Silknet JSC

Consolidated Financial Statements for 2019

Contents

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Independent Auditors' Report

To the Shareholder of Silknet JSC

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Adoption of new standard - IFRS 16 - Leases	
The key audit matter	**How the matter was addressed in our audit**
As described in note 5 to the consolidated financial statements, the Group has adopted IFRS 16 as at 1 January 2019. IFRS 16 introduces a new lease accounting model, where lessees are required to recognise a right-of-use (ROU) asset and a lease liability arising from a lease on its statement of financial position. We consider adoption of IFRS 16 and respective IFRIC decisions to be key audit matter because it had a material impact on the consolidated financial statements and required Group's management to apply significant judgement, in particular, when determining the lease term.	We have performed the following audit procedures to address the key audit matter: • We have assessed whether management has appropriately applied the requirements of the new standard and respective IFRIC decisions, including determination whether the contract is, or contains a lease, lease term, discount rate used, measurement principles and classification applicable to right-of-use assets and lease liabilities. • We verified the accuracy of the underlying data used in the calculations by agreeing terms and conditions on a sample basis to original contractual terms and checked the accuracy of the calculations for each lease agreement sampled by performing recalculation. We also reviewed completeness over identified leases included by management in the calculations. • We tested that management has consistently applied the portfolio approach to its lease agreements. • We assessed the discount rate and reviewed the methodology of discount rate calculation. We ensured that disclosures in the consolidated financial statements are complete and appropriate as required by new standard.

Other Information

Management is responsible for the other information. The other information comprises the Group's Annual Report and the Management Report prepared for statutory purposes. Management report does not include the consolidated financial statements and our auditors' report thereon. The other information is expected to be available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Management Report prepared for statutory purposes, we conclude whether the other information:

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Karen Safaryan

KPMG Georgia LLC
21 February 2020

LIMITED LIABILITY COMPANY
KPMG
KPMG GEORGIA • 404437695

’000 GEL	Note	31 December 2019	31 December 2018*
ASSETS			
Non-current assets			
Property and equipment	14	377,686	370,216
Intangible assets and contract costs	15	199,716	212,339
Right-of-use assets	5	52,872	-
Other non-current assets	14	41,713	32,727
Investment property	16	29,582	-
Prepayments related to IRU** contracts		10,321	10,745
Total non-current assets		**711,890**	**626,027**
Current assets			
Inventories	17	10,980	22,283
Prepayments related to IRU** contracts		2,173	2,173
Trade and other receivables	18	37,481	37,876
Cash and cash equivalents	19	74,862	9,262
Total current assets		**125,496**	**71,594**
TOTAL ASSETS		**837,386**	**697,621**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		84,056	68,172
Additional paid-in capital		8,026	24,471
Accumulated losses		(64,289)	(18,198)
Equity attributable to owner of the Company		**27,793**	**74,445**
Non-controlling interests		54	59
TOTAL EQUITY		**27,847**	**74,504**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	21	617,798	375,791
Subordinated loan		-	30,546
Promissory notes		-	37,286
Lease liabilities	5	45,438	-
Advances received from IRU** contracts and subscribers	22	14,662	14,483
Trade and other payables	22	13,144	18,165
Total non-current liabilities		**691,042**	**476,271**
Current liabilities			
Loans and borrowings	21	16,989	37,069
Trade and other payables	22	67,380	87,285
Advances received from IRU** contracts and subscribers	22	21,949	22,492
Lease liabilities	5	12,179	-
Total current liabilities		**118,497**	**146,846**
TOTAL LIABILITIES		**809,539**	**623,117**
TOTAL LIABILITIES AND EQUITY		**837,386**	**697,621**

* The Group has initially adopted IFRS 16 Leases from 1 January 2019. See note 5.
** Indefeasible Right of Use

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 50.

'000 GEL	Note	2019	2018*
Revenues:			
Commercial revenue	8	346,155	289,492
Carrier services	8	41,000	54,818
		387,155	**344,310**
Costs and expenses:			
Depreciation and amortization		(111,662)	(98,459)
Salaries and benefits	10	(58,142)	(55,506)
Other expenses	11	(31,872)	(31,565)
Purchased services	9	(31,357)	(46,662)
Interconnect fees and roaming expense		(17,837)	(28,956)
Network management and maintenance costs		(15,747)	(16,494)
Pay TV content cost		(11,218)	(9,976)
Infrastructure capacity rentals, IRU and lease expenses		(9,199)	(18,316)
Advertising and marketing		(8,047)	(4,659)
Costs of SIM cards, scratch cards and other cost of sales		(2,795)	(3,073)
Bargain gain from acquisition		-	41,845
Profit from operating activities		**89,279**	**72,489**
Finance income	7	4,298	2,722
Finance costs	7	(104,094)	(47,242)
Net foreign exchange loss	7	(34,338)	(37,527)
Net finance cost		**(134,134)**	**(82,047)**
Loss before income tax		**(44,855)**	**(9,558)**
Income tax expense	12	(1,241)	(718)
Loss and total comprehensive loss for the year		**(46,096)**	**(10,276)**
Loss and total comprehensive loss attributable to:			
Owner of the Company		(46,091)	(9,535)
Non-controlling interests		(5)	(741)
		(46,096)	**(10,276)**

*2018 figures do not include the results from operations of mobile services segment (Geocell LLC) prior to the acquisition date of 20 March 2018.

* The Group has initially adopted IFRS 16 Leases from 1 January 2019. See note 5.

These consolidated financial statements were approved by management on 21 February 2020 and were signed on its behalf by:

David Mamulaishvili
General Director

Lili Pshavlishvili
Finance Director

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 50.

’000 GEL	Attributable to owners of the Company					
	Share capital	**Additional paid in capital**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2018	**68,172**	**-**	**31,200**	**99,372**	**800**	**100,172**
Total comprehensive income for the year						
Loss and total comprehensive loss for the year	-	-	(9,535)	(9,535)	(741)	(10,276)
Transactions with owners, recorded directly in equity						
Effect of transactions with entities controlled by the ultimate controlling party (see note 20(b))	-	16,445	-	16,445	-	16,445
Call option granted (see note 20 (b))	-	8,026	-	8,026	-	8,026
Dividends (see note 20 (c))	-	-	(39,863)	(39,863)	-	(39,863)
Balance as at 31 December 2018	**68,172**	**24,471**	**(18,198)**	**74,445**	**59**	**74,504**
Balance at 1 January 2019	**68,172**	**24,471**	**(18,198)**	**74,445**	**59**	**74,504**
Total comprehensive loss for the year						
Loss and total comprehensive loss for the year	-	-	(46,091)	(46,091)	(5)	(46,096)
Transactions with owners, recorded directly in equity						
Shares issued (see note 20(a))**	15,884	-	-	15,884	-	15,884
Effect of transactions with entities controlled by the ultimate controlling party (see note 20 (b))	-	(16,445)	-	(16,445)	-	(16,445)
Balance as at 31 December 2019	**84,056**	**8,026**	**(64,289)**	**27,793**	**54**	**27,847**

* The Group has initially adopted IFRS 16 Leases from 1 January 2019. See note 5.
** Loan from shareholder partially converted into equity (see note 20(a)).

’000 GEL	Note	2019	2018
Cash flows from operating activities			
Cash received from subscribers		402,001	338,901
Cash received from other telecom operators and for IRU contracts		31,269	32,968
Salaries and benefits paid to and on behalf of employees		(54,793)	(53,957)
Interconnection fees and other expenses paid to carriers		(12,588)	(9,969)
Purchase of inventory		(11,232)	(14,765)
Taxes paid other than on income		(59,641)	(47,647)
Income tax paid		(837)	(1,140)
Network management and maintenance costs paid		(11,274)	(14,548)
Other operating expenses paid		(80,674)	(83,111)
Net cash from operating activities		**202,231**	**146,732**
Cash flows from investing activities			
Acquisition of property and equipment		(89,321)	(58,453)
Purchase of investment property		(29,582)	-
Acquisition of intangible assets		(39,037)	(40,278)
Proceeds from disposals of property and equipment		2,264	1,442
Acquisition of subsidiaries, net of cash acquired		-	(329,711)
Issue of loans		-	(727)
Repayments of issued loans		-	136
Interest received		2,517	463
Net cash used in investing activities		**(153,159)**	**(427,128)**
Cash flows from financing activities			
Proceeds from borrowings		530,651	423,545
Repayment of borrowings		(367,863)	(67,006)
Loan refinancing fees paid		(7,262)	-
Repayment of subordinated loan		(30,326)	-
Repayment of subordinated loan interest		(4,989)	-
Repayment of promissory note		(43,170)	-
Interest paid		(49,773)	(33,633)
Net payments of other financial instruments at FVTPL*		(1,280)	-
Repayment of lease liabilities		(11,403)	-
Dividends paid		(5,441)	(36,417)
Net cash from financing activities		**9,144**	**286,489**
Effect of exchange rate changes on cash and cash equivalents		7,384	648
Net increase in cash and cash equivalents		**65,600**	**6,741**
Cash and equivalents at the beginning of the year	19	9,262	2,521
Cash and cash equivalents at the end of the year	19	**74,862**	**9,262**

* Cross-currency swap instrument at fair value through profit and loss.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 50.

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

(b) Organisation and operations

These consolidated financial statements include the financial statements of Silknet JSC (the Company) with the registration number of 204566978 and its subsidiaries as detailed in note 26 (together referred to as the Group and individually as the Group entities). 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 data, fixed services, 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"), for a transaction price of USD 151.7 million, approximately corresponding to an EV/EBITDA multiple of 4.5. Geocell 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 service lines, which represent mobile voice, mobile data, interconnect, messaging, sale of mobile equipment and others. The consideration given included repayment of a loan owed by Geocell LLC to Fintur Holdings B.V. ("Fintur"), the parent company of Geocell LLC. Geocell LLC has ceased its legal existence and was merged by the Group on 1 November 2018.

Following the acquisition of Geocell on 20 March 2018 the Group directs its activities as two operating segments, fixed services (Silknet JSC) and mobile services (Geocell LLC). Information about the Group's reportable segments is disclosed in note 6 Operating segments.

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.

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. The group is ultimately controlled by an individual, Giorgi Ramishvili. Related party transactions are detailed in note 25.

2. Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

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 consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

4. Use of estimates and judgments

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

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

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 estimates related to useful lives of property and equipment (see note 14) and lessee accounting under IFRS 16, which are described in note 5.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values for financial and non-financial assets and liabilities. Fair values have been determined for disclosure and for measurement purposes. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

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

Further information about the assumptions made in measuring fair values is included in note 23 (a) – fair values of financial assets and liabilities.

5. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

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 and has measured the right-of-use asset at the amount equal to the lease liability, adjusted for prepayments and accruals. 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.

The Group has changed its approach to the adoption of IFRS 16 to be in line with IFRIC agenda paper 4 issued in November 2019 in relation to leases, according to which a narrow interpretation of penalties is no longer acceptable.. For interim financial statements for the six-months ended 30 June 2019, the Group used the contractual minimum non-cancellable periods for determining the lease term. Accordingly, the lease terms and related balance sheet amounts in these financial statements differ significantly from those disclosed in interim financial statements. As the change was done to be in line with IFRIC 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 interim financial statements for the six-months ending 30 June 2020.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IAS 17 *Leases* and 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 a 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.

A. 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 the 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. 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 related lease liabilities have been presented as a separate line items in the consolidated statement of financial position.

Maturity analysis of leases is disclosed in note 23(b)(ii).

The carrying amounts of right-of-use assets and lease liabilities as at 1 January 2019 and 31 December 2019 are as below:

’000 GEL	**Site rent for mobile services**	**Site rent for fixed services**	**Total**
Carrying amount at 1 January 2019	**55,564**	**3,155**	**58,719**
Gross balance at 31 December 2019	55,294	5,859	61,153
Accumulated depreciation at December 2019	(7,676)	(605)	(8,281)
Carrying amount at 31 December 2019	**47,618**	**5,254**	**52,872**
Lease liabilities at 1 January 2019	**(55,564)**	**(3,155)**	**(58,719)**
Lease liabilities at 31 December 2019	**(51,415)**	**(6,202)**	**(57,617)**

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 liabilities.

The lease liability is initially measured at the present value of the future lease payments as at the date of transition, 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 payments 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.

A lease term reflects the Group’s reasonable estimate of the period during which the underlying asset will be used. In determining the lease term the Group bases its judgement on the broader economics of the contract and the underlying asset, rather than the contractual terms only and allows factors like economic penalties, legislative approach to renewal of the lease, forthcoming changes in regulation and the future business plans of the Group to be effectively captured in the estimate of the lease term.

(i) Transition

Previously, the Group classified leases as operating leases under IAS 17. The Group uses the option to maintain this treatment for short-term leases and recognises the right-of-use asset and respective lease liability as per IFRS 16 for the contracts that are long-term either contractually of substantially. Since management applies the judgement in determining the effective lease terms, the lease terms used for IFRS 16 purposes may differ from the contractual minimum lease periods. Summary of differences is as followed:

	Minimum initial contractual lease period	**Lease term estimate used for IFRS 16 purposes from transition**
Site rent for fixed services	4-10	Same as contractual
Site rent for mobile services	1-6*	7

* Minimum contractual lease terms for >70% mobile sites fall in a range of 1 to 6 years at the date of commencement of the contract.

At transition to IFRS 16 both the lease liabilities and related right-of-use assets were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 January 2019.

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;
- Applied portfolio accounting for leases with similar characteristics.

B. Impacts on financial statements

(i) Impacts on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities in the amount of GEL 58,719 thousand.

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 11.6% for GEL and USD denominated leases, respectively. The applicable interest rates are based on the Company’s borrowing rates on outstanding loan balances as at the transition date.

(ii) Impact for the year

The impact of IFRS 16 on the financial statements for the year ended 31 December 2019 has been as follows:

'000 GEL	**Site rent for mobile services**	**Site rent for fixed services**	**Total**
Carrying amount at 1 January 2019	55,564	3,155	58,719
Additions	2,687	2,704	5,391
Disposals	(2,957)	-	(2,957)
Disposals of accumulated depreciation	236	-	236
Depreciation charge	(7,912)	(605)	(8,517)
Gross balance at 31 December 2019	55,294	5,859	61,153
Accumulated depreciation at 31 December 2019	(7,676)	(605)	(8,281)
Carrying amount at 31 December 2019	**47,618**	**5,254**	**52,872**
Lease liability at 1 January 2019	(55,564)	(3,155)	(58,719)
Additions	(2,687)	(2,704)	(5,391)
Disposals	2,798	-	2,798
Interest charge	(6,257)	(633)	(6,890)
Payments	10,667	736	11,403
The effect of changes in foreign exchange rates	(372)	(446)	(818)
Lease liability at 31 December 2019	**(51,415)**	**(6,202)**	**(57,617)**

6. Operating segments

Following the acquisition of Geocell 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 segments.

Revenues and operating profit for the mobile services segment for the year 2018 reflects post-acquisition performance from 20 March 2018 to 31 December 2018. For the year 2019 the segment information reflects transactions for the full year.

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	31 December 2019	31 December 2019	31 December 2019	31 December 2019
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**

* 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).

** 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. As at 31 December, 2019 balance sheet amounts of Silk Media LLC have been as follows: total assets – GEL 1,807 thousand, total liabilities – GEL 161 thousand, equity – GEL 1,646 thousand.

’000 GEL	31 December 2018	31 December 2018	31 December 2018	31 December 2018
Statement of financial position	**Mobile services**	**Fixed services**	**Unallocated amounts**	**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	348	32,726
Prepayments related to IRU contracts	10,745	-	-	10,745
Total non-current assets	**379,688**	**245,990**	**348**	**626,026**
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	2,530	37,875
Cash and cash equivalents	-	-	9,264	9,264
Total current assets	**22,210**	**37,591**	**11,792**	**71,595**
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	29,095	13,833	87,188
Advances received related to IRU contracts and subscribers	14,479	7,720	294	22,492
Current income tax payable	-	97	-	97
Total current liabilities	**58,739**	**36,912**	**51,196**	**146,846**
TOTAL LIABILITIES	**69,987**	**58,312**	**494,819**	**623,117**
NET ASSETS	**331,911**	**225,269**	**(482,679)**	**74,504**

Capital expenditures incurred by the Group in relation to the mobile services segment was approximately GEL 35,317 thousand for the year ended 31 December 2019 (out of which GEL 28,158 thousand was added to property and equipment and GEL 7,159 thousand was added to intangible assets). Capital expenditures related to the fixed services operating segment for the year ended 31 December 2019 were approximately GEL 49,282 thousand and GEL 13,301 thousand in terms of property and equipment and intangible assets, respectively.

’000 GEL	**2019**	**2019**	**2019**	**2019**	**2019**	**2019**
Statement of profit or loss and other comprehensive income	**Mobile services**	**Fixed services**	**Elimination mobile services**	**Elimination fixed services**	**Unallocated amounts**	**Total**
Segment revenue	**209,070**	**181,928**	**-**	**(3,843)**	**-**	**387,155**
Depreciation and amortization	(69,845)	(41,178)	-	-	(639)	(111,662)
Other costs and expenses	(87,647)	(97,322)	3,843	-	(5,088)	(186,214)
Segment operating profit	**51,578**	**43,428**	**3,843**	**(3,843)**	**(5,727)**	**89,279**
Finance income	1,732	-	-	-	2,566	4,298
Finance costs	(8,248)	(4,018)	-	-	(91,828)	(104,094)
Net foreign exchange loss	(165)	(1,429)	-	-	(32,744)	(34,338)
Segment profit/(loss) before tax	**44,897**	**37,981**	**3,843**	**(3,843)**	**(127,733)**	**(44,855)**
Income tax expense	-	-	-	-	(1,241)	(1,241)
Profit/(loss) for the year	**44,897**	**37,981**	**3,843**	**(3,843)**	**(128,974)**	**(46,096)**

’000 GEL	**2018**	**2018**	**2018**	**2018**	**2018**	**2018**
Statement of profit or loss and other comprehensive income	**Mobile services**	**Fixed services**	**Elimination mobile services**	**Elimination fixed services**	**Unallocated amounts**	**Total**
Segment revenue	**178,500**	**173,814**	**(2,735)**	**(5,269)**	**-**	**344,310**
Depreciation and amortisation	(52,101)	(46,358)	-	-	-	(98,459)
Other costs and expenses*	(98,226)	(103,446)	5,269	2,735	(21,539)	(215,207)
Bargaining gain from acquisition**	-	-	-	-	41,845	41,845
Segment operating profit	**28,173**	**24,010**	**2,534**	**(2,534)**	**20,306**	**72,489**
Finance income	665	2,057	-	-	-	2,722
Finance costs	-	-	-	-	(47,242)	(47,242)
Net foreign exchange loss	-	-	-	-	(37,527)	(37,527)
Segment profit/(loss) before tax	**28,838**	**26,067**	**2,534**	**(2,534)**	**(64,463)**	**(9,558)**
Income tax expense	(19)	(699)	-	-	-	(718)
Profit/(loss) for the year	**28,819**	**25,368**	**2,534**	**(2,534)**	**(64,463)**	**(10,276)**

7. Net finance costs

’000 GEL	2019	2018
Recognised in profit or loss		
Interest income on current bank accounts and other receivables	2,549	1,374
Interest income on IRU related prepayments	1,749	1,348
Finance income	**4,298**	**2,722**
Interest expense on financial liabilities	(95,576)	(44,916)
Interest expense accrued under IFRS 16	(6,890)	-
Interest expense on advances received from IRU contracts	(1,628)	(2,326)
Finance costs	**(104,094)**	**(47,242)**
Net foreign exchange loss	(34,338)	(37,527)
Net finance costs recognised in profit or loss	**(134,134)**	**(82,047)**

8. Revenues

’000 GEL	2019	2018
Commercial revenue	**346,155**	**289,492**
Mobile callout	105,831	83,658
Fixed broadband	94,329	83,243
Mobile data	57,919	40,589
Pay TV	43,013	36,025
Fixed telephone	19,559	22,382
Revenue from SMS	12,698	9,507
Revenue from other services	7,363	7,180
Revenue from phone sales and accessories	2,285	2,597
Wireless telephone ("CDMA") service*	1,091	2,538
Infrastructure capacity rental service	2,067	1,773
Carrier services	**41,000**	**54,818**
Interconnect service	24,334	38,725
Infrastructure capacity rental service	7,820	7,876
Roaming revenue	6,786	6,373
Internet wholesale	2,060	1,844
Total revenues	**387,155**	**344,310**

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

For the year ended 31 December 2019 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, wireless telephone ("CDMA") service 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 23,516 thousand by the mobile services segment and GEL 8,181 thousand by the fixed services in 2019. (2018: GEL 33,018 thousand by mobile services segment and GEL 12,887 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 stable throughout the year. Revenue streams attributable to the mobile services segment are approximately GEL 10-15 million higher for the second half than for the first six months of the year.

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

In October 2017, the Georgian National Communications Commission ("GNCC") proposed 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 are based on Long-Run Incremental Costing (LRIC) and are significantly lower than those effective in 2017 and the prior years.

9. Purchased services

'000 GEL	**2019**	**2018**
Utility expenses	10,141	7,893
Software maintenance service	9,936	8,734
Internet protocol (IP) cost	4,159	3,583
Internet clear channel costs	3,557	3,392
Professional fees *	3,469	22,645
Other purchased services	95	415
Total purchased services	**31,357**	**46,662**

* During the year ended 31 December 2019, the Group incurred expenses of GEL 10,411 thousand in connection with the issue of Eurobonds (refer to note 21 (b)) including, amongst other, underwriting fees, legal counsel fees, rating agency expenses, listing expenses, etc. Most of these amounts are not accounted for as expenses but are rather capitalised as transaction costs. They are included in the calculation of effective interest rate of Eurobonds and are deferred over 5 years (see note 21 (b)).

* In 2018 the Group incurred advisory, legal and other professional and consulting fees of approximately GEL 13,072 thousand, in respect of the acquisition of Geocell LLC.

Professional services include audit fees of GEL 450 thousand (2018: GEL 312 thousand).

10. Salaries and benefits

'000 GEL	**2019**	**2018**
Salaries	50,342	47,980
Bonuses	5,875	5,691
Employee health insurance	915	731
Pension fund	723	-
Other benefits	287	1,104
Total salaries and benefits	**58,142**	**55,506**

11. Other expenses

’000 GEL	**2019**	**2018**
Loss on disposals of property and equipment	6,525	4,719
Taxes, other than on income	4,433	4,129
Allowance for impairment of trade and other receivables	4,188	2,638
Communication regulation fee	3,217	2,578
Bank fees and charges	3,101	2,635
Fuel and lubricants used	2,505	1,253
Security expenses	2,424	1,879
Office stationary and other supplies	1,330	802
Transportation services	1,319	893
Charity expenses	1,184	956
Business trip expenses	966	1,163
Commission for cash receipts	713	789
Write-down of slow moving inventory and other non-current assets	335	4,170
Dealers commission	288	695
Provision for impairment of loan issued	-	4,113
Other (income)	(656)	(1,847)
Total	**31,872**	**31,565**

12. Taxation

(a) Amounts recognised in profit or loss

’000 GEL	**2019**	**2018**
Current year	(1,241)	(718)
Current tax expense	**(1,241)**	**(718)**

(b) Reconciliation of effective tax rate:

	2019		**2018**	
	’000 GEL	**%**	**’000 GEL**	**%**
Dividends declared	-	-	39,863	
Dividends for which CIT is not applicable	-	-	(36,783)	
CIT applicable dividends	-	-	3,080	100
Tax using the Group’s domestic tax rate	-	-	544	18
Set off the tax payable on dividends	-	-	(259)	(8)
Adjustment for over provided in prior years	-	-	-	-
Income tax on other non-deductible expenses and adjustment for under-provided in prior years	1,241	-	433	14
Income tax expense for the year	**1,241**	**-**	**718**	**24**

As the Group has not declared dividends in 2019 there is no main taxable item and effective interest tax rate is not calculated.

13. 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

'000 GEL	**2019**	**2018**
Loss for the year	**(46,096)**	**(10,276)**
Depreciation and amortization	111,662	98,459
Finance costs	101,159	47,242
Finance income	(4,298)	(2,722)
Net foreign exchange loss	35,826	37,527
Change in fair value of derivative instrument*	1,447	-
Income tax expense	1,241	718
Specific items (see below)	14,915	(1,690)
Adjusted EBITDA	**215,856**	**169,258**

* Cross-currency swap instrument at fair value through profit and loss (note 21(d)).

’000 GEL	**2019**	**2018**	**Note**	**Description**
a) Bargaining gain from acquisition	-	(41,846)		Bargaining gain
b) Loss on disposals of property and equipment	6,525	4,719	11	Other expenses
c) Allowance for impairment of prepayments and trade and other receivables (one-off)	2,168	-	11	Other expenses
d) Write-down of slow moving inventory and other non-current assets	335	4,170	11	Other expenses
e) Professional fees (Geocell acquisition expenses)	-	13,072	9	Purchased services
f) Bank fees and charges (Geocell acquisition financing fees)	358	1,067	11	Other expenses
g) Bonuses, staff costs related to the Geocell acquisition and Eurobond issuance	1,942	4,443	10	Salaries and benefits
h) Professional fees, one-time consulting expenses	3,110	7,845	9	Purchased services
i) Provision for impairment of loans issued	-	4,113	11	Other expenses
j) Other (income)/expenses	477	727	11	Other expenses
Total specific items	**14,915**	**(1,690)**		

Specific items are attributable to the following events:

- Items a, e and f are fully attributable to acquisition of Geocell LLC, mobile network operator, in March, 2018 and thus represent non-recurring charges for the business.
- Provision of prepayments and trade receivables under item c represents an impairment of pre-acquisition balances of Geocell LLC, receivable from certain roaming and SMS wholesale vendors.
- Item g is related to Geocell LLC acquisition and merger in 2018 and Eurobond issuance in 2019. Since, both events are one-off by nature, the Company charges the relevant directly attributable staff costs to the specific items.
- Item h consists of one-time consulting expenses related to Eurobond issuance, convergence of fixed-mobile commercial services resultant of Geocell acquisition, professional fees related to specific regulatory matters and others.
- Item i represents the write-off of the loan to Technoboom LLC, mobile handset provider, by Geocell LLC prior to the acquisition and the loan to related party company issued by JSC Silknet prior to 2018.

(b) Adjusted EBITDA margin

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

’000 GEL	**2019**	**2018***
Adjusted EBITDA	215,856	169,258
Revenue	387,155	344,310
Adjusted EBITDA margin %	**56%**	**49%**

* 2018 figures do not include the results from operations of mobile services segment (Geocell LLC) prior to the acquisition date of 20 March 2018.

(c) IFRS 16 impact on adjusted EBITDA

The Group has initially adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach, thus the comparative information presented for 2018 has not been restated. The positive impact of IFRS 16 on Company's Adjusted EBITDA for 2019 has been GEL 12,620 thousand or 6 per cent. Without the application of IFRS 16, the Group's Adjusted EBITDA margin for 2019 would have been 52 per cent.

14. Property and equipment and other non-current assets

'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	7,846	11,058	149,924	3,040	12,308	-	184,176
Additions	2	19	37,090	771	5,260	22,326	65,468
Disposals	(2,081)	(4,376)	(7,702)	(365)	(92)	(4)	(14,620)
Transfers and others	5	963	15,545	-	14	(18,080)	(1,553)
Depreciation of disposals	-	1,590	3,760	178	86	-	5,614
Depreciation charge	-	(2,508)	(56,306)	(1,126)	(3,448)	-	(63,388)
Carrying amount at 31 December 2018	**26,422**	**86,260**	**232,631**	**3,055**	**17,530**	**4,318**	**370,216**
Cost at 31 December 2018	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 31 December 2018	**26,422**	**86,260**	**232,631**	**3,055**	**17,530**	**4,318**	**370,216**
Additions	439	208	37,637	1,366	1,049	39,425	80,124
Disposals	(653)	(1,035)	(18,944)	(1,251)	(566)	(56)	(22,505)
Transfers, gross	16	4,382	23,878	-	-	(36,933)	(8,657)
Transfers, accumulated depreciation	-	-	6,661	-	-	-	6,661
Depreciation of disposals	-	244	10,992	740	365	-	12,341
Depreciation charge	-	(2,596)	(53,196)	(956)	(3,706)	-	(60,454)
Write-off , gross	-	-	(30,556)	-	(9)	-	(30,565)
Write-off , depreciation	-	-	30,517	-	8	-	30,525
Carrying amount at 31 December 2019	**26,224**	**87,463**	**239,620**	**2,954**	**14,671**	**6,754**	**377,686**
Cost at 31 December 2019	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 31 December 2019	**26,224**	**87,463**	**239,620**	**2,954**	**14,671**	**6,754**	**377,686**

The write-off of gross book value and respective accumulated depreciation of property and equipment is fully attributable to zero net book value items and CDMA (Code Division Multiple Access technology supporting the Group's wireless telephone services) equipment discharged.

(a) Security

During the year ended 31 December 2019, the Group has fully repaid secured bank loans that were outstanding as at 31 December 2018 and therefore a large part of the Group's property and equipment has been released from the pledge. As at 31 December 2019, property with a carrying value of GEL 80.7 thousand remains collateralized and guarantees the indebtedness of RCF (refer to note 21 (c)) and letter of credits related to operating activities of the Group.

(b) Other non-current assets

As at 31 December 2019 other non-current assets include uninstalled equipment of GEL 37,558 thousand and prepayments for non-current assets of GEL 4,055 thousand (2018: uninstalled equipment of GEL 26,471 thousand and prepayments for non-current assets of GEL 6,162 thousand).

(c) Capital commitments

In 2019, the Group signed an agreement with Euronews, a free-to air news channel that will be made available to the audience in Georgian language. Capital commitment attributable to Silk Media LLC as a result of binding contract is EUR 1,730 thousand, on which the Group has a binding obligation and thus is considered as a capital commitment.

(d) Change in estimate

During the year ended 31 December 2019, the Group conducted an operational efficiency review over certain items within its machinery and equipment group, which resulted in an increase of expected useful lives. The change of useful lives became effective from 1 January 2019. The effect of the changes in useful lives resulted in a decrease of depreciation charge, recorded in the costs, in current and future periods is as follows:

'000 GEL	**2019**	**2020**	**2021**
Decrease/(increase) in depreciation expense	11,783	7,965	(3,891)

15. Intangible assets and contract costs

’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	15,451	26,672	21,648	-	883	64,654
Amortization charge	(13,276)	(10,547)	(9,897)	-	(1,351)	(35,071)
Disposals and derecognitions, gross	(6,461)	-	-	-	-	(6,461)
Disposals and derecognitions, amortization	821	-	-	-	-	821
Carrying amount at 31 December 2018	**35,815**	**151,408**	**16,631**	**6,983**	**1,502**	**212,339**
Cost at 31 December 2018	57,978	178,767	36,778	6,983	3,439	283,945
Accumulated depreciation	(22,163)	(27,359)	(20,147)	-	(1,937)	(71,606)
Carrying amount at 31 December 2018	**35,815**	**151,408**	**16,631**	**6,983**	**1,502**	**212,339**
Additions	15,103	823	12,578	-	1,564	30,068
Amortization charge	(15,750)	(14,537)	(11,077)	-	(1,327)	(42,691)
Disposals and derecognitions, gross	(8,894)	(4,494)	-	-	-	(13,388)
Disposals and derecognitions, amortization	8,894	4,494	-	-	-	13,388
Carrying amount at 31 December 2019	**35,168**	**137,694**	**18,132**	**6,983**	**1,739**	**199,716**
Cost at 31 December 2019	64,187	175,096	49,356	6,983	5,003	300,625
Accumulated depreciation	(29,019)	(37,402)	(31,224)	-	(3,264)	(100,909)
Carrying amount at 31 December 2019	**35,168**	**137,694**	**18,132**	**6,983**	**1,739**	**199,716**

* CSAC – Capitalized Subscribers Acquisition Cost

16. Investment property

In 2019, the Company acquired a land plot of 20,397 m² from a related party for the acquisition price of GEL 29,582 thousand (USD 10 million). The land plot is situated on a prime location in the centre of Tbilisi. The acquired land plod has attached to it the right of construction of a building with 20,358 sq.m. The land purchase contract stipulates an additional contingent consideration of USD 10 million, payable in case approval for 60,000 sq.m. gross buildable area master plan (Development regulation plan)is received from the municipal authorities.

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. The fair value of investment property was determined by an external, independent property valuator and complies with covenants set forth by the terms and conditions of the issued Eurobonds.

The accounting policy adopted by the Group requires that the Group’s investment property be measured at fair value (see note 28 (i)).

17. Inventories

’000 GEL	**31 December 2019**	**31 December 2018**
Spare parts and installation materials	6,523	10,373
Other	2,378	4,865
Mobile phones and accessories	1,131	1,903
Fuel	889	1,236
Optic cables	59	3,906
Total	**10,980**	**22,283**

18. Trade and other receivables

’000 GEL	**31 December 2019**	**31 December 2018**
Receivables from subscribers	17,148	16,922
Receivables from telecom operators	6,335	8,106
Other trade receivables	4,299	5,393
Total trade receivables	**27,782**	**30,421**
Prepaid expenses	5,086	7,455
Prepaid taxes	4,613	-
Total trade and other receivables	**37,481**	**37,876**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 23.

19. Cash and cash equivalents

’000 GEL	31 December 2019	31 December 2018
Bank balances	74,012	8,762
Cash in transit	833	490
Cash on hand	17	10
Total cash and cash equivalents	**74,862**	**9,262**

The Group’s exposure to interest rate, credit and currency risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

20. 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**	
	2019	**2018**
In issue at 1 January	68,171,901	68,171,901
Issued during the period	15,884,198	-
In issue at 31 December, 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 Rhinestream Holdings Limited issued a loan of USD 17 million. The loan from the parent company was borrowed on non-market conditions due to which additional paid-in capital amounting to GEL 16,445 thousand arose (see note 21(b)). Additional paid-in capital was derecognised during 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. 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 is credited to additional paid-in capital and will be charged to profit or loss through amortization of Geocell acquisition related loans. 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 year ended 31 December 2019, the Company did not declare any dividends.

In 2018 the Company declared dividends of GEL 39,863 thousand to its shareholder. This represented dividends of GEL 0.59 per share. As at 31 December 2019 dividends of GEL 1,043 thousand (2018: GEL 6,484 thousand (note 22) are unpaid and included in trade and other payables.

(d) Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows and long-term loans and borrowings. With these measures the Group aims for steady profits growth.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

21. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 23.

'000 GEL	**31 December 2019**	**31 December 2018**
Eurobonds - non-current	554,954	-
Derivative financial instrument*– non-current	167	-
Secured bank loans – non-current	-	315,025
Unsecured local bonds - non-current	62,677	60,766
	617,798	**375,791**
Eurobonds - current	16,459	-
Secured bank loans – current	-	36,642
Unsecured local bonds – current	530	427
	16,989	**37,069**
Subordinated loan	-	30,546
	-	**30,546**
Total	**634,787**	**443,406**

* Cross-currency swap instrument at fair value through profit and loss (note 21(d)).

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

’000 GEL	Currency	Nominal interest rate	Year of maturity	31 December 2019 Face value	31 December 2019 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
Derivative financial instrument*	GEL/USD	Note 21(d)	2024	167	167
Total loans and borrowings				**644,769**	**634,787**

* Cross-currency swap instrument at fair value through profit and loss (note 21(d)).

’000 GEL	Currency	Nominal interest rate	Year of maturity	31 December 2018 Face value	31 December 2018 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 local bonds	USD	8.50%	2021	26,772	26,772
Unsecured local 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. The net proceeds from issuance of the Eurobonds amounted to GEL 529,489 thousand. The Eurobonds mature in 5 years, April 2024 and bear a 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 December 2019 was 111.72% 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, 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 the effective interest rate of the Eurobonds and are deferred over 5 years.

The net proceeds from issuance of Eurobonds of GEL 529,489 thousand (transactions costs of GEL 9,050 thousand 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 banks. The Company also repaid the 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 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 31 December 2019 the credit facility was not used.

(d) Derivative financial instrument

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 35,000 thousand (GEL 100,370 thousand as at 31 December 2019) 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 National Bank of Georgia; the deposit bears an interest rate of 3.1% plus six-month LIBOR rate. The 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 the amount of the deposit exceeds or be equal to the GEL loan amount.

Derivative financial instruments are recorded at their fair value though profit and loss at each reporting date. As at 31 December 2019, the fair value of the derivative financial instrument amounted to GEL 200 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 at 31 December 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 9%; cost of borrowing of the Company was assumed to be 11% based on TBC Bank's cost of financing which was estimated according to the yield to maturity (YTM) of TBC's Eurobond and data on financial institutions with a similar credit rating.

(e) Changes in liabilities arising from financing activities

'000 GEL	**Dividends payable**	**Lease liabilities**	**Loans and borrowings**	**Total**
Balance at 1 January 2019	6,484	58,719	443,406	508,609
Proceeds from borrowings	-	-	530,651	530,651
Repayment of borrowings	-	-	(359,520)	(359,520)
Repayment of subordinated loan	-	-	(30,326)	(30,326)
Loan refinancing fees paid	-	-	(7,262)	(7,262)
Interest paid	-	-	(49,773)	(49,773)
Net payments of other financial instruments at FVTPL	-	-	(1,280)	(1,280)
Repayment of subordinated loan interest	-	-	(4,989)	(4,989)
Eurobonds repurchase	-	-	(8,343)	(8,343)
Lease payments	-	(11,403)	-	(11,403)
Dividend paid	(5,441)	-	-	(5,441)
Total changes from financing cash flows	**(5,441)**	**(11,403)**	**69,158**	**52,314**
The effect of changes in foreign exchange rates	**-**	**817**	**38,682**	**39,499**
Other changes				
Interest expense	-	6,890	75,817	82,707
Bank commissions for early repayment of loans	-	-	7,262	7,262
Effect of change in other financial instruments at FVTPL*	-	-	1,447	1,447
Increase in share capital	-	-	(15,884)	(15,884)
Payments directly deducted from proceeds from Eurobonds	-	-	(10,411)	(10,411)
Eurobond transaction costs	-	-	9,050	9,050
Non-resident income tax paid	-	-	(162)	(162)
Income tax paid to resident individuals	-	-	(23)	(23)
Recognition of lease liabilities arising from lease contracts came into force during the period	-	5,391	-	5,391
Write-off of ROU and respective lease liability for terminated contracts	-	(2,797)	-	(2,797)
Total liability-related other changes	**-**	**9,484**	**67,096**	**76,580**
Total equity-related other changes (see note 20)	**-**	**-**	**16,445**	**16,445**
Balance at 31 December 2019	**1,043**	**57,617**	**634,787**	**693,447**

* Cross-currency swap instrument at Fair value through profit and loss.

22. Trade and other payables and advances received related to IRU contracts and subscribers

	31 December 2019		31 December 2018	
’000 GEL	**Non-current**	**Current**	**Non-current**	**Current**
Payable for non-current assets	6,100	25,866	10,865	12,174
Payable to suppliers	-	19,445	-	33,705
Payable for licenses and broadcasting rights	6,001	11,371	7,300	24,381
Payable to other operators	-	6,297	-	7,132
Payable to employees	-	3,254	-	1,832
Other payables	-	1,147	-	1,032
Dividend payable	1,043	-	-	6,484
VAT and other tax liabilities	-	-	-	545
Total trade and other payables	**13,144**	**67,380**	**18,165**	**87,285**
Advances received related to IRU contracts	13,648	1,925	13,234	1,925
Advances received related to subscribers	1,014	20,024	1,249	20,567
Total contract liabilities from prepayments	**14,662**	**21,949**	**14,483**	**22,492**
Total	**27,806**	**89,329**	**32,648**	**109,777**

The Group’s exposure to liquidity and currency risks and a sensitivity analysis for financial assets and liabilities is disclosed in note 23.

23. Fair values and financial risk management

(a) Fair values of financial assets and liabilities

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

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

Management believes that the fair value of the Group’s financial assets and liabilities approximates their carrying amounts.

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

The Board of Directors together with the Supervisory Board has overall responsibility for establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies and reporting regularly to the shareholder on its activities.

The Group's risk management approaches are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management approaches and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The supervisory board oversees the adequacy of risk management measures adopted by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans receivable, trade receivables and bank balances.

The maximum exposure to credit risk for recognised financial assets and unrecognised commitments at the reporting date was as follows:

'000 GEL	**31 December 2019**	**31 December 2018**
Trade receivables	27,782	30,421
Cash and cash equivalents	74,845	9,252
Recognized financial assets	**102,627**	**39,673**

Trade and other receivables and contracts costs

Credit risk is managed by assessing the creditworthiness of the customers before the Group's standard payment and service terms and conditions are offered. No collateral in respect of trade and other receivables is generally required.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of expected losses in respect of trade and other receivables. The main component of this allowance is a collective loss component. The Group's trade receivables are mainly from the domestic retail customers. The Group does not have a significant concentration of customers.

Impairment losses

The impairment loss allowances of trade and other receivables per risk groups are as follows:

	ECL for corporate customers			ECL for individual customers		
31 December 2019	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**
Current	-	-	No	10,949	-	No
1-30 past due	15,722	241	No	339	-	No
31-90 days past due	1,086	289	No	-	-	No
91-180 days past due	696	553	No	-	-	No
More than 180 days past due	16,099	16,026	Yes	2,318	2,318	Yes
Total	**33,603**	**17,109**		**13,606**	**2,318**	

	ECL for corporate customers			ECL for individual customers		
31 December 2018	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**
Current	-	-	No	13,156	-	No
1-30 past due	14,724	178	No	-	-	No
31-90 days past due	1,880	312	No	-	-	No
91-180 days past due	884	562	No	-	-	No
More than 180 days past due	13,786	13,301	Yes	1,887	1,542	Yes
Total	**31,274**	**14,353**		**15,043**	**1,542**	

The movements in provision for impairment of trade and other receivables were as follows:

’000 GEL	**2019**	**2018**
At 1 January	(15,895)	(14,370)
Charge for the year (note 11)	(4,188)	(2,638)
IFRS 9 effect on receivables	-	(768)
Reversal of amounts written off during the year as uncollectible	656	1,881
At 31 December	**(19,427)**	**(15,895)**

An impairment rate of 100% was applied to gross trade and other receivables from retail customers overdue by more than 180 days, with lower impairment rates applied for risk categories of trade and other receivables that are overdue for shorter periods. The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

Bank balances

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

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

For this purpose the Group makes short-term forecasts for cash flows based on estimated financial needs determined by the nature of operating activities. As a rule these needs are envisaged for an annual and monthly basis. In order to manage its financial needs the Group receives cash flows on a daily basis from customers. This ensures that the Group has enough cash to meet its financial obligations. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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

31 December 2019

’000 GEL	Carrying amount	Total	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years
Non-derivative financial liabilities							
Loans and borrowings	634,787	923,451	-	1,679	71,249	850,523	-
Lease liability	57,617	79,079	-	-	13,036	51,748	14,295
Trade and other payables	80,524	83,284	50,338	4,855	9,869	11,320	6,902
Total	**772,928**	**1,085,814**	**50,338**	**6,534**	**94,154**	**913,591**	**21,197**

31 December 2018

’000 GEL	Carrying amount	Total	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years
Non-derivative financial liabilities							
Loans and borrowings	412,860	583,862	-	13,103	63,959	391,102	115,698
Subordinated loan	30,546	80,214	-	-	-	-	80,214
Promissory notes	37,286	42,826	-	-	-	42,826	-
Trade and other payables	105,450	109,634	43,707	10,930	33,556	21,441	-
Total	**586,142**	**816,536**	**43,707**	**24,033**	**97,515**	**455,369**	**195,912**

(iii) 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 31 December 2019, the Group's exposure to currency risk is mainly attributable to USD-denominated Eurobonds issued during the year 2019.

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

'000 GEL	**USD-denominated 31 December 2019**	**USD-denominated 31 December 2018**
Bank balances	53,283	126
Trade and other receivables	5,898	6,965
Trade and other payables	(43,390)	(50,956)
Loans and borrowings	(499,769)	(315,145)
Subordinated loan	-	(30,546)
Net exposure	**(483,978)**	**(389,556)**

'000 GEL	**EUR-denominated 31 December 2019**	**EUR-denominated 31 December 2018**
Trade and other receivables	1,892	1,592
Trade and other payables	(18,649)	(15,018)
Net exposure	**(16,757)**	**(13,426)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2019	**2018**	**2019**	**2018**
USD 1	2.8192	2.5345	2.8677	2.6766
EUR 1	3.1553	2.9913	3.2095	3.0701

Sensitivity analysis

A reasonably possible strengthening/(weakening) of GEL, as indicated below, against the USD as at 31 December 2019 and 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)**
31 December 2019				
USD (10% movement)	-	48,398	-	(48,398)
EUR (10% movement)	-	1,676	-	(1,676)
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:

’000 GEL	**Carrying amount**	
	31 December 2019	**31 December 2018**
Fixed rate instruments		
Financial liabilities	600,263	120,612
	600,263	**120,612**
Variable rate instruments		
Financial liabilities	34,524	322,794
	34,524	**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 345 thousand. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

24. Contingencies and commitments

(a) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred. These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(b) Litigation

In the ordinary course of business, the Group is subject to legal actions, litigations and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

25. Related parties

(a) Parent and ultimate controlling party

The Company's immediate parent is Silknet Holding LLC. The Company is ultimately controlled by an individual, Giorgi Ramishvili. No publicly available financial statements as at 31 December 2019 and 31 December 2018 are produced by the Company's immediate parent or ultimate controlling party.

(b) Key management remuneration

Key management received the following remuneration during the year:

'000 GEL	**2019**	**2018**
Salaries	2,658	2,067
Bonuses	2,530	4,134
	5,188	**6,201**

(c) Other related party transactions

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2019	2018	2019	2018
Loans issued:				
Other related party	-	586	-	-
Other operating expenses:				
Other related party	107	2,189	-	-
Entities under common control	3,345	1,067	(153)	(95)
Subordinated debt:				
Parent company (note 20 (a))	35,315	44,486	(1)	(30,546)
Fuel and lubricants used:				
Entities under common control	2,453	1,191	(146)	(353)
Investment property acquisition:				
Entities under common control	29,582	-	-	-
Purchase of goods and services from subsidiaries:				
Marketing	78	78	(5)	-
Charity	727	706	-	-

During 2019, the Company acquired a land plot from a related party for GEL 29,582 thousand (USD 10 million (see note 16)).

During 2018 the Company has received a guarantee on market terms from an entity under common control amounting USD 13 million, the guarantee extinguished upon a payment by the Company in 2019.

All outstanding balances with related parties, are to be settled in cash within six months of the reporting date. None of the balances are secured.

26. Subsidiaries

Subsidiary	Country of incorporation	31 December 2019 Ownership/voting	31 December 2018 Ownership/voting
Qarva LLC	Georgia	51%	51%
Silk Media LLC	Georgia	100%	-
Novus LLC	Georgia	100%	100%
NG Georgia N(N)LE	Georgia	100%	100%
Wounded Warrior Support Fund N(N)LE	Georgia	100%	100%

In 2019, Silknet and Euronews signed a memorandum of understanding with respect to Euronews Georgia, a free to air news channel that will be made in Georgian language. For this purpose, Silknet established Silk Media LLC., a 100%-owned subsidiary. Euronews will be in charge of Euronews Georgia's editorial policy and nominate its news director. Euronews will share its content with Euronews Georgia, while the latter will prepare certain local content which will be shared with Euronews.

27. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the identifiable net assets of the subsidiaries that are measured at fair value at the acquisition dates. This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in note 5.

28. Significant accounting policies

The accounting policies set out below have been applied consistently (except for those, mentioned in note 5) to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquirer's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Revenues

Revenue is recognized when the Group satisfies a performance obligation by transferring the promised service to a customer. When a performance obligation is satisfied, the Group recognizes as revenue the amount of the transaction price, which excludes amounts collected on behalf of third parties and estimates of variable consideration that are constrained, that is allocated to that performance obligation.

The Group has the following main revenue streams: mobile callout service, internet and pay TV services, mobile data services, fixed line and wireless telephone services, which mainly consists of connection, airtime usage and monthly subscription fees, interconnect services and rent of lines, roaming revenue, revenue from phone sales and accessories and other revenues. Revenue is recognized net of credits and adjustments for service discounts, value-added and excise taxes.

Mobile callout: revenue is recognized based on the actual airtime used by the subscribers for mobile phone calls. In relation to prepaid subscribers, the unused airtime is not recognized as revenue until the related service has been provided to the subscriber or the prepaid subscription is expired.

Fixed broadband and pay TV: revenue from fixed broadband and pay TV services primarily consists of monthly fixed charges for usage of an internet connection and pay TV services and is recognized as the service is provided.

Mobile data: revenue from each subscriber for data services. This revenue is recognised as the service is provided.

Fixed line and wireless telephones: revenue for airtime usage and connection fees by contract customers are recognized as revenue as services are performed, based upon minutes of use and contracted fees, with unbilled revenue resulting from services already provided accrued at the end of each month and unearned revenue from services to be provided in future periods deferred. Monthly subscription fee is recognised as revenue in the month when service is provided to the subscriber.

Interconnect services: access charges for interconnect services are earned from other telecommunications operators for traffic terminated on the Group’s network under agreements, which also regulate the Group’s use of the other operators’ networks. Revenue from interconnect fees is recognized at the time the services are performed.

Facility rental service from IRU contracts: revenue from rent of lines consists of monthly fixed charges for usage of the cable network of the Group. This revenue is recognised as the service is provided. See note 27(l).

Roaming revenues: revenue from other carriers for non-Silknet subscribers utilising Silknet's voice, SMS and data services. The Company recognises such revenues when the services are provided.

Revenues from phone sales and accessories: revenue is recognized when the equipment passes to the end customer.

Other revenues: the revenue recognition policy for other revenues (including SMS, MMS and other value added services) is to recognise revenue as services are provided.

Significant payment terms: for all post paid services subscribers make payments on a monthly basis.

(c) Finance income and costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;

Interest income or expense is recognized as it accrues in profit or loss, using the effective interest method.

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

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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

Foreign currency differences arising in translation are recognised in profit or loss.

(e) Income tax

Income tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective at a later date.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholder as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of the net distribution.

Set off the tax payable on dividends declared and paid is available for the corporate income tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Group considers the taxation of such transaction as outside of the scope of IAS 12 *Income Taxes* and accounts for the tax on such items as taxes other than on income.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Property and equipment

(i) Recognition and measurement

Items of property and equipment, except for land, are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is measured at cost less any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment for the current and comparative periods are as follows:

- buildings and facilities 25 -50 years;
- machinery and equipment 3-20 years;
- vehicles, furniture and fixture 3-10 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Estimates in respect of certain items of property and equipment were revised in 2019 (see Note 14(g)).

(h) Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets primarily include telecommunication operating licenses, computer software licences and capitalized broadcasting rights.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value. Amortisation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for intangible assets for the current and comparative periods varies from 3 to 10 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate

(i) Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. When measuring the fair value of investment property in accordance with IFRS 13, an entity ensures that the fair value reflects, among other things, assumptions that market participants would use when pricing the investment property under current market conditions.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(j) Financial instruments

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

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

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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

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

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

(ii) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables and cash and cash equivalents.

Under IFRS 9, loss allowances are measured on either of the following bases:

– *12-month ECL*s: these are ECLs that result from possible default events within the 12 months after the reporting date; and
– *lifetime ECL*s: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

– the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
– the financial asset is more than 90 and 180 days past due according to the type of receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

(iii) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

(v) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(k) Impairment

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- economic conditions that correlate with defaults.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset and its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(l) Credit related commitments

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(m) Leases

The Group has adopted IFRS 16 Leases from 1 January 2019. The Group chooses to use 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 details of accounting policy are disclosed in note 5 (changes in accounting policies).

(n) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.