting classifications and fair values.

5. 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 26).
– *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 Group’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	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Revenue	647,465	585,093	370,376	333,235	44,567	43,065	27,469	26,348	24,731	9,471	1,114,608	997,212
Cost of gas and oil	(735,409)	(561,472)	(183,532)	(184,584)	-	-	-	-	-	-	(918,941)	(746,056)
Reportable segment profit before unallocated costs and income tax	**(87,944)**	**23,621**	**186,844**	**148,651**	**44,567**	**43,065**	**27,469**	**26,348**	**24,731**	**9,471**	**195,667**	**251,156**

’000 GEL	**2021**	**2020**
Revenues		
Total revenue for reportable segments	1,114,608	997,212
Profit or loss		
Reportable segments profit	195,667	251,156
Unallocated amounts:		
Depreciation and amortization	(70,869)	(58,814)
Personnel costs	(32,928)	(24,163)
Net finance income/(costs)	76,130	(140,772)
Impairment reversal on trade receivables and loans given	3,422	1,386
Impairment loss on property, plant and equipment	(4,987)	-
Taxes, other than on income	(15,488)	(13,789)
Other expenses	(26,143)	(21,661)
Other income	12,763	9,854
Consolidated profit before income tax	**137,567**	**3,197**

(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 2021 sales to two customers in the gas supply segment amounted to GEL 597,214 thousand which represents approximately 54% of the Group’s total revenue (2020: GEL 498,219 thousand, 50%).

In 2021 sales to one customer in the electricity generation and supply segment amounted to GEL 251,269 thousand which represents approximately 23% of the Group’s total revenue (2020: GEL 148,441 thousand, 15%).

6. 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	2021	2020
Revenue from contracts with customers:		
Sale of natural gas	647,465	585,093
Income from electricity generation and supply	370,376	333,235
Income from crude oil sales	24,731	9,471
Revenue from contracts with customers	**1,042,572**	**927,799**
Income from rent of gas pipelines	44,567	43,065
Oil transportation fee under finance lease (note 14)	27,469	26,348
Total other revenue	**72,036**	**69,413**
Total revenues	**1,114,608**	**997,212**

Income from electricity generation and supply includes the income from guaranteed capacity fees of GEL 120,214 thousand (2020: GEL 117,222 thousand) and income from electricity generation of GEL 250,162 thousand (2020: GEL 216,013 thousand).

Oil transportation fee is received for the oil transit from Azerbaijan to east European black sea countries through the Baku-Supsa pipeline.

The Group rents its main gas pipeline system and related infrastructure to Georgian Gas Transportation Company LLC (GGTC).

The rent agreement with GGTC is non-cancellable and is valid until 1 January 2023. From 1 September 2017 until March 2019 the rent fee was fixed at GEL 3,500 thousand per month (excluding VAT) and from 1 March till 31 December 2019 the monthly rent fee was fixed at GEL 3,600 thousand per month (excluding VAT). From 1 January till 31 December 2020 the fixed rent fee is GEL 43,065 thousand per annum (excluding VAT). From 1 January 2021 the fixed rent fee equals to GEL 44,500 thousand per annum (excluding VAT). GGTC is responsible for all costs related to the repair, maintenance, operation and security of the main gas pipeline system. The Group is responsible for capital expenditures only. Transactions with related parties are disclosed in note 26.

(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 5).

	Sale of natural gas		Income from electricity generation and supply		Income from crude oil sales		Total	
'000 GEL	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Primary geographical markets:								
Georgia	647,465	585,093	370,376	333,235	24,731	9,471	1,042,572	927,799
	647,465	**585,093**	**370,376**	**333,235**	**24,731**	**9,471**	**1,042,572**	**927,799**

(c) Contract balances

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

'000 GEL	Note	31 December 2021	31 December 2020
Receivables, which are included in 'trade and other receivables'	16	351,085	241,273

(d) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes 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 the payment due date. In the second type, payment terms vary for each customer but in most cases, payments should be made in arrears, no later than the 25th day following the reporting month.	Revenue is recognised when the gas is delivered to the delivery points (pre-determined in the agreements with each customer) i.e. performance obligation on delivery of gas is satisfied. The transaction price includes cost of gas and late payment penalties as variable consideration.
Income from crude oil sales	Performance obligation is satisfied when the Group makes oil available to the customer at its premises (EXW – Incoterms). Invoice is issued on the sale of oil and payment is contractually agreed with individual customer.	Revenue from sales of oil is recognized when oil is transferred/ shipped from the Group's facilities to the customer.
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 recognized on a monthly basis based on the volume of electricity consumed by wholesalers. The consumed electricity is measured by meters. Guaranteed Capacity fees are determined by resolution of GNERC and fixed daily payment is being made during 284 days out of 365 in 2021 (290 days in 2020).

7. Equity accounted investees

’000 GEL	**31 December 2021**	**31 December 2020**
Interests in associates:		
Enguri Pumped-Storage Power Plant LLC (EPSPP) – 40%	813	813
International Pipeline Company Sarmatia LLC – 16.1%	708	580
Other investments	634	628
Total	**2,155**	**2,021**

Movement of the equity-accounted investees during the year:

’000 GEL	**2021**	**2020**
Balance at 1 January	**2,021**	**2,021**
Contributions made during the year	134	-
The Group’s share of profit, net of income tax	-	-
Balance at 31 December	**2,155**	**2,021**

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 the feasibility of the Pumped-Storage Power Plant project and in case of positive results of the feasibility analysis EPSPP should implement this project. The initial investment to EPSPP per charter of the investee is USD 1,500 thousand, which should be paid by the founders according their shareholding. No additional capital contribution was made to EPSPP by the Group during 2021 (2020: nil).

Additionally, Georgian Oil and Gas Corporation JSC owns an interest in International Pipeline Company Sarmatia LLC and an 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.

8. Other expenses

’000 GEL	**2021**	**2020**
Transportation, materials, repair and maintenance	11,723	8,893
Regulatory fees	2,873	2,335
Utility costs	1,822	1,716
Professional services	1,107	621
Consultancy service	758	330
Tax related costs	688	554
Insurance costs	612	611
Office expenses and office equipment maintenance	598	468
Write off and disposal of assets	404	263
Representative and business trip expenses	112	168
Legal fees	105	965
TPP costs of working in testing regime	-	903
Other	5,341	3,834
	26,143	**21,661**

The professional services above include fees to an audit firm of about GEL 474 thousand for the provision of audit and other professional services. (2020: GEL 402 thousand).

9. Other income

'000 GEL	**2021**	**2020**
Penalty income*	9,566	6,104
Oil processing	790	653
Rent income	663	630
Gain on foreign currency conversion	-	1,184
Other	1,744	1,283
	12,763	**9,854**

*The most significant part of penalty income in 2021 and 2020 is attributable to the contractual penalties accrued on overdue days of contractual obligation fulfillment related to the construction, repair and maintenance works of Thermal Power plant.

10. Finance income and finance costs

'000 GEL	**2021**	**2020**
Recognised in profit or loss		
Interest income under the effective interest method at amortized cost	6,368	7,955
Unwinding of discount on finance lease receivable (note 14)	936	6,828
Unwinding of discount on restructured receivable from related party (note 16)	1,983	2,283
Net foreign exchange gain*	113,957	-
Finance income	**123,244**	**17,066**
Interest expense on loans and borrowings	(46,217)	(50,733)
Other finance costs	(897)	(3,961)
Net foreign exchange loss*	-	(103,144)
Finance costs	**(47,114)**	**(157,838)**
Net finance income/(cost) recognised in profit or loss	**76,130**	**(140,772)**

* GEL/USD spot rate as at year end 2021 decreased by 5% compared with prior year. See note 22 (d)(i) Currency risk.

11. Income tax expense

In 2020 the Parent (Partnership Fund JSC) made a decision that the Company can distribute 35% of 2019 consolidated profit (2019: 35% of 2018 consolidated profit). The Tax Code of Georgia specifically excludes certain transactions from the definition of distribution of earnings, 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 2019 undistributed earnings, per the Tax Code of Georgia it is not deemed as a distribution of earnings, and 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.

As at 31 December 2021 and 2020 the 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.

12. 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 2020	**451,242**	**47,787**	**385,419**	**29,827**	**20,002**	**14,735**	**569,568**	**1,518,580**
Additions	1,604	3,783	2,239	-	185	926	145,242	**153,979**
Transfers	20,603	1,465	505,879	-	185	33	(528,165)	**-**
Capitalized borrowing costs	-	-	-	-	-	-	7,152	**7,152**
Disposals	-	(29)	-	-	-	-	(4,143)	**(4,172)**
Balance at 31 December 2020	**473,449**	**53,006**	**893,537**	**29,827**	**20,372**	**15,694**	**189,654**	**1,675,539**
Balance at 1 January 2021	**473,449**	**53,006**	**893,537**	**29,827**	**20,372**	**15,694**	**189,654**	**1,675,539**
Additions	-	218	5,247	-	820	783	16,305	**23,373**
Transfers	-	17,380	(17,465)	-	386	231	(532)	**-**
Capitalized borrowing costs	-	-	-	-	-	-	914	**914**
Disposals	-	-	-	-	-	(356)	(179)	**(535)**
Balance at 31 December 2021	**473,449**	**70,604**	**881,319**	**29,827**	**21,578**	**16,352**	**206,162**	**1,699,291**
Depreciation and impairment losses								
Balance at 1 January 2020	**193,315**	**7,866**	**80,279**	**27,079**	**13,952**	**7,375**	**2,088**	**331,954**
Depreciation for the year	18,619	901	35,583	585	1,877	1,135	-	58,700
Balance at 31 December 2020	**211,934**	**8,767**	**115,862**	**27,664**	**15,829**	**8,510**	**2,088**	**390,654**
Balance at 1 January 2021	**211,934**	**8,767**	**115,862**	**27,664**	**15,829**	**8,510**	**2,088**	**390,654**
Depreciation for the year	19,422	1,106	46,798	386	1,877	1,280	-	70,869
Impairment	-	-	-	-	-	132	4,855	4,987
Transfer	-	1,136	(1,136)	-	-	-	-	-
Balance at 31 December 2021	**231,356**	**11,009**	**161,524**	**28,050**	**17,706**	**9,922**	**6,943**	**466,510**
Carrying amounts								
At 1 January 2020	**257,927**	**39,921**	**305,140**	**2,748**	**6,050**	**7,360**	**567,480**	**1,186,626**
At 31 December 2020	**261,515**	**44,239**	**777,675**	**2,163**	**4,543**	**7,184**	**187,566**	**1,284,885**
At 31 December 2021	**242,093**	**59,595**	**719,795**	**1,777**	**3,872**	**6,430**	**199,219**	**1,232,781**

Uninstalled equipment represents GEL 105,995 thousand (2020: GEL 105,877 thousand) from the total balance of assets under construction and uninstalled equipment of GEL 199,219 thousand (2020: GEL 187,566) thousand). Most of the uninstalled equipment consists of gas pipelines and critical buffer stock for Thermal Power Plants 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.

During 2021 the Parent of the Group contributed land plots of GEL 216 thousand (2020: land plots of GEL 1,530 thousand, pipelines of GEL 1,609 thousand) in the form of an increase in share capital of the Group. Cost of the contributed land plots and pipelines approximates to their fair values.

Management analyzed impairment indicators in accordance with IAS 36 *Impairment of Assets* requirements and identified an indicator that the Georgian Gas Storage Company LLC's (100% subsidiary of the Group) property, plant and equipment may be impaired. Due to significant uncertainties associated with either the continuation of the existing underground gas storage project or implementation of any other scenarios, and also considering the fact that management does not expect that the existing assets, representing mainly feasibility and engineering studies capitalized on construction in progress, will generate any future economic benefit to the Georgian Gas Storage Company LLC either individually, or in combination with other non-current assets, the carrying value of the property, plant and equipment was written-down to its recoverable amount of GEL 499 thousand, representing land.

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

13. Prepayments

'000 GEL	**31 December 2021**	**31 December 2020**
Non-current assets		
Prepayments for non-current assets	2,826	1,039
Current assets		
Prepayments	103,039	94,566
	105,865	**95,605**

Current portion of the prepayments balance were made mainly to South Caucasus Pipeline Option Gas Company Limited of GEL 84,544 thousand (2020: GEL 68,173 thousand) and to Azerbaijan Gas Supply Company Limited (AGSC) of GEL 14,636 thousand (2020: GEL 14,980 thousand) for the supply of gas.

14. Finance lease receivable

In 1996, the Government of Georgia entered into a 30-year arrangement with a consortium of oil companies that undertook the construction and development of an oil pipeline system from the Georgian-Azerbaijan state border to the Supsa oil terminal on the Georgian Black Sea coast. The arrangement granted the oil companies the right to transport oil across the territory of Georgia through a 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 the 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	**2021**	**2020**
Finance lease receivable at 1 January	79,962	73,134
Unwinding of discount on finance lease receivable	936	6,828
Finance lease receivable at 31 December	**80,898**	**79,962**

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

15. Loans given

'000 GEL	**31 December 2021**	**31 December 2020**
Non-current assets		
Loan given to the shareholder	20,790	19,914
Loan given to a third party	200	207
	20,990	**20,121**
Current assets		
Loan given to a third party	13	1,513
	13	**1,513**
Total loans given	**21,003**	**21,634**

The loan given to the shareholder, JSC Partnership Fund, is an unsecured subordinated loan denominated in USD (USD 4,500 thousand) and bears a contractual interest rate of 9.5% per annum.

Per loan agreement, repayment of principal and accrued interest should be made on the later of 31 May 2021 or the date falling six months after all amounts owing by JSC Partnership Fund to Credit Suisse (lender of JSC Partnership fund) have been paid in full. JSC Partnership Fund covered its contractual liabilities toward Credit Suisse in September 2021, through refinancing it with a loan from Credit Europe Bank. Therefore, the loan agreement of the Company and JSC Partnership Fund was amended. Per amendment repayment of principal and accrued interest should be made on the later of 31 May 2024 or the date falling six months after all amounts owing by JSC Partnership Fund to Credit Europe Bank (new lender of JSC Partnership Fund) have been paid in full.

The Group's exposure to credit risks and impairment losses related to loans are disclosed in note 22.

16. Trade and other receivables

’000 GEL	31 December 2021	31 December 2020
Non-current assets		
Restructured receivables*	12,056	14,514
Total non-current	**12,056**	**14,514**
Current assets		
Trade receivables	357,657	247,889
Restructured receivables*	2,925	3,204
Other receivables	291	997
Total current	**360,873**	**252,090**
	372,929	**266,604**

* 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 on a payment schedule, based on which the total amount will be repaid by the end of 2025. The restructuring of the receivable signified a substantial modification of terms, therefore, at the date of the restructuring, the 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 10). In 2021 Georgian Gas Transportation Company LLC has made GEL 5,000 thousand payment in accordance with above mentioned payment schedule.

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

17. Cash and cash equivalents and restricted cash balances

’000 GEL	31 December 2021	31 December 2020
Bank balances	40,793	24,203
Call deposits	15,487	49,831
Cash and cash equivalents	**56,280**	**74,034**

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

Restricted cash

As at 31 December 2021 Group does not have restricted cash balances. As at 31 December 2020 restricted cash balances of GEL 924 thousand represented bank balances secured for letter of credit agreements in one Georgian bank.

The Group’s exposure to credit risk, interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

18. Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares	
	2021	**2020**
Par value	GEL 20	GEL 20
On issue at 1 January	32,302,200	32,145,250
Issue of shares in exchange for non-cash assets contributed	10,800	156,950
On issue at 31 December	**32,313,000**	**32,302,200**

Ordinary shares

During 2021, the Parent of the Company made decisions to contribute into the Company's share capital property, plant and equipment (land plots) with a nominal amount of GEL 216 thousand, which approximates the fair value of contributed property, plant and equipment at the contribution date.

During 2020, the Parent of the Company contributed property, plant and equipment (land plots and pipelines) with a nominal amount of GEL 3,139 thousand which approximated the fair value of contributed property, plant and equipment at the contribution date.

(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.

(c) Dividends

In 2021 no dividends were declared or paid by the Group.

In 2020 dividends of GEL 42,482 thousand were declared by the Group and GEL 38,951 thousand was paid to JSC Partnership Fund. The difference between the amounts of declared and paid dividends represents prepaid dividends recognized in 2019 which were set off with dividends distributed in 2020.

(d) Non-controlling interests

Non-controlling interest represents the non-controlling shareholder (Partnership Fund JSC)'s contribution to the charter capital and its share of the cumulative retained earnings of Gardabani TPP LLC, a 51% subsidiary of the Group (see note 23).

(e) Distribution to owner

During 2020 in furtherance to the intention of the GOG to avoid increase of the end user gas tariffs for the population of Georgia and representing the ultimate shareholder of the Company, the Government instructed the latter to enter into Omnibus Agreement of amendments N16 to adjust the provisions of the Gas Sales Agreement of 23 December 2011 ("GSA") signed between SOCAR Gas Export-Import ("SGEI") and the Company, which resulted *inter alia* in (i) reduction of the Company's receivables (GEL 108,475 thousand, excluding VAT) from SGEI through decrease of Social Gas Purchase Prices for the related volumes of the social gas provided to the populace of Georgia during 2018-2020, and (ii) corresponding waiver by SGEI of its right to receive and claim a discount of USD 15 per 1,000 cubic meter of social gas sold to populace of Georgia during 2021-2025 (the "Compensation period") in accordance with amendments N12 of the Omnibus Agreement.

As GoG represents the ultimate shareholder of the Company, and as the transaction under consideration has been made by the Group as a result of the Government's instruction, rather than as a part of the normal course of the business, the management accounted for the transaction in equity as distribution to owner and retained earnings of the Group were reduced accordingly by GEL 108,475 thousand in 2020.

19. 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 and debt. 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.

20. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 22.

'000 GEL	**31 December 2021**	**31 December 2020**
Current liabilities		
Current portion of unsecured bond issue	-	828,152
Current portion of loans and borrowings	711,003	-
	711,003	**828,152**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2021		**31 December 2020**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bond issue	USD	6.75%	2021	-	-	829,148	828,152
Loans and borrowings	EUR	3.3%	2031	716,914	711,003	-	-
Total interest-bearing liabilities				**716,914**	**711,003**	**725,675**	**722,024**

As a result of extensive negotiations with the EBRD, the Company signed a EUR 217 million 10-year unsecured loan agreement in September 2020 to refinance the amount payable on outstanding USD 250 million corporate Eurobond debt and accrued coupon.

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

In 2018 the Company signed a loan agreement of EUR 150 million with KfW for financing construction of first underground gas storage in Georgia.

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

Therefore, as at 31 December 2020 the loan agreement between the Company and KfW was revised and reduced from EUR 150 million to EUR 30 million. As at 31 December 2021 no tranche was withdrawn/utilized and the Company paid a commitment fee of GEL 204 thousand recognized in finance cost (2020: GEL 904 thousand). As at 31 December 2021 financial covenant related to Net Financial Debt to EBITDA was breached, subsequent to 31 December 2021 the Group obtained a waiver from the lender on this covenant.

As at 31 December 2021 the Company has unused credit lines from Georgian banks (credit line limits amounted to USD 47,500 thousand). For the date when these consolidated financial statements are authorized for issue both credit lines are expired.

As at 31 December 2021 financial covenants related to Interest Coverage Ratio and Net Financial Debt to EBITDA on the EBRD loan were breached, allowing the lender to request repayment on demand. Additionally, subsequent to the reporting date the Group breached non-financial covenant related to the timing of furnishing the lender with audited IFRS financial statements. The group is in process of obtaining a waiver.

For more information about the management's assessment of Going Concern please see note 2 (b).

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

'000 GEL	**31 December 2021**	**31 December 2020**
Balance at 1 January	**828,152**	**722,024**
Proceeds from borrowings	1,047,171	10,067
Repayment of borrowings	(1,064,049)	(10,000)
Total changes from financing cash flows	**(16,878)**	**67**
Other changes		
The effect of changes in foreign exchange rates	(78,671)	103,140
Interest expense	46,217	50,733
Borrowing cost capitalized	914	7,152
Interest paid (included in operating cash flows)	(59,339)	(54,964)
Other	(9,392)	-
Total liability-related other changes	**(100,271)**	**106,061**
Balance at 31 December	**711,003**	**828,152**

21. Trade and other payables

'000 GEL	**31 December 2021**	**31 December 2020**
Trade payables	133,462	102,145
Payables for non-current assets	264	3,626
Other payables	752	400
	134,478	**106,171**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

22. Fair values and risk management

(a) 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 realizable in an immediate sale of the assets or transfer of liabilities.

The Group has determined fair values of financial assets and liabilities using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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**	**31 December 2021**	**31 December 2020**
Trade and other receivables	16	372,929	266,604
Loans given	15	21,003	21,634
Cash and cash equivalents	17	56,280	74,034
Restricted cash	17	-	924
		450,212	**363,196**

(iii) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 6.

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 receivables 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	**31 December 2021**	**31 December 2020**
Domestic	370,501	264,137
CIS countries	2,428	2,467
	372,929	**266,604**

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

	Carrying amount	
'000 GEL	**31 December 2021**	**31 December 2020**
Gas distributors	255,271	159,187
Electricity distributors	95,857	81,353
Gas pipeline rentals (note 16)	19,357	22,851
Others	2,444	3,213
	372,929	**266,604**

At 31 December 2021, the carrying amount of receivables from the Group's two most significant customers was GEL 287,912 thousand (2020: GEL 157,403 thousand).

Expected credit loss assessment for corporate customers

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. 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 2021:

'000 GEL	**31 December 2021**	**31 December 2021**	**31 December 2021**
Customer credit risk grade	**Not credit impaired**	**Credit impaired**	**Total**
Low risk	358,099	-	358,099
Medium risk	15,314	-	15,314
High risk	-	5,729	5,729
Total gross carrying amount	**373,413**	**5,729**	**379,142**
Loss allowance	(484)	(5,729)	(6,213)
Total net carrying amount	**372,929**	**-**	**372,929**

'000 GEL	**31 December 2020**	**31 December 2020**	**31 December 2020**
Customer credit risk grade	**Not credit impaired**	**Credit impaired**	**Total**
Low risk	248,660	-	248,660
Medium risk	18,344	-	18,344
High risk	-	8,865	8,865
Total gross carrying amount	**267,004**	**8,865**	**275,869**
Loss allowance	(400)	(8,865)	(9,265)
Total net carrying amount	**266,604**	**-**	**266,604**

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 BB- to B (Fitch).

Medium risk - the borrower has a restructured contractual cash flow obligation 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. Restructured receivables are considered to be in stage 2.

High risk - the counterparties have a weak capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may likely further decrease 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

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

'000 GEL	**2021**	**2020**
Balance at 1 January under IFRS 9	9,265	10,836
Net recovery for the year	(3,052)	(1,571)
Balance at 31 December	**6,213**	**9,265**

(iv) Loans given

Terms of the issued loans are described in note 15. Per management's assessment, none of the loans issued balances are credit-impaired as at 31 December 2021. Partnership Fund JSC to whom the most significant balance of loans given are related to was classified as low risk. Loans given to Partnership Fund JSC are categorized in Stage 2 and the impairment allowance is calculated based on lifetime expected losses which amounted to GEL 73 thousand (2020: GEL 185 thousand). All other loans given are categorized in Stage 1 and the impairment allowance is calculated based on 12 month expected losses, ECL on other loans amounted to nil.

(v) Cash and cash equivalents

As at 31 December 2021 approximately 99% of bank balances are held with 3 Georgian banks (2020: 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 a long-term S&P Global rating of BB with negative outlook as at 31 December 2021.

Subsequent to the year end all cash balances placed in the Georgian subsidiary of the Russian bank have been withdrawn/utilized in the operations of the Group.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. All balances are categorized under Stage 1. The Group does not expect any counterparty to fail to meet its obligations.

(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 14). Consequently, management concluded that the latter does not bear credit risk and is outside of IFRS 9 impairment requirements, consequently no expected credit losses were recognised with respect to finance lease receivable.

(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 loan agreements.

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 2021	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-3 yrs**	**Over 3 yrs**
Non-derivative financial liabilities						
Loans and borrowings	711,003	711,003	711,003	-	-	-
Trade and other payables	134,478	134,478	134,478	-	-	-
	845,481	**845,481**	**845,481**	**-**	**-**	**-**

'000 GEL 2020	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-3 yrs**	**Over 3 yrs**
Non-derivative financial liabilities						
Unsecured bond issues	828,152	846,796	846,796	-	-	-
Trade and other payables	106,171	106,171	106,171	-	-	-
	934,323	**952,967**	**952,967**	**-**	**-**	**-**

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

As disclosed in note 20, the Group has a loan for which there was a breach of financial covenant as at 31 December 2021 resulting in classification of the loan as current liability. However, considering that the Group is in process of negotiation to obtain waiver letter from the lender, the management expects that the repayment of the secured loan will follow the contractual schedule.

Despite net current liability position as at 31 December 2021 of GEL 317,551 thousand, the Group has positive balance of net working capital (excluding the loans and borrowings) of GEL 393,452 thousand. The net current liability position as at 31 December 2021 was effectively caused by loans and borrowings, classified as a current portion due to the breached covenants. For more information about Going Concern please see note 2 (b).

(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 currencies in which these transactions primarily are denominated are USD and EUR.

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

Exposure to currency risk

'000 GEL	**USD-denominated 31 December 2021**	**USD-denominated 31 December 2020**	**EUR-denominated 31 December 2021**	**EUR-denominated 31 December 2020**
Trade and other receivables	2,428	2,467	-	-
Loans given	20,803	21,427	-	-
Cash and cash equivalents	16,239	204	-	-
Trade and other payables	(31,219)	(47,299)	-	-
Loans and borrowings	-	(828,152)	(711,003)	-
Net exposure	**8,241**	**(851,353)**	**(711,003)**	**-**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2021	**2020**	**2021**	**2020**
USD	3.2209	3.1097	3.0976	3.2766
EUR	3.8140	3.5519	3.5040	4.0233

Sensitivity analysis

A reasonably possible 10% (2020: 10%) weakening of the GEL, as indicated below, against USD and EUR at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and effected equity and 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 2021	
USD (10% movement)	824
EUR (10% movement)	(71,100)
31 December 2020	
USD (10% movement)	(85,135)
EUR (10% movement)	-

A strengthening of the GEL against USD and EUR would have the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable 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	**31 December 2021**	**31 December 2020**
Fixed rate instruments		
Loans given	21,003	21,634
Cash and cash equivalents	56,280	74,034
Restricted cash	-	924
Loans and borrowings	(711,003)	(828,152)
	(633,720)	**(731,560)**

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.

23. Significant subsidiaries and non-controlling interest

Subsidiary	**Ownership 2021**	**Ownership 2020**
Gardabani TPP LLC	51%	51%
Gardabani 2 TPP LLC	100%	100%
Gardabani 3 TPP LLC	100%	Nil
GOGC Trading S. A	100%	100%
Georgian Gas Storage Company LLC	100%	100%
Georgian Natural Gas Transmission Network Owner LLC	100%	Nil
"Georgian Gas Exchange LLC"	50%	Nil

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 2021 amounted to GEL 175,185 thousand (2020: 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 a material non-controlling interest (NCI) (see also Note 30 (d))

'000 GEL	**31 December 2021**	**31 December 2020**
NCI percentage	**49%**	**49%**
Non-current assets	378,108	396,690
Current assets	63,259	54,747
Non-current liabilities	(94,671)	(189,091)
Current liabilities	(106,361)	(97,334)
Net assets	**240,335**	**165,012**
Carrying amount of NCI	**117,764**	**80,856**
Revenue	210,263	232,324
Profit	75,324	18,914
Profit and total comprehensive income	**75,324**	**18,914**
Profit allocated to NCI	36,908	9,268
Cash flows from operating activities	78,370	57,830
Cash flows used in investment activities	(7,495)	(9,027)
Cash flows used in financing activities	(70,410)	(63,938)
Net increase/(decrease) in cash and cash equivalents	**465**	**(15,135)**

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 a 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 the decision to reduce the charter capital of Gardabani II TPP LLC to GEL 266,909 thousand. In 2021 year, the Company increased its investment in Gardabani II TPP LLC by GEL 70 thousand. The charter capital of Gardabani II TPP LLC as at 31 December 2021 amounted to GEL 266,979 thousand.

In August 2017 a new subsidiary GOGC Trading SA was incorporated with its 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 a 100% interest in the subsidiary with share capital fixed in the amount of 100,000 Swiss francs.

In 2020 and 2019 additional amounts of 450 thousand and 450 thousand Swiss francs, respectively, were contributed into the capital of GOGC Trading SA.

In October 2018 a new subsidiary, Georgian Gas Storage Company LLC (GGSC) was founded with its registered office in Tbilisi, Georgia, in which the Company holds a 100% interest. The initial capital of GGSC per charter documentation is GEL 100 thousand. GGSC was founded for construction and operation of the first Underground Gas Storage in Georgia. By the end of 2021 construction of the Underground Gas Storage had not commenced.

As at 31 December 2021 there is a material uncertainty about going concern of the GGSC, as the management of GGSC demonstrated inability to obtain financing for the underground gas project development and the actual bid price for the underground gas project exceeded initially forecasted costs. Management identified impairment indicators and subsequent to the impairment test of property, plant and equipment of GGSC an appropriate impairment loss was recognised. See note 12.

In February 2021 the Company established a new subsidiary, Gardabani TPP 3 LLC, with 100% ownership. The goal of the new subsidiary is the construction and subsequent operation of a third power plant in Gardabani. As at 31 December 2021 the Company's investment to Gardabani TPP 3 LLC amounted to GEL 696 thousand (cash contributions). Construction of Gardabani TPP 3 has not commenced yet.

In October 2021, the Company together with the Georgian Gas Transportation Company LLC (GGTC), with a participating interest of 50% each, established natural gas market operator "Georgian Gas Exchange LLC" according to the requirements of the NGMCD. Charter capital of the entity was defined as GEL 2 thousand. The commencement of the operations of natural gas market operator is planned in 2023-2024.

In April 2021 the Company established and registered a new subsidiary "Georgian Natural Gas Transmission Network Owner LLC" (GNGTNO) according to the laws of Georgia, which serves as a transmission system owner. The Company contributed in the charter capital of the Subsidiary Main Gas Pipeline System and a cash consideration of GEL 651 thousand.

24. Capital and other commitments

The Group entered into contracts for construction of pipelines and purchase of property, plant and equipment with outstanding capital commitments as at 31 December 2021 of GEL 5,518 thousand (2020: GEL 3,841 thousand).

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 the feasibility of Pumped-Storage Power Plant project and in case of positive results of the feasibility analysis EPSPP should implement this project. The initial investment into EPSPP per charter of the investee is USD 1,500 thousand, which should be paid by shareholders according to their shareholding. During 2021 the Group made no contribution (2020: nil) 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 2021 the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 611,253 thousand (2020: GEL 771,959 thousand).

The Group is also a party to a gas sale agreement based on which its customer must take and pay for or pay for, if not taken, the whole quantity of gas purchased by the Group including the whole amount of the Supplemental Gas. As a result, the Group considers that their commitment in respect of the purchase of Supplemental Gas is 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.

25. Contingencies

(a) Insurance

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

(b) Litigations

GGTC case:

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

Additionally, the Company seeks restitution amounting to GEL 706 thousand for the repair of damages incurred to the pipeline system, leased out to the defendant by the Company, during the period when it was operated by the latter. Tbilisi City Court, which is the court of first instance rejected the claim. The Company lodged an appeal before the Appellate Court. As of date when the financial statements are authorized for issue, the proceedings are not complete.

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

Frontera case:

In July 2018, 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 the amount of USD 3.5 million and claimed for legal costs allegedly incurred in obtaining land access to Block XII in the amount of USD 74 thousand.

In 2019, Frontera applied to the arbitration tribunal with a statement on voluntarily withdrawal of the counterclaims. 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 a material breach of the PSA by its refusal to relinquish and return to the State the exploration area. According to the award Frontera and Frontera Resources US LLC are obligated to reimburse the amount of the mineral usage tax paid by the Company on behalf of Frontera as well as the costs incurred by the Company about the arbitration proceedings, with a total amount of GEL 18,522 thousand. The arbitral award effectuates withdrawal of and dismisses the counterclaims that had been filed by Frontera. The arbitral award is final and binding on the parties, in accordance with its terms and the PSA.

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

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

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

(c) Taxation contingencies

The taxation system in Georgia is relatively new and is characterized 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.

26. Related party transactions

(a) Control relationships

As at 31 December 2021 and 2020 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	2021	2020
Salaries and bonuses	**1,630**	**1,174**

(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 significant related party transactions are disclosed below. Transactions with the Government of Georgia are disclosed in notes 6, 11, 15, and 16 of these consolidated financial statements.

(i) Revenue

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
’000 GEL	**2021**	**2020**	**2021**	**2020**
State controlled entities:				
Income from rent of gas pipelines*	44,567	43,065	19,357	22,851
Income from electricity generation and supply	251,605	148,441	64,132	31,377
Associate of Parent:				
Income from electricity generation	-	14,948	-	-
	296,172	**206,454**	**83,489**	**54,228**

* Outstanding balance of the rent of pipeline includes the restructured receivable from GGTC (see note 16).

’000 GEL	
Net present value of GGTC receivables as at 1 January 2021	17,718
Repayment of receivable of GGTC during 2021	(5,000)
Expected credit loss reversal recognized during 2021	281
Unwinding of discount (note 10)	1,982
Net present value of GGTC receivables as at 31 December 2021	**14,981**

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	
	2021	**2020**	**2021**	**2020**
State controlled entities:				
Purchase of goods and services	9,455	9,632	1,511	1,504
	9,455	**9,632**	**1,511**	**1,504**

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	
	2021	**2020**	**2021**	**2020**
Loans given:				
Shareholder	**1,920**	**1,793**	**20,790**	**19,914**

(iv) Prepayments

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2021	**2020**	**2021**	**2020**
State controlled entities:				
Advances paid for non-current assets	**2,826**	**-**	**2,826**	**-**

27. Subsequent events

During the first half of 2022 the Company obtained short-term loan facilities from four Georgian banks with a total of USD 50,900 thousand for working capital financing. As at the date when these consolidated financial statements are authorized for issue the amounts drawn under these facilities amounted to USD 30,200 thousand.

In June 2022 changes were made in the composition of the supervisory board and the board of directors. Giorgi Chikovani was appointed as General Director of the Company, Ekaterine Sisauri was appointed as Chief Financial Officer, Nikoloz Phirtskalaisvili was appointed as Commercial Director, Shalva Kiknavelidze was appointed as Technical Director and Giorgi Chachibaia was appointed as a deputy chairman of the Supervisory board.

In 2022 Gardabani TPP LLC declared Dividends of GEL 18,000 thousand out of which GEL 5,000 thousand was paid to non-controlling interest holder JSC Partnership fund.

28. Basis of measurement

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

29. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements 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 recognized 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 6(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 2023.

Revenue from rent of gas pipelines represents fixed rent payment and is recognized in profit or loss on a monthly basis (please see note 6).

(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.

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

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

(d) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are 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) Exploration and evaluation assets

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

Exploration and evaluation activity include:

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

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

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

(i) 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 capitalized 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. Major overhaul related to gas turbine wings, presented in the electricity generating unit, expected to be performed in every 5-8 years are accounted as a separate overhaul component and depreciated separately from the main asset.

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;
– major overhaul expenditure for electricity generating unit	5-8 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.

(j) 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.

(k) 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 affected 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.

(l) 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 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.

(m) 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.

(n) Joint operations

A joint operation is an arrangement in which the Group has contractual arrangements with other parties to perform specific activity. In a joint operation, the Group has rights to the assets and obligations for the liabilities relating to the arrangement. This includes situations where the parties benefit from the joint activity through a share of the output, rather than by receiving a share of the results of trading.

In relation to the Group's interest in a joint operation, the Group recognises: its share of assets and liabilities; revenue from the sale of its share of the output and its share in any revenue generated from the sale of the output by the joint operation; and its share of expenses. All such amounts are measured in accordance with the terms of the arrangement, which is usually in proportion to the Group's interest in the joint operation.

(o) Leases

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

(i) As a lessee

The Group did not have significant lease agreements where it acts as a lessee as at 31 December 2021 and 2020. The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

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

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

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

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

The Group applies 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'.

(p) Segment reporting

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

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

30. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

- *Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).*
- *COVID-19-Related Rent Concessions (Amendment to IFRS 16).*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*
- *Annual Improvements to IFRS Standards 2018–2020*