Silknet JSC

Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2020

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 2020, 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 2020 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
17 August 2020

’000 GEL	Note	30 June 2020	31 December 2019
ASSETS			
Non-current assets			
Property and equipment	11	374,814	377,686
Intangible assets and capitalized subscribers acquisition costs	13	206,863	199,716
Investment property	14	61,104	29,582
Right-of-use assets		50,063	52,872
Other non-current assets	12	48,347	41,713
Prepayments related to IRU* contracts		10,087	10,321
Other financial instrument at FVTPL	17(e)	5,725	-
Total non-current assets		**757,003**	**711,890**
Current assets			
Inventories		11,423	10,980
Prepayments related to IRU contracts		2,173	2,173
Trade and other receivables		33,118	37,481
Cash and cash equivalents	15	63,126	74,862
Total current assets		**109,840**	**125,496**
TOTAL ASSETS		**866,843**	**837,386**
EQUITY AND LIABILITIES			
Equity	16		
Share capital		84,056	84,056
Additional paid-in capital		8,026	8,026
Accumulated losses		(103,917)	(64,289)
Equity (deficit) attributable to owner of the Company		**(11,835)**	**27,793**
Non-controlling interests		47	54
TOTAL EQUITY (DEFICIT)		**(11,788)**	**27,847**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	17	625,239	617,798
Lease liabilities		43,335	45,438
Trade and other payables		23,090	13,144
Advances received from IRU contracts and subscribers		14,076	14,662
Total non-current liabilities		**705,740**	**691,042**
Current liabilities			
Loans and borrowings	17	49,465	16,989
Trade and other payables		89,887	67,380
Advances received from IRU contracts and subscribers		21,128	21,949
Lease liabilities		12,411	12,179
Total current liabilities		**172,891**	**118,497**
TOTAL LIABILITIES		**878,631**	**809,539**
TOTAL LIABILITIES AND EQUITY		**866,843**	**837,386**

* 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 26.

		For the six months ended 30 June	
'000 GEL	**Note**	**2020**	**2019***
Revenues:			
Commercial revenue	7	168,622	164,091
Carrier services	7	16,285	19,946
		184,907	**184,037**
Costs and expenses:			
Depreciation and amortisation	11, 13	(58,372)	(56,390)*
Salaries and benefits		(28,332)	(27,405)
Other expenses		(12,021)	(15,419)
Purchased services	8	(18,158)	(15,338)
Infrastructure capacity rentals, IRU and lease expenses		(3,603)	(4,865)*
Interconnect fees and roaming expense		(7,467)	(9,009)
Network management and maintenance costs		(8,116)	(6,942)
Pay TV content cost		(6,351)	(5,311)
Advertising and marketing		(2,764)	(4,612)
Costs of SIM cards, scratch cards and other cost of sales		(425)	(1,014)
Profit from operating activities		**39,298**	**37,732***
Finance income	9	2,101	1,870
Finance costs	9	(43,928)	(58,360)*
Other financial instrument at FVTPL – net change in fair value	9, 17 (e)	2,400	1,542
Net foreign exchange loss	9	(40,341)	(37,745)*
Net finance costs		**(79,768)**	**(92,693)***
Loss before income tax		**(40,470)**	**(54,961)***
Income tax income/(expense)		835	(1,071)
Loss and total comprehensive loss for the period		**(39,635)**	**(56,032)***
Loss and total comprehensive loss attributable to:			
Owner of the Company		(39,628)	(56,026)
Non-controlling interests		(7)	(6)
		(39,635)	**(56,032)***

* The comparative financial information for the six-months ended 30 June 2019 has been restated due to the change in the lease accounting policy (see note 5).

These condensed consolidated interim financial statements were approved by management on 17 August 2020 and were signed on its behalf by:

David Mamulaishvili
General Director

Lili 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 26.

	Attributable to owner of the Company					
'000 GEL	**Share capital**	**Additional paid in capital**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 31 December 2019	84,056	8,026	(64,289)	**27,793**	54	**27,847**
Total comprehensive loss for the period						
Loss and total comprehensive loss for the period	-	-	(39,628)	**(39,628)**	**(7)**	**(39,635)**
Balance as at 30 June 2020	**84,056**	**8,026**	**(103,917)**	**(11,835)**	**47**	**(11,788)**
Balance as at 1 January 2019	68,172	24,471	(18,198)*	**74,445***	59	**74,504***
Total comprehensive loss for the period						
Loss and total comprehensive loss for the period	-	-	(56,026)*	**(56,026)***	**(6)**	**(56,032)***
Transactions with owner, recorded directly in equity						
Effect of transactions with entities controlled by the ultimate controlling party (see note 16(b))	-	(16,445)	-	**(16,445)**	-	**(16,445)**
Shares issued (see note 16(a))	15,884	-	-	**15,884**	-	**15,884**
Balance as at 30 June 2019	**84,056**	**8,026**	**(74,224)***	**17,858***	**53**	**17,911***

* The comparative financial information as at 1 January 2019 and for the six-months ended 30 June 2019 has been restated due to the changes in the lease accounting policies (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 26.

		For the six months ended 30 June	
'000 GEL		**2020**	**2019**
Cash flows from operating activities			
Cash received from subscribers		195,512	187,833
Cash received from other telecom operators and for IRU contracts		10,138	15,628
Salaries and benefits paid to and on behalf of employees		(26,964)	(25,141)
Interconnection fees and expenses paid		(5,783)	(6,523)
Purchase of inventory		(4,766)	(8,907)
Taxes paid other than on income		(22,425)	(26,723)
Income tax paid		(135)	(687)
Network management and maintenance costs paid		(5,457)	(4,675)
Other operating expenses paid		(30,388)	(43,493)
Net cash from operating activities		**109,732**	**87,312**
Cash flows from investing activities			
Acquisition of property and equipment		(33,581)	(31,334)
Purchase of investment property		(31,065)	-
Acquisition of intangible assets		(16,476)	(17,528)
Proceeds from disposals of property and equipment		157	838
Interest received		1,249	900
Net cash used in investing activities		**(79,716)**	**(47,124)**
Cash flows from financing activities			
Proceeds from borrowings		-	529,489
Repayment of borrowings		-	(367,863)
Loan refinancing fees paid		-	(7,149)
Interest paid		(39,027)	(14,125)
Net payments of other financial instruments at FVTPL	17(e)	(3,492)	-
Repayment of subordinated loan		-	(30,326)
Repayment of subordinated loan interest		-	(4,989)
Repayment of promissory notes		-	(43,170)
Lease payments		(7,669)	(5,932)
Dividends paid		-	(5,441)
Net cash (used in) from financing activities		**(50,188)**	**50,494**
Effect of exchange rate changes on cash and cash equivalents		8,436	6,006
Net increase in cash and cash equivalents		**(11,736)**	**96,688**
Cash and equivalents at the beginning of the period		74,862	9,262
Cash and cash equivalents at the end of the period	15	**63,126**	**105,950**

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 26.

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 main 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 data, fixed internet, pay TV services, SMS (messaging) and other wholesale services.

On 20 March 2018 the Group acquired a 100% holding in Georgia's second-largest mobile operator, Geocell LLC ("Geocell"). Following the acquisition of Geocell LLC, the Group directs its activities as two operating segments, fixed services and mobile services segments. Information about the Group's reportable segments is disclosed in note 6.

The Company is rated by two rating agencies with Long-Term Issuer Default Rating of 'B+' and 'b1'with a Stable Outlook affirmed by Fitch and Moody's respectively. The ratings were reconfirmed in 2020.

The shareholder of the Company is Silknet Holding LLC, an entity incorporated in Georgia, which, as at 30 June 2020, is ultimately controlled by an individual, Giorgi Ramishvili.

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 2019 ("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.

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 2019. There was a change in the accounting policy in the last annual consolidated financial statements compared to accounting policy applied to the six months' period ended 30 June 2019 related to the lease accounting. The change was driven by the IFRIC agenda paper 4 issued in November 2019 on IFRS 16 as a result of which comparative financial information in these condensed consolidated interim financial statements has been restated (see note 5).

5. Changes in significant accounting policies

The accounting policies applied by the Group were consistent with those applied in the last annual consolidated financial statements.

For interim financial statements for the six months ended 30 June 2019, the Group used the contractual lease enforceability for determining the lease term. Since adoption of IFRIC agenda paper 4 issued in November 2019 in relation to leases that approach of narrow penalties interpretation is no longer acceptable. Thus, to comply with the IFRIC requirements the Group has restated the interim statement of profit or loss and other comprehensive income for the six-months ended 30 June 2019. As the change does not represent a correction of prior period misstatement and was done solely for the purpose to be in line with IFRIC agenda paper 4 requirements, the Group chooses not to reissue restated interim financial statements for the six-months ended 30 June 2019 and disclose the restated amounts as comparable in these interim financial statements. The changes to the interim financial statements for the six-months ended 30 June 2019 were as followed:

	As previously reported	**Restated**	**Restatement adjustment**
Costs and expenses:	**171,161**	**172,779**	**1,618**
Infrastructure capacity rentals, IRU and lease expenses	5,094	4,865	(229)
Depreciation and amortisation	56,952	56,390	(562)
Finance costs	56,531	58,360	1,829
Net foreign exchange loss	37,150	37,745	595
Other expenses	15,434	15,419	(15)
(Loss)/profit and total comprehensive income for the period	(54,414)	(56,032)	1,618

Furthermore, the Group has also applied the modified retrospective approach under which lease liability equals to the right-of-use asset at initial recognition - to be consistent with the approach taken in the last annual financial statements. As a result, the opening accumulated losses of GEL 21,771 thousand as at 1 January 2019 (as previously presented in the interim condensed financial statements for the six months ended 30 June 2019), was decreased by GEL 3,573 thousand and is now consistent with the amount of the accumulated losses of GEL 18,198 thousand as at 1 January 2019 presented in the last annual financial statements.

6. Operating segments

Following the acquisition of Geocell LLC on 20 March 2018, the Group directs two operating segments, fixed services and mobile services. 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. Liquidity and leverage 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 related foreign exchange gain/(loss) under unallocated amounts.

'000 GEL	**30 June 2020**	**30 June 2020**	**30 June 2020**	**30 June 2020**
Condensed Consolidated Interim Statement of Financial Position	**Mobile services**	**Fixed services**	**Unallocated amounts***	**Total**
ASSETS				
Non-current assets				
Property and equipment	150,002	217,846	6,966	374,814
Intangible assets and contract costs	153,167	39,296	14,400	206,863
Investment property	-	-	61,104	61,104
Other non-current assets	17,212	26,502	4,633	48,347
Other financial instrument at FVTPL	-	-	5,725	5,725
Right-of-use assets	43,489	4,830	1,744	50,063
Prepayments related to IRU contracts	10,087	-	-	10,087
Total non-current assets	**373,957**	**288,474**	**94,572**	**757,003**
Current assets				
Inventories	4,478	5,520	1,425	11,423
Prepayments related to IRU contracts	2,173	-	-	2,173
Trade and other receivables	9,499	20,186	3,433	33,118
Cash and cash equivalents	-	-	63,126	63,126
Total current assets	**16,150**	**25,706**	**67,984**	**109,840**
TOTAL ASSETS	**390,107**	**314,180**	**162,556**	**866,843**
LIABILITIES				
Non-current liabilities				
Loans and borrowings	-	-	625,239	625,239
Lease liabilities	37,476	4,851	1,008	43,335
Trade and other payables	6,525	9,572	6,993	23,090
Advances received related to IRU contracts and subscribers	-	14,076	-	14,076
Total non-current liabilities	**44,001**	**28,499**	**633,240**	**705,740**
Current liabilities				
Loans and borrowings	-	-	49,465	49,465
Trade and other payables	38,006	42,710	9,171	89,887
Advances received related to IRU contracts and subscribers	15,439	5,430	259	21,128
Lease liabilities	10,866	1,493	52	12,411
Total current liabilities	**64,311**	**49,633**	**58,947**	**172,891**
TOTAL LIABILITIES	**108,312**	**78,132**	**692,187**	**878,631**
NET ASSETS	**281,795**	**236,048**	**(529,631)**	**(11,788)**

'000 GEL	31 December 2019	31 December 2019	31 December 2019	31 December 2019
Consolidated Statement of Financial Position	**Mobile services**	**Fixed services**	**Unallocated amounts***	**Total**
ASSETS				
Non-current assets				
Property and equipment	159,778	215,979	1,929	377,686
Intangible assets and contract costs	157,960	32,595	9,161	199,716
Other non-current assets	21,980	17,570	2,163	41,713
Investment property	-	-	29,582	29,582
Right-of-use assets	47,618	5,254	-	52,872
Prepayments related to IRU contracts	10,321	-	-	10,321
Total non-current assets	**397,657**	**271,398**	**42,835**	**711,890**
Current assets				
Inventories	6,355	4,037	588	10,980
Prepayments related to IRU contracts	2,173	-	-	2,173
Trade and other receivables	13,246	22,255	1,980	37,481
Cash and cash equivalents	-	-	74,862	74,862
Total current assets	**21,774**	**26,292**	**77,430**	**125,496**
TOTAL ASSETS	**419,431**	**297,690**	**120,265**	**837,386**
LIABILITIES				
Non-current liabilities				
Loans and borrowings	-	-	617,798	617,798
Lease liabilities	40,478	4,960	-	45,438
Advances received related to IRU contracts and subscribers	-	14,662	-	14,662
Trade and other payables	6,386	5,716	1,042	13,144
Total non-current liabilities	**46,864**	**25,338**	**618,840**	**691,042**
Current liabilities				
Loans and borrowings	-	-	16,989	16,989
Trade and other payables	31,266	28,504	7,610	67,380
Advances received related to IRU contracts and subscribers	16,061	5,646	242	21,949
Lease liabilities	10,937	1,242	-	12,179
Total current liabilities	**58,264**	**35,392**	**24,841**	**118,497**
TOTAL LIABILITIES	**105,128**	**60,730**	**643,681**	**809,539**
NET ASSETS	**314,303**	**236,960**	**(523,416)**	**27,847**

* Unallocated amounts include among others Silk Media LLC, a 100%-owned subsidiary of the Company established to operate Euronews Georgia, a free-to-air news channel, in the light of the memorandum of understanding signed between the Company and Euronews.

Trade and other payables shown under unallocated amounts mainly consist of payables for an IT transformation project (replacement of many of the Company's current IT systems to new more advanced solutions).

Capital expenditures incurred by the Group in relation to the mobile services segment was GEL 15,123 thousand for the six months ended 30 June 2020 (out of which GEL 7,199 thousand was added to property and equipment and GEL 7,924 thousand was added to intangible assets). Capital expenditures related to the fixed services segment for the six months ended 30 June 2020 were approximately GEL 16,998 thousand and GEL 15,743 thousand in terms of property and equipment and intangible assets, respectively.

The revenues generated from each segment for the six months ended 30 June 2020 are as follows:

’000 GEL Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	**Mobile services**	**Fixed services**	**Elimination mobile services**	**Elimination fixed services**	**Unallocated amounts**	**Total**
Segment revenue	**96,366**	**90,571**		**(2,031)**	**1**	**184,907**
Depreciation and amortization	(33,895)	(22,936)			(1,541)	(58,372)
Other costs and expenses	(38,306)	(47,904)	2,031		(3,058)	(87,237)
Segment operating profit	**24,165**	**19,731**	**2,031**	**(2,031)**	**(4,598)**	**39,298**
Finance income	853	(2,311)	-	-	3,559	2,101
Finance costs	(3,319)	(833)	-	-	(39,776)	(43,928)
Other financial instrument at FVTPL – net change in fair value (note 17 (e))	-	-	-	-	2,400	2,400
Net foreign exchange loss	(266)	(3,519)	-	-	(36,556)	(40,341)
Segment profit/(loss) before tax	**21,433**	**13,068**	**2,031**	**(2,031)**	**(74,971)**	**(40,470)**
Income tax expense	-	(225)	-	-	1,060	835
Profit/(loss) for the period	**21,433**	**12,843**	**2,031**	**(2,031)**	**(73,911)**	**(39,635)**

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

’000 GEL Condensed Consolidated Interim Statement of Profit or Loss and Comprehensive Income	**Mobile services**	**Fixed services**	**Elimination mobile services**	**Elimination fixed services**	**Unallocated amounts**	**Total**
Segment revenue	**96,898**	**89,163**	**-**	**(2,024)**	**-**	**184,037**
Depreciation and amortisation	(33,919)	(22,471)	-	-	-	**(56,390)**
Other costs and expenses	(40,696)	(48,168)	2,024	-	(3,075)	**(89,915)**
Segment operating profit	**22,283**	**18,524**	**2,024**	**(2,024)**	**(3,075)**	**37,732**
Finance income	2,279	(80)	(1,406)	-	1,077	**1,870**
Finance costs	(4,447)	(3,202)	-	1,406	(52,117)	**(58,360)**
Other financial instrument at FVTPL – net change in fair value	-	-	-	-	1,542	**1,542**
Net foreign exchange gain	(213)	(1,667)	-	-	(35,865)	**(37,745)**
Segment profit (loss) before tax	19,902	13,575	618	(618)	(88,438)	(54,961)
Income tax expense	-	-	-	-	(1,071)	**(1,071)**
Profit/(loss) for the period	**19,902**	**13,575**	**618**	**(618)**	**(89,509)**	**(56,032)**

7. Revenues

	For the six months ended 30 June	
’000 GEL	**2020**	**2019**
Commercial revenue	**168,622**	**164,091**
Mobile callout	49,608	50,589
Fixed broadband	49,435	45,657
Mobile data	30,680	24,857
Pay TV	22,303	20,414
Fixed telephony	8,535	10,024
Revenue from SMS	4,513	4,921
Revenue from other services	2,046	4,647
Infrastructure capacity rental service	1,094	1,020
Revenue from phone sales and accessories	408	981
Wireless telephone ("CDMA") service	-	981
Carrier and other services	**16,285**	**19,946**
Interconnect service	10,323	12,036
Infrastructure capacity rental service	3,547	3,953
Roaming revenue	1,311	2,954
Internet wholesale	1,104	1,003
Total revenues	**184,907**	**184,037**

The mobile services segment includes the following revenue streams: mobile callout, mobile data, revenue from SMS, revenue from phone sales and accessories and roaming revenue. The fixed services segment includes the following revenue streams: fixed broadband, pay TV, fixed telephone and facility rental service related to IRU contracts. Revenue from interconnect service and revenue from other services are generated by both segments as follows: GEL 9,905 thousand by the mobile services segment and GEL2,465 thousand by the fixed services segment in 2020. (For the six months ended 30 June 2019: GEL 23,516 thousand by mobile services segment and GEL 8,181 thousand by the fixed services segment).

Except for revenue streams attributable to the mobile services segment the business is not subject to seasonal fluctuations and remains relatively stable throughout the year. Revenue streams attributable to the mobile services segment are usually GEL 10-15 million higher for the second half than for the first six months of the year. However, the magnitude of the difference between the first and the second half of the year may be slightly lower in 2020 due to lower summer tourism induced by COVID-19 (see note 21).

From July 2019 the Group abandoned the CDMA technology and ceased the service. Part of the CDMA subscribers were migrated to mobile GSM technology.

8. Purchased services

	For the six months ended 30 June	
’000 GEL	**2020**	**2019**
Software maintenance service	5,126	4,779
Utility expenses	5,005	4,959
Professional fees*	3,928	1,879
Internet protocol (IP) cost	2,365	1,917
Internet clear channel costs	1,669	1,752
Other purchased services	65	52
Total purchased services	**18,158**	**15,338**

* During the six months ended 30 June 2019, the Group incurred expenses of GEL 10,411 thousand in connection with the issue of Eurobonds 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.

9. Net finance costs

	For the six months ended 30 June	
’000 GEL	**2020**	**2019**
Recognised in profit or loss		
Interest income on current bank accounts	1,249	997
Interest income on IRU related prepayments	852	873
Finance income	**2,101**	**1,870**
Interest expense on financial liabilities	(39,920)	(54,099)
Interest expense accrued under IFRS 16	(3,221)	(3,465)
Interest expense on advances received from IRU contracts	(787)	(796)
Finance costs	**(43,928)**	**(58,360)**
Other financial instrument at FVTPL – net change in fair value (note 17 (e))	2,400	1,542
Net foreign exchange loss	(40,341)	(37,745)
Net finance costs recognised in profit or loss	**(79,768)**	**(92,693)**

10. Alternative performance measures

(a) Adjusted EBITDA

The Company believes that the presentation of Adjusted EBITDA and Adjusted EBITDA margin enhances a reader’s understanding of the Group’s financial performance. The management uses Adjusted EBITDA and Adjusted EBITDA margin to assess and evaluate the operating performance of the entity. In addition, Adjusted EBITDA and Adjusted EBITDA margin are frequently used by securities analysts, investors and other interested parties in the evaluation of companies that operate in the telecommunications sector. Adjusted EBITDA and Adjusted EBITDA margin are not presentations made in accordance with IFRS and the Group’s use of the terms Adjusted EBITDA and Adjusted EBITDA margin may vary from others in the telecommunications industry due to differences in accounting policies or differences in the calculation methodology.

The Group calculates Adjusted EBITDA by adjusting profit from continuing operations to exclude following items:

– finance costs and finance income
– corporate income tax and any other taxes related to the distribution of dividends
– depreciation, amortization, revaluation, impairment (losses / reversals) of non-current assets
– net foreign exchange gain/(loss), including gain/(loss) on hedging instruments, currency forward contracts and any other gain/(loss) attributable to changes in foreign currency exchange rates
– specific items as explained below:

Specific items are identified by virtue of their size, nature or incidence. Specific items represent a) income or loss related to the sale or write off of non-current assets and any other non-cash items; b) non-recurring, non-underlying or non-operating income or costs that are either material by nature or size (such as bargaining gain on business acquisition, business acquisition related costs, costs related to fundraising and the listing of the Group’s securities, write off of issued loan, one time professional fees, etc.).

Reconciliation of adjusted EBITDA to profit from continuing operations:

	For the six months ended 30 June	
’000 GEL	**2020**	**2019**
Loss for the period	**(39,635)**	**(56,032)**
Depreciation and amortisation	58,372	56,390
Finance costs	43,928	58,360
Finance income	(2,101)	(1,870)
Income tax (benefit)/expense	(835)	1,071
Other financial instrument at FVTPL – net change in fair value (note 17 (e))	(2,400)	(1,542)
Net foreign exchange loss	40,341	37,745
Specific items (see below)	4,347	6,302
Adjusted EBITDA	**102,017**	**100,424**

Specific items:

	For the six months ended 30 June		
’000 GEL	**2020**	**2019**	**FS line**
Loss on disposals of property and equipment	654	1,367	Other expenses
Allowance for impairment of prepayments and trade and other receivables (one-off)	-	1,227	Other expenses
Write-down of slow moving inventory and other non-current assets	1,130	-	Other expenses
Bank fees and charges (Geocell acquisition financing fees)	-	740	Other expenses
Professional fees, one-time consulting expenses	1,557	1,815	Purchased services
Other expenses	1,006	1,153	Other expenses
Total EBITDA adjustments	**4,347**	**6,302**	

(b) Adjusted EBITDA margin

Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by total revenue.

	For the six months ended 30 June	
’000 GEL	**2020**	**2019**
Adjusted EBITDA	102,017	100,424
Revenue	184,907	184,037
Adjusted EBITDA margin %	**55%**	**55%**

11. Property and equipment

'000 GEL	**Land**	**Buildings and facilities**	**Machinery and equipment**	**Vehicles**	**Furniture and fixtures**	**Construction in progress**	**Total**
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, gross	-	2,382	10,736	295	27	(16,604)	**(3,164)**
Transfers, accumulated depreciation	-	-	2,411	-	-	-	**2,411**
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**
Cost at 1 January 2020	26,224	122,314	406,060	8,093	31,558	6,754	**601,003**
Accumulated depreciation	-	(34,851)	(166,440)	(5,139)	(16,887)	-	**(223,317)**
Carrying amount at 1 January 2020	**26,224**	**87,463**	**239,620**	**2,954**	**14,671**	**6,754**	**377,686**
Additions	-	-	13,732	-	616	15,767	**30,115**
Disposals	(14)	(35)	(2,704)	(137)	(18)	-	**(2,908)**
Transfers , gross	74	533	7,146	3,936	38	(15,594)	**(3,867)**
Transfers, accumulated depreciation	-	-	3,138	-	-	-	**3,138**
Disposals of depreciation	-	12	1,888	101	18	-	**2,019**
Depreciation charge	-	(1,326)	(27,895)	(473)	(1,675)	-	**(31,369)**
Carrying amount at 30 June 2020	**26,284**	**86,647**	**234,925**	**6,381**	**13,650**	**6,927**	**374,814**
Cost at 30 June 2020	26,284	122,812	424,234	11,892	32,194	6,927	**624,343**
Accumulated depreciation	-	(36,165)	(189,309)	(5,511)	(18,544)	-	**(249,529)**
Carrying amount at 30 June 2020	**26,284**	**86,647**	**234,925**	**6,381**	**13,650**	**6,927**	**374,814**

(a) Security

As at 30 June 2020 property with a carrying value of GEL 79,481 thousand remains collateralized and guarantees the indebtedness of RCF (refer to note 17(c)) and letter of credits related to operating activities of the Group.

12. Other non-current assets

As at 30 June 2020 other non-current assets include uninstalled equipment of GEL 42,669 thousand and prepayments for non-current assets of GEL 5,578 thousand (31 December 2019: uninstalled equipment of GEL 37,558 thousand and prepayments for non-current assets of GEL 4,055 thousand).

13. Intangible assets and capitalized subscribers acquisition cost

’000 GEL	Network Operating & Computer software licenses	Telecom operating licenses	Broadcasting rights	Goodwill	Other***	CSAC*	Total
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, cost	-	(4,191)	-	-	-	-	**(4,191)**
Disposals and derecognitions, amortization	-	4,191	-	-	-	-	**4,191**
Carrying amount at 30 June 2019	**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**
Cost at 1 January 2020	64,187	175,096	49,356	6,983	-	5,003	**300,625**
Accumulated amortization	(29,019)	(37,402)	(31,224)	-	-	(3,264)	**(100,909)**
Carrying amount at 1 January 2020	**35,168**	**137,694**	**18,132**	**6,983**	**-**	**1,739**	**199,716**
Additions	9,885	604	15,227	-	4,079	168	**29,963**
Amortization charge	(7,100)	(7,193)	(7,418)	-	(68)	(633)	**(22,412)**
Disposals and derecognitions, cost **	(27)	-	(12,132)	-	-	-	**(12,159)**
Disposals and derecognitions, amortization**	-	-	11,755	-	-	-	**11,755**
Carrying amount at 30 June 2020	**37,926**	**131,105**	**25,564**	**6,983**	**4,011**	**1,274**	**206,863**
Cost at 30 June 2020	74,045	175,700	52,451	6,983	4,079	5,171	**318,429**
Accumulated amortization	(36,119)	(44,595)	(26,887)	-	(68)	(3,897)	**(111,566)**
Carrying amount at 30 June 2020	**37,926**	**131,105**	**25,564**	**6,983**	**4,011**	**1,274**	**206,863**

* CSAC-Capitalized Subscribers Acquisition Cost.

** The write-off of gross book value and respective accumulated amortisation of intangible is mainly attributable to fully depreciated broadcasting rights.

*** Other intangible assets comprise right to use brand name, acquired from a local Pay TV operator in 2020.

14. Investment property

In 2019, the Company acquired a land plot of 20,397 m² situated on a prime location in the centre of Tbilisi from a related party for the acquisition price of GEL 29,582 thousand (USD 10 million) plus contingent consideration of additional USD 10 million, payable in case the approval for 60,000 sq.m. gross buildable area master plan (Development Regulation Plan) would be received from the municipal authorities. The Development Regulation Plan was approved in 2020 and the Company paid the remaining USD 10 million in April 2020 in accordance with the original terms.

The Company may use a portion of the land plot for the purposes of constructing its head office. However, before the master plan is completed, the Group considers the future use of the land plot to be undefined and thus classifies the asset as an investment property.

During the six months ended 30 June 2020, movement on investment property of GEL 31,522 thousand reflects additions of GEL 28,742 thousand resulting from gross buildable area approval and fair value increase of GEL 2,780 thousand, which is attributable to the foreign currency exchange rate movements and is charged to net foreign exchange loss in the interim statement of profit or loss. The fair value of the investment property as at 30 June 2020 was determined USD 20,000 thousand by the management with the assistance of the independent expert and was based on announced asking prices or recent market transactions of similar properties in the similar location and physical condition. The significant unobservable inputs related to the differences in the characteristics of the properties, such as size, location, access to the properties and conditions for sale. The adjustments related to each of the significant unobservable input above varied between 5% to 20%. 5% change in the adjusted market prices used in the valuation would have changed the fair value measurement by approximately GEL 3 million. Investment property is categorized within Level 3 of the fair value hierarchy.

15. Cash and cash equivalents

’000 GEL	**30 June 2020**	**31 December 2019**
Bank balances	62,418	74,012
Cash in transit	696	833
Cash on hand	12	17
Total cash and cash equivalents	**63,126**	**74,862**

The Group’s exposure to interest rate and currency risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 18.

16. Equity

(a) Share capital

On 7 May 2019 the Company’s direct parent Silknet Holding resolved to convert part of the subordinated loan into Company’s equity. The remaining balance of the loan was repaid by Silknet to Silknet Holding.

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

Number of shares	**Ordinary shares**	
	2020	**2019**
In issue at 1 January	84,056,099	68,171,901
Issued during the period	-	15,884,198
In issue at 30 June, fully paid	**84,056,099**	**84,056,099**
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.

(c) Dividends

During the six months ended 30 June 2020 and in 2019, the Company did not declare any dividends.

17. 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 2020**	**31 December 2019**
Eurobonds - non-current	591,239	554,954
Unsecured local bonds - non-current	34,000	62,677
Other financial instrument at FVTPL – non-current (note 17(e))	-	167
	625,239	**617,798**
Eurobonds - current	18,396	16,459
Unsecured local bonds – current	31,069	530
	49,465	**16,989**
Total	**674,704**	**634,787**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				30 June 2020	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Eurobond	USD	11%	2024	619,682	609,635
Unsecured local bonds	GEL	3.5% + refinancing rate	2022	34,482	34,482
Unsecured local bonds	USD	8.50%	2021	30,587	30,587
Total loans and borrowings				**684,751**	**674,704**

				31 December 2019	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Eurobond	USD	11%	2024	581,394	571,413
Unsecured local bonds	GEL	3.5% + refinancing rate	2022	34,481	34,481
Unsecured local bonds	USD	8.5%	2021	28,727	28,727
Other financial instrument at FVTPL	GEL/USD	Note 17 (e)	2024	167	167
Total loans and borrowings				**644,769**	**634,787**

(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 mid-price quotation as at 29 June 2020 was quoted at 103.84% 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. In September 2019, the Company resold Eurobonds with a nominal amount of USD 400 thousand at an average of 108.76% per bond.

(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 2020 the credit facility was not used.

(d) Changes in liabilities arising from financing activities

'000 GEL	Dividends payable	Lease liabilities	Other financial instruments at FVTPL	Loans and borrowings	Total
Balance at 1 January 2020	1,043	57,617	167	634,620	693,447
Interest paid	-	-	-	(39,027)	(39,027)
Net payments of other financial instruments at FVTPL	-	-	(3,492)	-	(3,492)
Lease payments	-	(7,669)	-	-	(7,669)
Total changes from financing cash flows	**-**	**(7,669)**	**(3,492)**	**(39,027)**	**(50,188)**
The effect of changes in foreign exchange rates	**-**	**853**	**-**	**41,107**	**41,960**
Other changes					
Interest expense	-	3,221	-	38,071	41,292
Effect of change in other financial instruments at FVTPL (note 17 (e))	-	-	(2,400)	-	(2,400)
Non-resident income tax paid	-	-	-	(14)	(14)
Income tax paid to resident individuals	-	-	-	(53)	(53)
Recognition of lease liabilities arising from lease contracts came into force during the period	-	4,569	-	-	4,569
Write-off of ROU and respective lease liability for terminated contracts	-	(2,845)	-	-	(2,845)
Total liability-related other changes	**-**	**4,945**	**(2,400)**	**38,004**	**40,549**
Balance at 30 June 2020	**1,043**	**55,746**	**(5,725)**	**674,704**	**725,768**

'000 GEL	Dividends payable	Lease liabilities	Loans and borrowings	Total
Balance at 1 January 2019	6,484	58,719	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	**-**	**814**	**38,658**	**38,877**
Other changes				
Interest expense	-	3,465	39,207	42,672
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	-	2,685	-	2,685
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	**-**	**6,150**	**28,901**	**35,051**
Total equity-related other changes (see note 16(b))	**-**	**-**	**16,445**	**16,445**
Balance at 30 June 2019	**1,043**	**59,751**	**632,447**	**660,905**

(e) Other financial instrument at FVTPL

Other financial instrument at FVTPL represents a foreign currency swap-instrument with TBC Bank JSC measured at fair value at each reporting date. The Company entered into an agreement in June 2019 to manage its USD denominated currency exposure related to Eurobonds. The swap is structured as a cash cover loan, whereby the Company deposited USD 35,000 thousand (GEL 106,932 thousand as at 30 June 2020) and took out a loan with an equivalent GEL amount (GEL 98,948 thousand). The loan bears an interest rate of 5.14% plus refinancing rate determined by the National Bank of Georgia; the deposit bears an interest rate of 3.1% plus six-month LIBOR rate. The deposit is pledged to secure the bank loan. As at 30 June 2020, the fair value of the other financial instrument at FVTPL amounted to GEL 5,725 thousand. Fair value is estimated in accordance with Level 2 of the fair value hierarchy.

18. 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 2020, 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 2020**	**USD-denominated 31 December 2019**
Bank balances	43,097	53,283
Trade and other receivables	4,655	5,898
Trade and other payables	(66,213)	(43,390)
Loans and borrowings	(533,291)	(499,769)
Net exposure	**(551,752)**	**(483,978)**

'000 GEL	**EUR-denominated 30 Jun 2020**	**EUR-denominated 31 December 2019**
Trade and other receivables	1,573	1,892
Trade and other payables	(30,977)	(18,649)
Net exposure	**(29,404)**	**(16,757)**

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

in GEL	Average rate		Reporting date spot rate	
	Six months ended 30 June 2020	**Six months ended 30 June 2019**	**30 June 2020**	**31 December 2019**
USD 1	3.0323	2.7038	3.0552	2.8677
EUR 1	3.3402	3.0546	3.4466	3.2095

Sensitivity analysis

A reasonably possible strengthening/(weakening) of GEL, as indicated below, against the USD as at 30 June 2020 and 31 December 2019 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-Jun-20				
USD (10% movement)	-	55,175	-	(55,175)
EUR (10% movement)	-	2,940	-	(2,940)
31-Dec-19				
USD (10% movement)	-	48,398	-	(48,398)
EUR (10% movement)	-	1,676	-	(1,676)

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-Jun-20**	**31-Dec-19**
Fixed rate instruments		
Financial liabilities	640,222	600,140
	640,222	**600,140**
Variable rate instruments		
Financial liabilities	34,482	34,482
Other financial instrument at FVTPL (note 17 (e))	(5,275)	167
	29,207	**34,647**

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 292 thousand. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

19. Related party transactions

(a) Parent and ultimate controlling party

The Company's immediate parent is Silknet Holding LLC. As at 30 June 2020, the Company is ultimately controlled by an individual, Giorgi Ramishvili. No publicly available financial statements as at 30 June 2020 and 31 December 2019 are produced by the Company's immediate parent or ultimate controlling party.

(b) Remuneration

Key management and Supervisory Board members received the following remuneration during the period (included in salaries and benefits) :

	For the six months ended 30 June	
'000 GEL	**2020**	**2019**
Salaries	2,347	1,273
Bonuses	130	73
	2,477	**1,346**

(c) Other related party transactions

'000 GEL	**Transaction value for the six months ended 30 June**		**Outstanding balance**	
	2020	**2019**	**30 June 2020**	**31 December 2019**
Other operating expenses:				
Other related party	212	107	-	-
Entities under common control	2,677	1,751	(573)	(153)
Fuel and lubricants used:				
Entities under common control	978	1,320	(131)	(146)
Investment property acquisition:				
Entities under common control	28,678	-	-	-
Purchase of goods and services from related parties:				
Marketing	20	39	(1)	(5)
Charity	258	355	-	-
Leases under IFRS 16	77	-	1,060	-
Other:				
Entities under common control	601	-	25	-

The related party balances do not bear interest rate and are repayable within 6 months from the reporting date.

20. Subsidiaries

Subsidiary	**Country of incorporation**	**30 June 2020 Ownership/voting**	**31 December 2019 Ownership/voting**
Qarva LLC	Georgia	51%	51%
Silk Media 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%

21. Impact of COVID-19

The outbreak of COVID-19 in early 2020 and its rapid spread in the world has caused substantial impact and changes to the business environment in all countries over the world, including Georgia.

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Government of Georgia has taken measures to contain the outbreak, including imposing restrictions on the cross-border movement of people, entry restrictions for foreign visitors and instructing the business community to transfer employees to working from home. During March 2020, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theaters and museums and sport facilities.

Silknet's priority is the health and well-being of its employees and its subscribers. To this effect, the Company donated GEL 2 million to the StopCov Fund established by the Government of Georgia and introduced certain measures, such as the following:

- As at 19 March 2020, all shops and service centers were closed. The services were provided through digital and telephone channels until late May;
- The vast majority of employees are now working remotely, while strict safety procedures are in place for those whose presence is required at their workplace, including working in shifts;
- The contractors that provide service provisioning and maintenance to Silknet's subscribers have been equipped with necessary protective measures;

Although the impact of the COVID-19 pandemic is expected to be significant both on the global and the local economy, the telecommunications sector is widely believed to be one of the most resilient sectors.

The Group's management's current understanding of the possible impact on its business is as follows:

- As the Group's consumers' dependence on OTT ('Over the counter') services grows, demand for fixed and mobile services follows suit. More time at home translates into higher demand for pay TV and streaming services. While part of these behavioral shifts are temporary, management believes that the accelerated digitalization patterns will remain and give the company additional headroom to leverage from elevated consumption and growing demand for digital services in the long-run.
- Potential global disruption of sports events may impact TV viewership;
- The Group carefully monitors the increased internet traffic and may decide to upgrade equipment and/or add international channel capacity, if necessary. However, the Group found no need for any large scale upgrades until now.
- The slow-down of the economy may lead to lower disposable income, which may negatively affect the demand for the Group's services;
- The home confinement results in a slow-down of customer mobility, lower customer acquisitions and temporary suspension of fixed services by certain corporate customers.
- As the tourism level is expected to be lower in 2020 compared to the previous years, the revenue from roaming and other services consumed by international tourists will be affected negatively. Revenue from roaming services was 2.8% of total revenues in 2019;
- The Group has limited exposure to sectors most affected by COVID-19. Up to 3% of commercial revenue is generated from corporate clients engaged in hospitality and entrainment businesses.

22. Events subsequent to the reporting date

On 19 July 2020, the Parliament of Georgia passed amendments to the Law of Georgia on Electronic Communications proposed by the Georgian National Communication Committee ('GNCC'). As per amendments GNCC is granted the discretion to assign a temporary administrator and suspend the authority of the members of the management of the regulated entity in case the entity breaches certain obligations including but not limited to obligations regarding acquisition of businesses and/or assets, mergers, network access and tariff regulation (obligations as per articles 26, 27, 34 and 35 of Law of Georgia on Electronic Communications). Prior to the adoption of the amendments to the law, GNCC was entitled to impose charges and suspend authorization of a regulated entity in case of violation of any of the obligations listed above. The assignment of a temporary administrator creates an intermediary measure that can be used only in case a written warning and a fine against the entity have been proved ineffective and suspension of authorization is against the best economic interest of the country.

Although the management of the Company assumes the changes to the law impose additional sanctions to the industry participants, the Company has a record of compliance with the regulation and has the intention and capacity to ensure the compliance with the laws and regulations going forward. Hence, the management does not expect the amendments to the Law of Georgia on Electronic Communications to have any material adverse effect on the ordinary course of the business.