Silknet JSC

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

Contents

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholder of Silknet JSC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Silknet JSC (the "Company") and its subsidiaries (the "Group") as at 30 June 2019, and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the condensed consolidated interim financial information (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting.* Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 30 June 2019 and for the six month period then ended is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Karen Safaryan

KPMG Georgia LLC
16 August 2019

’000 GEL	**Note**	**30 June 2019**	**31 December 2018***
ASSETS			
Non-current assets			
Property and equipment	10	366,774	370,216
Intangible assets and contract costs	12	205,531	212,339
Other non-current assets	11	30,185	32,727
Rights-of-use assets	5c	26,064	-
Prepayments related to IRU** contracts		10,532	10,745
Total non-current assets		**639,086**	**626,027**
Current assets			
Inventories		21,851	22,283
Prepayments related to IRU** contracts		2,173	2,173
Trade and other receivables		35,653	37,876
Cash and cash equivalents	13	105,950	9,262
Total current assets		**165,627**	**71,594**
TOTAL ASSETS		**804,713**	**697,621**
EQUITY AND LIABILITIES			
Equity			
Share capital	14(a)	84,056	68,172
Additional paid-in capital	14(b)	8,026	24,471
Accumulated losses		(76,179)	(18,198)
Equity attributable to owner of the Company		**15,903**	**74,445**
Non-controlling interests		53	59
TOTAL EQUITY		**15,956**	**74,504**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	15	616,727	375,791
Subordinated loan	15	-	30,546
Promissory notes	15(b)	-	37,286
Lease liabilities	5c	20,194	-
Trade and other payables		17,154	18,165
Advances received related to IRU** contracts and subscribers		13,988	14,483
Total non-current liabilities		**668,063**	**476,271**
Current liabilities			
Loans and borrowings	15	15,720	37,069
Trade and other payables		72,743	87,285
Advances received related to IRU** contracts and subscribers		21,238	22,492
Lease liabilities	5c	10,993	-
Total current liabilities		**120,694**	**146,846**
TOTAL LIABILITIES		**788,757**	**623,117**
TOTAL LIABILITIES AND EQUITY		**804,713**	**697,621**

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See note 5.

**Indefeasible Right of Use

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 23.

		For the six months ended 30 June	
'000 GEL	**Note**	**2019**	**2018***
Revenues:			
Commercial revenue	7	164,091	118,235
Carrier services	7	19,946	24,273
		184,037	**142,508**
Costs and expenses:			
Depreciation and amortisation	10, 12	(56,952)	(39,483)
Salaries and benefits		(27,405)	(24,143)
Other expenses		(15,434)	(13,249)
Purchased services	8	(15,338)	(27,393)
Rent expenses under operating leases		(5,094)	(6,045)
Interconnect fees and roaming expense		(9,009)	(12,539)
Network management and maintenance costs		(6,942)	(7,068)
IPTV content costs		(5,311)	(5,027)
Advertising and marketing		(4,612)	(932)
Costs of SIM cards, scratch cards and other cost of sales		(1,014)	(1,045)
Bargain gain from acquisition		-	41,845
Profit from operating activities		**36,926**	**47,429**
Finance income	9	3,412	1,261
Finance costs	9	(56,531)	(17,962)
Net foreign exchange loss	9	(37,150)	(3,026)
Net finance costs		**(90,269)**	**(19,727)**
(Loss)/profit before income tax		**(53,343)**	**27,702**
Income tax expense		(1,071)	(488)
(Loss)/profit and total comprehensive income for the period		**(54,414)**	**27,214**
(Loss)/profit and total comprehensive income attributable to:			
Owner of the Company		(54,408)	27,906
Non-controlling interests		(6)	(692)
		(54,414)	**27,214**

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See note 5.

These condensed consolidated interim financial statements were approved by management on 16 August 2019 and were signed on its behalf by:

David Mamulaishvili
General Director

Baia Pshavlishvili
Finance Director

The condensed consolidated interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 23.

	Attributable to owner of the Company					
’000 GEL	**Share capital**	**Additional paid in capital**	**(Accumulated losses)/retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 31 December 2018	68,172	24,471	(18,198)	**74,445**	59	**74,504**
Adjustment due to adoption of IFRS 16 (see note 5)			(3,573)	**(3,573)**	-	**(3,573)**
Adjusted balance at 1 January 2019*	**68,172**	**24,471**	**(21,771)**	**70,872**	**59**	**70,931**
Total comprehensive income for the period						
Loss and total comprehensive income for the period	-	-	(54,408)	**(54,408)**	**(6)**	**(54,414)**
Transactions with owner, recorded directly in equity						
Effect of transactions with entities controlled by the ultimate controlling party (see note 14(b))	-	(16,445)	-	**(16,445)**	-	**(16,445)**
Shares issued (see note 14(a))	15,884	-	-	**15,884**	-	**15,884**
Balance as at 30 June 2019	**84,056**	**8,026**	**(76,179)**	**15,903**	**53**	**15,956**
Balance as at 1 January 2018	**68,172**	**-**	**31,200**	**99,372**	**800**	**100,172**
Total comprehensive income for the period						
Profit and total comprehensive income for the period	-	-	27,906	**27,906**	(692)	**27,214**
Transactions with owner, recorded directly in equity						
Effect of transactions with entities controlled by the ultimate controlling party (see note 14(b))	-	16,445	-	**16,445**	-	**16,445**
Call option granted (see note 14 (b))	-	8,026	-	**8,026**	-	**8,026**
Dividends (see note 14 (c))	-	-	(48,000)	**(48,000)**	-	**(48,000)**
Balance as at 30 June 2018	**68,172**	**24,471**	**11,106**	**103,749**	**108**	**103,857**

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See note 5.

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 23.

		For the six months ended 30 June	
’000 GEL		**2019**	**2018***
Cash flows from operating activities			
Cash received from subscribers		187,833	139,124
Cash received from other telecom operators and for IRU contracts		15,628	13,310
Salaries and benefits paid to and on behalf of employees		(25,141)	(23,346)
Interconnection fees and expenses paid		(6,523)	(4,467)
Purchase of inventory		(8,907)	(7,317)
Taxes paid other than on income		(26,723)	(21,266)
Income tax paid		(687)	(675)
Network management and maintenance costs paid		(4,675)	(5,316)
Other operating expenses paid		(43,493)	(33,215)
Net cash from operating activities		**87,312**	**56,832**
Cash flows from investing activities			
Acquisition of property and equipment		(31,334)	(16,096)
Acquisition of intangible assets		(17,528)	(7,869)
Proceeds from disposals of property and equipment		838	806
Acquisition of subsidiaries, net of cash acquired		-	(329,716)
Issue of loans		-	(489)
Interest received		900	315
Net cash used in investing activities		**(47,124)**	**(353,049)**
Cash flows from financing activities			
Proceeds from borrowings		529,489	423,545
Repayment of borrowings (see note 15(d))		(367,863)	(63,519)
Bank commissions for early repayment of loans		(7,149)	-
Interest paid on bank loans		(14,125)	(11,270)
Repayment of subordinated loan		(30,326)	-
Repayment of subordinated loan interest		(4,989)	-
Repayment of promissory notes		(43,170)	-
Repayment of lease liabilities		(5,932)	-
Dividends paid		(5,441)	(33,036)
Net cash from financing activities		**50,494**	**315,720**
Effect of exchange rate changes on cash and cash equivalents		6,006	(385)
Net increase in cash and cash equivalents		**96,688**	**19,118**
Cash and equivalents at the beginning of the period		9,262	2,521
Cash and cash equivalents at the end of the period	13	**105,950**	**21,639**

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See note 5.

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 23.

1. Reporting entity

(a) Georgian business environment

The Group's operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The condensed consolidated interim 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.

(b) Organisation and operations

These condensed consolidated interim financial statements include the financial statements of Silknet JSC (the Company) with the registration number of 204566978 and its subsidiaries (the Group). The Company and its subsidiaries are limited liability and joint stock companies as defined under the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia.

The Company's legal address is 95 Tsinamdzgvrishvili Street, Tbilisi, 0112, Georgia.

The principal activity of the Group is provision of telecommunication services to corporate and individual customers in Georgia, including fixed and mobile telephone services, mobile internet, fixed internet, internet television (IPTV) services, SMS (messaging) and leasing the underground communication facilities.

On 20 March 2018, the Group acquired a 100% holding in Georgia's second-largest mobile operator, Geocell LLC, for a transaction price of USD 151.7 million, roughly corresponding to an EV/EBITDA multiple of 4.5. Geocell LLC has more than 1.7 million mobile voice and almost 1 million mobile data subscribers representing approximately 35% of the local market and generates revenue from its major revenue streams, which represent mobile voice, mobile data, interconnect, messaging, sale of mobile equipment and others. Geocell LLC has ceased its legal existence and was merged with the Company on 1 November 2018.

Following the acquisition of Geocell LLC the Group directs its activities as two operating segments, fixed network and mobile communications segments. Information about the Group's reportable segments is disclosed in note 6 Operating segments.

In March, 2019 Moody's Investors Service (Moody's) has assigned a B1 corporate family rating (CFR) and a B1- PD probability of default rating to the Company.

On 19 April 2019, Rhinestream Holdings Limited, shareholder of the Company and an entity incorporated in Malta, which is ultimately controlled by an individual, Giorgi Ramishvili has made a decision to transfer 100% of ownership in the Company to its wholly owned subsidiary Silknet Holding LLC ("Silknet Holding", the "owner"), which is incorporated in Georgia.

2. Basis of accounting

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2018 ("last annual consolidated financial statements").

These condensed consolidated interim financial statements do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements.

This is the first set of the Group's financial statements in which IFRS 16 has been applied.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari (GEL), which is the functional currency of the Group entities and the currency in which these condensed consolidated interim 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 judgments

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the last annual consolidated financial statements as at and for the year ended 31 December 2018 except for new significant judgements related to useful lives of property and equipment (see note 10) and lessee accounting under IFRS 16, which are described in note 5.

5. Changes in significant accounting policies

Except for the changes below, the accounting policies applied by the Group were consistent with those applied in the last annual consolidated financial statements. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

IFRS 16

The Group has initially adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

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

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

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

B. As a lessee

The Group's lease contracts largely relate to leases of various sites (i.e. land, rooftop surface areas, space in cellular towers and space for fibre cables, etc.) related to placement of Group's telecommunication equipment.

As a lessee, the Group previously classified leases as operating leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some 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.

Both, the right-of-use assets as well as respective lease liabilities have been presented as a separate line items in the condensed consolidated interim statement of financial position.

The carrying amounts of right-of-use assets and lease liabilities as at 1 January 2019 and 30 June 2019 are as below:

'000 GEL	**Site rent for mobile communications**	**Site rent for fixed network**	**Total**
Gross balance at 1 January 2019	37,958	3,018	40,976
Accumulated depreciation at 1 January 2019	(18,004)	(425)	(18,429)
Carrying amount at 1 January 2019	**19,954**	**2,593**	**22,547**
Gross balance at 30 June 2019	40,402	8,860	49,262
Accumulated depreciation at 30 June 2019	(22,277)	(921)	(23,198)
Carrying amount at 30 June 2019	**18,125**	**7,939**	**26,064**
Lease liability at 1 January 2019	**(23,819)**	**(3,159)**	**(26,978)**
Lease liability at 30 June 2019	**(21,470)**	**(9,717)**	**(31,187)**

Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee, based on the period for which the contract is enforceable. The Group considers that enforceability of the lease is established by the written contract (including penalty clauses) in combination with applicable legislation related to renewal or termination rights (specifically the lessee's preferential rights to renew the lease). However, the Group determined, that its preferential right to renew would not on its own be treated as substantive, when the lessor can refuse to agree to a request from the Group to extend the lease.

(i) Transition

Previously, the Group classified leases as operating leases under IAS 17. Most of the leases typically run for a period of 5-10 years and include an option to renew the lease for an additional period of time, after the end of the non-cancellable period.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at:

– their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

– Applied a single discount rate to a portfolio of leases with similar characteristics.

– Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

– Used minimum lease term when determining the lease term if the contract contains options to extend or terminate the lease

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. Impacts on financial statements

(i) Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

'000 GEL	**1 January 2019**
Right-of-use assets, gross	40,976
Accumulated depreciation	(18,429)
Carrying value	**22,547**
Lease liabilities	(26,978)
Trade and other payables	858
Retained earnings	3,573

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 12.3% and 11.84% for GEL and USD denominated leases accordingly.

'000 GEL	**1 January 2019**
Lease payable as at 31 December 2018 as disclosed in the Group's consolidated financial statements	858
Discounted using the incremental borrowing rate at 1 January 2019	(27,836)
Lease liabilities recognised at 1 January 2019	(26,978)

(ii) Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised GEL 26,064 thousand of right-of-use assets and GEL 31,187 thousand of lease liabilities as at 30 June 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised GEL 4,769 thousand of depreciation charges, GEL 1,636 thousand of interest costs and GEL 220 thousand net foreign exchange losses from these leases.

6. Operating segments

Following the acquisition of Geocell LLC on 20 March 2018, the Group directs two operating segments, fixed network and mobile communications. The majority of the Group's revenue is generated in Georgia, so information regarding geographical areas is not provided. Information related to each reportable segment is set out below.

Management believes that disclosure of revenues, operating profit, assets and liabilities is the most relevant in evaluating the results of the each operating segment. Revenues and operating profit for the mobile communications segment for the six months ended 30 June 2018 reflects post-acquisition performance from 20 March 2018 to 30 June 2018.

Cash and cash equivalents and loans and borrowings are managed by the group on a centralized basis, as a result management shows total amount of debt, cash and cash equivalents as well as finance costs and respective foreign exchange gain/loss under unallocated amounts.

'000 GEL	**30 June 2019**	**30 June 2019**	**30 June 2019**	**30 June 2019**
Condensed Consolidated Interim Statement of Financial Position	**Mobile Communications**	**Fixed Network**	**Unallocated Amounts**	**Total**
ASSETS				
Non-current assets				
Property and equipment	161,903	204,871	-	**366,774**
Intangible assets and contract costs	170,616	33,311	1,604	**205,531**
Other non-current assets	12,063	16,688	1,434	**30,185**
Rights-of-use assets	18,126	7,938	-	**26,064**
Prepayments related to IRU contracts	10,532	-	-	**10,532**
Total non-current assets	**373,240**	**262,808**	**3,038**	**639,086**
Current assets				
Inventories	7,625	14,226	-	**21,851**
Prepayments related to IRU contracts	2,173	-	-	**2,173**
Trade and other receivables	11,383	21,598	2,672	**35,653**
Cash and cash equivalents	-	-	105,950	**105,950**
Total current assets	**21,181**	**35,824**	**108,622**	**165,627**
TOTAL ASSETS	**394,421**	**298,632**	**111,660**	**804,713**
LIABILITIES				
Non-current liabilities				
Loans and borrowings	-	-	616,727	**616,727**
Trade and other payables	8,593	7,159	1,402	**17,154**
Advances received related to IRU contracts and subscribers	(1,967)	15,955	-	**13,988**
Lease liabilities	11,694	8,500	-	**20,194**
Total non-current liabilities	**18,320**	**31,614**	**618,129**	**668,063**
Current liabilities				
Loans and borrowings	-	-	15,720	**15,720**
Trade and other payables	33,248	28,671	10,824	**72,743**
Advances received related to IRU contracts and subscribers	14,808	6,373	57	**21,238**
Lease liabilities	9,776	1,217	-	**10,993**
Total current liabilities	**57,832**	**36,261**	**26,601**	**120,694**
TOTAL LIABILITIES	**76,152**	**67,875**	**644,730**	**788,757**
NET ASSETS	**318,269**	**230,757**	**(533,070)**	**15,956**

*Trade and other payables shown under unallocated amounts mainly consist of payables for consulting and professional services related to the acquisition of Geocell LLC, issuance of Eurobonds and an IT transformation project (replacement of many of the Company's current IT systems to new more advanced solutions).

'000 GEL Condensed Consolidated Interim Statement of Financial Position	30 June 2018 Mobile communications	30 June 2018 Fixed network	30 June 2018 Unallocated amounts	30 June 2018 Total
ASSETS				
Non-current assets				
Property and equipment	174,554	195,662	-	370,216
Intangible assets and contract costs	177,410	34,929	-	212,339
Other non-current assets	16,979	15,399	349	32,727
Prepayments related to IRU contracts	10,745	-	-	10,745
Total non-current assets	**379,688**	**245,990**	**349**	**626,027**
Current assets				
Inventories	9,106	13,177	-	22,283
Prepayments related to IRU contracts	2,173	-	-	2,173
Trade and other receivables	10,931	24,414	2,531	37,876
Cash and cash equivalents	-	-	9,262	9,262
Total current assets	**22,210**	**37,591**	**11,793**	**71,594**
TOTAL ASSETS	**401,898**	**283,581**	**12,142**	**697,621**
LIABILITIES				
Non-current liabilities				
Loans and borrowings	-	-	375,791	375,791
Subordinated loan	-	-	30,546	30,546
Promissory notes	-	-	37,286	37,286
Trade and other payables	11,248	6,917	-	18,165
Advances received related to IRU contracts and subscribers	-	14,483	-	14,483
Total non-current liabilities	**11,248**	**21,400**	**443,623**	**476,271**
Current liabilities				
Loans and borrowings	-	-	37,069	37,069
Trade and other payables	44,260	29,192	13,833	87,285
Advances received related to IRU contracts and subscribers	14,479	7,719	294	22,492
Total current liabilities	**58,739**	**36,911**	**51,196**	**146,846**
TOTAL LIABILITIES	**69,987**	**58,311**	**494,819**	**623,117**
NET ASSETS	**331,911**	**225,270**	**(482,679)**	**74,504**

Capital expenditures incurred by the Group in relation to the mobile communication segment was approximately GEL 16,330 thousand for the six months ended 30 June 2019 (out of which GEL 7,446 thousand was added to property and equipment and GEL 8,884 thousand was added to intangible assets). Capital expenditures related to the fixed network operating segment for the six months ended 30 June 2019 were approximately GEL 23,636 thousand and GEL 6,067 thousand in terms of property and equipment and intangible assets, respectively.

The revenues generated from each segment for the six months ended 30 June 2019 are as follows:

’000 GEL Condensed Consolidated Interim Statement of Profit or Loss and Comprehensive Income	**Mobile communi-cations**	**Fixed network**	**Elimination mobile communi-cations**	**Elimination fixed network**	**Unallocated amounts**	**Total**
Segment revenue	**96,898**	**89,163**	**-**	**(2,024)**	**0**	**184,037**
Depreciation and amortisation	(34,234)	(22,718)	-	-	-	**(56,952)**
Other costs and expenses*	(40,960)	(48,148)	2,024	-	(3,075)	**(90,159)**
Segment operating profit	**21,704**	**18,297**	**2,024**	**(2,024)**	**(3,075)**	**36,926**
Finance income	2,279	(80)	(1,406)	-	2,619	**3,412**
Finance costs	(2,502)	(3,318)	-	1,406	(52,117)	**(56,531)**
Net foreign exchange gain	**613**	**(1,898)**	**-**	**-**	**(35,865)**	**(37,150)**
Segment profit (loss) before tax	22,094	13,001	618	(618)	(88,438)	**(53,343)**
Income tax expense	-	-	-	-	(1,071)	**(1,071)**
(Loss)/profit for the period	**22,094**	**13,001**	**618**	**(618)**	**(89,509)**	**(54,414)**

* Unallocated part of other costs and expenses mainly are attributable of IT transformation.

The revenues generated from each segment for the six months ended 30 June 2018 were as follows:

’000 GEL Condensed Consolidated Interim Statement of Profit or Loss and Comprehensive Income	**Mobile commu-nications**	**Fixed network**	**Elimination mobile communica-tions**	**Elimination fixed network**	**Unallocated amounts**	**Total**
Segment revenue	**60,518**	**83,731**	**(451)**	**(1,291)**	**-**	**142,507**
Depreciation and amortisation	(17,156)	(22,327)	-	-	-	(39,483)
Other costs and expenses	(30,522)	(52,306)	1,291	451	(16,354)	(97,441)
Bargaining gain from acquisition	-	-	-	-	41,845	41,845
Segment operating profit	**12,840**	**9,098**	**839**	**(839)**	**25,491**	**47,429**
Finance income	1,471	3,931	(772)	(3,369)	-	1,261
Finance costs	(3,4220)	(4,589)	3,369	772	(14,086)	(17,962)
Net foreign exchange gain	(2,919)	322	2,587	(2,587)	(428)	(3,026)
Segment profit (loss) before tax	**7,963**	**8,762**	**6,023**	**(6,023)**	**10,977**	**27,702**
Income tax expense	-	(488)	-	-	-	(488)
(Loss)/profit for the period	**7,963**	**8,274**	**6,023**	**(6,023)**	**10,977**	**27,214**

7. Revenues

	For the six months ended 30 June	
’000 GEL	**2019**	**2018**
Commercial revenue	**164,091**	**118,235**
Mobile callout service	50,589	27,220
Internet service	45,657	40,204
Mobile data service	24,857	12,424
Internet television	20,414	17,417
Fixed telephone service	10,024	11,565
Revenue from SMS	4,921	3,235
Revenue from other services	4,647	3,019
Facility rental service related to IRU contracts	1,020	844
Wireless telephone ("CDMA")* service	981	1,348
Revenue from phone sales and accessories	981	959
Carrier and other services	**19,946**	**24,273**
Interconnect service**	12,036	16,860
Facility rental service related to IRU contracts	3,953	4,541
Roaming revenue	2,954	1,982
Internet service	1,003	890
Total revenues from contracts with customers	**184,037**	**142,508**

* Code Division Multiple Access technology supporting the Group's wireless telephone services.

** In October 2017, the Georgian National Communications Commission ("GNCC") adopted new local interconnection tariffs, which became effective partially from July 2018 and have a full scope effect from January 2019. The determination of the tariffs above is based on Long-Run Incremental Costing (LRIC) and are significantly lower than those that were effective during 2017 and periods before.

Except for revenue streams attributable to the mobile communications segment (mobile voice, part of interconnect service, mobile data, revenue from other mobile services and roaming revenue) the business is not subject to any seasonality and remains constant throughout the year. Revenue streams attributable to the mobile communications segment are usually approximately GEL 10-15 million higher for the second half than the first six months of the year.

There have been no changes to the major revenue streams from the revenue streams reported in the consolidated financial statements for the year ended 31 December 2018.

8. Purchased services

	For the six months ended 30 June	
'000 GEL	**2019**	**2018**
Utility expenses	4,959	3,091
Software maintenance service	4,779	3,225
Internet service cost	1,917	1,700
Professional fees*	1,879	16,645
Internet clear channel costs	1,752	2,575
Other	52	157
Total purchased services	**15,338**	**27,393**

* During the six months ended 30 June 2019, the Group incurred expenses of GEL 10,411 thousand in connection with the issue of Eurobonds (refer to note 15 (b)) including, amongst other things, underwriting fees, legal counsel fees, rating agency expenses, listing expenses and etc. These amounts are accounted for as transaction costs. They are included in the calculation of effective interest rate of Eurobonds and are deferred over 5 years (see note 15 (b)).

* During the six months ended 30 June 2018, the Group incurred advisory, legal and other professional and consulting fees of approximately GEL 13,189 thousand, in respect of the acquisition of Geocell LLC.

9. Net finance costs

	For the six months ended 30 June	
'000 GEL	**2019**	**2018**
Recognised in profit or loss		
Interest income on loans and receivables	997	812
Financial assets at FVTPL – net change in fair value (note 11(a))	1,542	-
Interest income on prepayments related to IRU contracts	873	449
Finance income	**3,412**	**1,261**
Interest expense on financial liabilities measured at amortised cost	(54,099)	(16,451)
Interest expense accrued under IFRS 16	(1,636)	-
Interest expense on advances received from IRU contracts	(796)	(1,511)
Finance costs	**(56,531)**	**(17,962)**
Net foreign exchange loss	(37,150)	(3,026)
	(37,150)	**(3,026)**
Net finance costs recognised in profit or loss	**(90,269)**	**(19,727)**

10. Property and equipment

'000 GEL	Land	Buildings and facilities	Machinery and equipment	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost at 1 January 2018	20,650	111,095	199,188	4,532	13,594	76	**349,135**
Accumulated depreciation	-	(31,581)	(108,868)	(3,975)	(10,192)	-	**(154,616)**
Carrying amount at 1 January 2018	**20,650**	**79,514**	**90,320**	**557**	**3,402**	**76**	**194,519**
Acquisition through business combination	7,845	12,459	157,197	3,040	3,834	-	**184,375**
Additions	2	16	9,402	-	1,150	5,928	**16,498**
Disposals	(457)	(2,445)	(3,072)	(107)	(8)	-	**(6,089)**
Transfers and others	5	338	3,511	68	8	(5,565)	**(1,635)**
Disposals of depreciation	-	926	1,928	103	6	-	**2,963**
Depreciation charge	-	(1,353)	(24,025)	(405)	(795)	-	**(26,578)**
Carrying amount at 30 June 2018	**28,045**	**89,455**	**235,261**	**3,256**	**7,597**	**439**	**364,053**
Cost at 30 June 2018	28,045	121,463	366,226	7,533	18,578	439	**542,284**
Accumulated depreciation	-	(32,008)	(130,965)	(4,277)	(10,981)	-	**(178,231)**
Carrying amount at 30 June 2018	**28,045**	**89,455**	**235,261**	**3,256**	**7,597**	**439**	**364,053**
Cost at 1 January 2019	26,422	118,759	394,045	7,978	31,084	4,318	**582,606**
Accumulated depreciation	-	(32,499)	(161,414)	(4,923)	(13,554)	-	**(212,390)**
Carrying amount at 1 January 2019	**26,422**	**86,260**	**232,631**	**3,055**	**17,530**	**4,318**	**370,216**
Additions	-	1	12,854	-	310	17,917	**31,082**
Disposals	(463)	(798)	(10,556)	(756)	(84)	(1)	**(12,658)**
Transfers and others	-	2,382	13,147	295	27	(16,604)	**(753)**
Disposals of depreciation	-	154	8,831	251	75	-	**9,311**
Depreciation charge	-	(1,284)	(26,566)	(547)	(2,027)	-	**(30,424)**
Carrying amount at 30 June 2019	**25,959**	**86,715**	**230,341**	**2,298**	**15,831**	**5,630**	**366,774**
Cost at 30 June 2019	25,959	120,344	409,490	7,517	31,337	5,630	**600,277**
Accumulated depreciation	-	(33,629)	(179,149)	(5,219)	(15,506)	-	**(233,503)**
Carrying amount at 30 June 2019	**25,959**	**86,715**	**230,341**	**2,298**	**15,831**	**5,630**	**366,774**

(a) Security

During the six months ended 30 June 2019, the Group has fully repaid secured bank loans that were outstanding as at 31 December 2018 and therefore large part of the Group's property and equipment has been released from the pledge. As at 30 June 2019 property with carrying value of GEL125,241 thousand remains collateralized and guarantees the indebtedness of RCF (refer to note 15) and letter of credits related to operating activities of the Group.

(b) Change in estimate

During the six months ended 30 June 2019, the Group conducted an operational efficiency review over certain items within its machinery and equipment group, which resulted in increase of expected useful lives. The effect of the changes in useful lives resulted in decrease of depreciation charge, recorded in the costs, in amount of GEL 6,716 thousand for the six months ended 30 June 2019 (GEL 13,432 thousand per annum). The change of useful lives became effective from 1 January 2019.

11. Other non-current assets

As at 30 June 2019 other non-current assets include uninstalled equipment of GEL 25,340 thousand, prepayments for non-current assets of GEL 5,089 thousand and derivative financial assets of GEL 1,542 thousand (30 June 2018: uninstalled equipment of GEL 22,911 thousand, prepayments for non-current assets of GEL 858 thousand and derivative financial assets equal to zero).

(a) Derivative financial assets

In June 2019, the Company entered into a five-year cross-currency swap agreement with JSC TBC Bank to manage its USD denominated currency exposure related to Eurobonds. The swap is structured as a cash cover loan, whereby the Company deposited USD 25,000 thousand (GEL 71,718 thousand as at 30 June 2019) and took out loan with equivalent GEL amount (GEL 70,419 thousand). Loan bears an interest rate of 5.12% plus refinancing rate determined by National Bank of Georgia, deposit bears an interest rate of 3.1% plus six-month LIBOR rate. Deposit is restricted to withdrawal and is pledged to secure the bank loan. The Company has an obligation for the periodic mark-to-market settlements related to the deposit, if the exchange rate decreases below a rate used at initial conversion, so that at any point in time amount of deposit exceeds or be equal to GEL loan amount.

As per agreement with the bank, the Company is obliged to increase amount under the cross-currency swap to total amount of USD 35,000 thousand by 15 September 2019.

Derivative financial instruments are recorded at their fair value at each reporting date. As at 30 June 2019, the fair value of the derivative financial instrument amounted to GEL 1,542 thousand. Change in fair value of the instrument is recorded in profit or loss. Fair value is estimated in accordance with Level 2 of the fair value hierarchy as disclosed in the annual consolidated financial statements. As at 30 June 2019, the following significant assumptions were used in estimating fair value of the derivative instrument: refinancing rate of National Bank of Georgia was assumed to be stable at the level of 6.5%; cost of borrowing of the Company was assumed from to be 11% TBC Bank's cost of financing was estimated based on the yield to maturity (YTM) of TBC's Eurobond and data on financial institutions with similar credit rating.

12. Intangible assets and capitalized subscribers acquisition cost

’000 GEL	Network Operating & Computer software licenses	Telecom operating licenses	Broadcasting rights	Goodwill	CSAC*	Total
Cost at 1 January 2018	14,124	19,606	15,130	2,894	2,128	**53,882**
Accumulated amortization	(9,708)	(16,812)	(10,250)	-	(586)	**(37,356)**
Carrying amount at 1 January 2018	**4,416**	**2,794**	**4,880**	**2,894**	**1,542**	16,526
Acquisition through business combination	34,864	132,489	-	4,089	428	**171,870**
Additions	1,183	893	15,904	-	563	**18,543**
Amortization charge	(4,210)	(3,968)	(4,100)	-	(628)	**(12,906)**
Carrying amount at 30 June 2018	**36,253**	**132,208**	**16,684**	**6,983**	**1,905**	**194,033**
Cost at 30 June 2018	50,171	152,988	31,034	6,983	3,119	**244,295**
Accumulated amortization	(13,918)	(20,780)	(14,350)	-	(1,214)	**(50,262)**
Carrying amount at 30 June 2018	**36,253**	**132,208**	**16,684**	**6,983**	**1,905**	**194,033**
Cost at 1 January 2019	57,978	178,767	36,778	6,983	3,439	**283,945**
Accumulated amortization	(22,163)	(27,359)	(20,147)	-	(1,937)	**(71,606)**
Carrying amount at 1 January 2019	**35,815**	**151,408**	**16,631**	**6,983**	**1,502**	**212,339**
Additions	8,987	527	4,663	-	774	**14,951**
Amortization charge	(8,668)	(7,489)	(5,037)	-	(565)	**(21,759)**
Disposals and derecognitions, gross	-	(4,191)	-	-	-	**(4,191)**
Disposals and derecognitions, amortization	-	4,191	-	-	-	**4,191**
Carrying amount at 30 June 2018	**36,134**	**144,446**	**16,257**	**6,983**	**1,711**	**205,531**
Cost at 30 June 2019	66,965	175,103	41,441	6,983	4,213	**294,705**
Accumulated amortization	(30,831)	(30,657)	(25,184)	-	(2,502)	**(89,174)**
Carrying amount at 30 June 2019	**36,134**	**144,446**	**16,257**	**6,983**	**1,711**	**205,531**

* CSAC-Capitalized Subscribers Acquisition Cost

13. Cash and cash equivalents

’000 GEL	30 June 2019	31 December 2018
Bank balances	104,940	8,762
Cash in transit	982	490
Cash on hand	28	10
Total cash and cash equivalents	**105,950**	**9,262**

The cash and cash equivalents are mainly held with Georgian banks with a short term issuer default rating of B, based on Fitch Rating. The Group does not expect any counterparty to fail to meet its obligations.

14. Equity

(a) Share capital

On 7 May, 2019 the Company's shareholder Silknet Holding resolved to convert part of the Company's subordinated loan into equity and to repay the remaining balance of the loan with cash. As disclosed in note 1 (b), due to the change in ownership structure, the rights to all repayments in respect to the subordinated loan were transferred from Rhinestream Holdings to Silknet Holding.

As at 7 May 2019 the balances of the outstanding principal and interest amounted to GEL 50,030 thousand (USD 18,832 thousand). The shareholder of the Company made a decision to repay the principal of GEL 30,157 thousand (USD 11,135 thousand) and interest (including accrual of interest expense up to final repayment date 15 May 2019) of GEL 4,989 thousand (USD 1,842 thousand) and to increase the Company's share capital with the remaining loan balance of GEL 15,884 thousand (USD 5,865 thousand). As a result, the Company issued 15,884,198 shares with a nominal value of GEL 1 per share. The new issued shares were fully paid by conversion of the outstanding loan balance of GEL 15,884 thousand (equivalent of USD 5,865 thousand) due to the Company's shareholder.

Number of shares	**Ordinary shares**	
	2019	**2018**
In issue at 1 January	68,171,901	68,171,901
Issued during the period	15,884,198	-
In issue at 30 June, fully paid	**84,056,099**	**68,171,901**
Authorised shares - par value	**1**	**1**

(b) Additional paid-in capital

In March 2018, the Company's shareholder issued a loan of USD 17 million on non-market conditions due to which additional paid in capital of GEL 16,445 thousand was recorded. Additional paid-in capital was derecognised during the six months ended 30 June 2019 because of earlier repayment of the subordinated loan.

In June 2018 the Group issued a call option for 4,795,000 ordinary shares, representing approximately 6.6% ownership on a diluted basis, for the benefit of JSC TBC Bank as a part of the financing received for the acquisition of Geocell LLC. Exercise price of the option is set as GEL 5.214 per share for the total amount of GEL 25,000 thousand. The option is exercisable at any time during the period of five years or conditionally upon the occurrence of a liquidity event, which is defined as an Initial Public Offering (IPO) or sale of 100% stake of the company.

The fair value of the call option was accounted for as an equity instrument at the date of acquisition of Geocell/receipt of funds from TBC. The fair value of GEL 8,026 thousand was credited to additional paid-in capital and was fully charged to profit or loss when the respective loan was repaid (refer to note 15). As the option is an equity instrument, no change in fair value is recognised in the statement of profit or loss and other comprehensive income.

(c) Dividends

During the six months ended 30 June 2019, the Company did not declare any dividends. In 2018 the Company declared dividends of GEL 39,863 thousand to its shareholder (GEL 0.59 per share). Dividend paid amounted GEL 5,441 thousand (USD 2,023 thousand) and GEL 33,036 thousand (USD 13,461 thousand) for the six months ended 30 June 2019 and 30 June 2018, respectively.

15. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings which are measured at amortised cost.

'000 GEL	**30 June 2019**	**31 December 2018**
Eurobonds - non-current	554,040	-
Secured bank loans - non-current	-	315,025
Unsecured bonds - non-current	62,687	60,766
	616,727	**375,791**
Eurobonds - current	15,284	-
Secured bank loans - current	-	36,642
Unsecured bonds - current	401	427
Unsecured bank loans - current	35	-
	15,720	**37,069**
Subordinated loan - non-current	-	30,546
	-	**30,546**
	632,447	**443,406**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				30 June 2019	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Eurobonds	USD	11.0%	2024	580,762	569,324
Unsecured bonds	GEL	3.5% + Refinancing rate	2022	34,401	34,401
Unsecured bonds	USD	8.50%	2021	28,687	28,687
Unecured bank loan (RCF)	USD	7.5% + 6m Libor	2024	35	35
Total loans and borrowings				**643,885**	**632,447**

				31 December 2018	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Secured bank loans	USD	7.5%+ 6 month Libor rate	2025	268,738	261,497
Secured bank loans	USD	11%+ 6 month Libor rate	2025	26,876	26,876
Secured bank loans	GEL	12%	2024	37,630	37,630
Secured bank loans	GEL	11.7%	2024	25,664	25,664
Unsecured bonds	USD	8.50%	2021	26,772	26,772
Unsecured bonds	GEL	3.5 % + Refinancing rate	2022	34,421	34,421
Total loans and borrowings				**420,101**	**412,860**

(b) Eurobonds

On 2 April 2019, the Company successfully completed issuance of USD 200 million of senior unsecured notes (the "Eurobonds") on the Euronext Dublin Exchange. Net proceeds from issuance of Eurobonds amounted to GEL 529,489 thousand. The Eurobonds mature in 5 years, April 2024 and bear fixed coupon rate of 11% per annum. Interest is payable semi-annually on 2 April and 2 October of each year, commencing on 2 October 2019.

The closing market quotation as at 30 June 2019 was quoted at 105.84% per bond.

The Company has an option to redeem its Eurobonds in whole or in part at a redemption price and prior to the maturity date in accordance with specific provisions as disclosed in the Company's prospectus for Eurobonds. In addition, the Company may redeem up to 35 per cent of the aggregate principal amount of the Eurobonds at a redemption price equal to 101 per cent with the net proceeds from one or more of the Company's equity offerings.

The Eurobonds are accounted for at amortised cost using the effective interest rate method. The Group incurred expenses of GEL 10,411 thousand in connection with the issue of the Eurobonds, including, amongst other things, underwriting fees, legal counsel fees, rating agency expenses, listing expenses, etc. These expenses are accounted for as transaction costs. They are included in the calculation of effective interest rate of the Eurobonds and are deferred over 5 years.

The net proceeds from issuance of Eurobonds of GEL 529,490 thousand (transactions costs of GEL 9,050 were netted against the proceeds of Eurobonds) were used by the Company to fully repay its outstanding debt as at 31 December 2018 related to promissory notes and loans to the banks. The Company also repaid subordinated loan to related parties, including accrued interest outstanding at the date of repayment. The remaining part of the proceeds was kept on the Company's current interest bearing account and used for general corporate purposes.

In May 2019, the Company has repurchased its Eurobonds with a nominal amount of USD 3,000 thousand at a price of 103.5%, with the resulting difference between the nominal and the market price of USD 105 thousand recorded as finance costs in these condensed consolidated interim financial statements.

(c) Secured bank loan ("RCF")

In March 2019, the Company entered into a five-year agreement with the bank to secure a USD-denominated revolving credit facility ("RCF") with a maximum amount available to the Company of USD 20 million with the sole purpose to secure coupon payments on the Group's USD-denominated Eurobonds. As at 30 June 2019 the credit facility was not used.

(d) Changes in liabilities arising from financing activities

'000 GEL	**Dividends payable**	**Lease liabilities**	**Loans and borrowings**	**Total**
Balance at 1 January 2019	6,484	26,978	443,406	**476,868**
Proceeds from borrowings	-	-	529,489	**529,489**
Repayment of borrowings	-	-	(359,519)	**(359,519)**
Repayment of subordinated loan	-	-	(30,326)	**(30,326)**
Bank commissions for early repayment of loans	-	-	(7,149)	**(7,149)**
Interest paid	-	-	(14,125)	**(14,125)**
Repayment of subordinated loan interest	-	-	(4,989)	**(4,989)**
Eurobonds repurchase	-	-	(8,344)	**(8,344)**
Lease payments	-	(5,932)	-	**(5,932)**
Dividend paid	(5,441)	-	-	**(5,441)**
Total changes from financing cash flows	**(5,441)**	**(5,932)**	**105,037**	**93,664**
The effect of changes in foreign exchange rates	-	219	38,658	**38,877**
Other changes				
Interest expense	-	1,636	39,207	**40,843**
Bank commissions for early repayment of loans	-	-	7,149	**7,149**
Recognition of lease liabilities arising from lease contracts came into force during the period	-	8,286	-	**8,286**
Transaction costs	-	-	(10,411)	**(10,411)**
Transaction costs deducted from proceeds from Eurobonds	-	-	9,050	**9,050**
Netting of interest receivable with interest payable under Eurobond repurchase	-	-	(15,884)	**(15,884)**
Non-resident income tax paid	-	-	(199)	**(199)**
Income tax paid to resident individuals	-	-	(11)	**(11)**
Total liability-related other changes	**-**	**9,922**	**28,901**	**38,823**
Total equity-related other changes (see note 14(b))	**-**	**-**	**16,445**	**16,445**
Balance at 30 June 2019	**1,043**	**31,187**	**632,447**	**664,677**

16. Fair values and financial risk management

The Group has determined fair values of financial assets and liabilities using valuation techniques disclosed in the last annual consolidated financial statements. Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

The Group's financial risk management objectives and policies are consistent with those disclosed in the last annual consolidated financial statements.

(i) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

As at 30 June 2019, the Group's exposure to currency risk is mainly attributable to USD-denominated Eurobonds issued during the six months ended 30 June 2019.

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

'000 GEL	USD-denominated 30 June 2019	USD-denominated 31 December 2018
Bank balances	89,518	126
Trade and other receivables	6,076	6,965
Trade and other payables	(53,350)	(50,956)
Loans and borrowings	(598,046)	(315,145)
Subordinated loan	-	(30,546)
Net exposure	**(555,802)**	**(389,556)**

'000 GEL	EUR-denominated 30 June 2019	EUR-denominated 31 December 2018
Trade and other receivables	2,525	1,592
Trade and other payables	(15,126)	(15,018)
Net exposure	**(12,601)**	**(13,426)**

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

in GEL	Average rate		Reporting date spot rate	
	Six months ended 30 June 2019	Six months ended 30 June 2018	30 June 2019	31 December 2018
USD 1	2.7038	2.5345	2.8687	2.6766
EUR 1	3.0546	2.9913	3.2657	3.0701

Sensitivity analysis

A reasonably possible strengthening/(weakening) of GEL, as indicated below, against the USD as at 30 June 2019 and 31 December 2018 would have affected the measurement of financial instruments denominated in USD and affected equity and profit or loss before taxes by the amounts shown below. The currency movements would have no direct impact on other comprehensive income or equity. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Strengthening		Weakening	
'000 GEL	Equity	Profit or (loss)	Equity	Profit or (loss)
30 June 2019				
USD (10% movement)	-	55,580	-	(55,580)
EUR (10% movement)	-	1,260	-	(1,260)

31 December 2018				
USD (10% movement)	-	38,956	-	(38,956)
EUR (10% movement)	-	1,343	-	(1,343)

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	**30 June 2019**	**31 December 2018**
Fixed rate instruments		
Financial liabilities	598,011	120,612
	598,011	**120,612**
Variable rate instruments		
Financial liabilities	34,436	322,794
	34,436	**322,794**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have affected profit or loss by GEL 1,049 thousand. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

17. Related party transactions

Key management received the following remuneration during the period:

	For the six months ended 30 June	
'000 GEL	**2019**	**2018**
Salaries	1,273	735
Bonuses	73	2,093
	1,346	**2,828**

The other related party transactions are disclosed in note 14 (a) and 15 (b).

18. Subsidiaries

		30 June 2019	**31 December 2018**
Subsidiary	**Country of incorporation**	**Ownership/voting**	**Ownership/voting**
Qarva LLC	Georgia	51%	51%
WiMax Georgia LLC	Georgia	100%	100%
Novus LLC	Georgia	100%	100%
NG Georgia N(N)LE	Georgia	100%	100%
Wounded Warrior Support Fund N(N)LE	Georgia	100%	100%

19. Events subsequent to the reporting date

In July 2019 the Company and Euronews SA signed a franchise agreement of license and services to establish the Euronews Georgia. Under the agreement, Euronews grants to the Company an exclusive license for the use of the Euronews brand to operate news media organization in Georgia. The Company is authorized to broadcast and distribute the Euronews service in the local language. Euronews is prevented from owning or operating a business similar to the Euronews Georgia.

In July 2019 the Company has established the fully owned subsidiary Silk Media LLC for the sole purpose of operating Euronews Georgia.