Silknet JSC

Consolidated Financial Statements for 2021

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 2021, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

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.

Revenue recognition

The key audit matter	How the matter was addressed in our audit
Revenue generated in the billing system ("billing revenue") (GEL 359 million, included in total revenue, note 7) is a material amount consisting of a high volume of individually low value transactions. The Group uses billing system to calculate revenue; revenue data is manually transferred from the billing system to the accounting software. Thus, the Group relies on	We have performed the following primary audit procedures to address the key audit matter: - Evaluated, with the assistance of our own IT specialists, the design and tested the operating effectiveness of internal automated application controls and related General IT controls; - Evaluated the design and tested the operating effectiveness of internal manual controls; - Performed reconciliation of revenue as per the billing system to the accounting software and

Revenue recognition	
The key audit matter	**How the matter was addressed in our audit**
the results of the billing system. Complexity of the billing system with high volume of automated transactions but still certain level of manual processing combined with the always present inherent risk of the Group intentionally overstating the revenue to present better financial performance, result in the manipulation of revenue recognition being an area of audit focus and, hence, a key audit matter.	consolidated financial statements; - Reconciled revenue, considering the effect of changes in related receivables' and deposits' balances, to the bank payments' register, received directly from banks; - Tested manual corrections, on a sample basis, to the billing system by inspecting the related internal supporting documents and assessing their appropriateness under IFRSs; - Using the key data inputs, like tariffs, number of subscribers, data usage, developed expectations for key revenue streams and compared our expectations to actual results; on a sample basis, inspected internal and external supporting documentation for key data inputs used; - Performed different unpredictability tests over existence of revenue, including, on a sample basis, directly contacting the customers and agreeing their tariff plans to the billing system.

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. Other information 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 when it becomes available 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, actions taken to eliminate threats or safeguards applied.

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:

Natia Tevzadze

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KPMG Georgia LLC
3 March 2022

’000 GEL	Note	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Property and equipment	13	374,534	393,887
Intangible assets	14	210,120	196,229
Investment property	15	62,060	63,055
Right-of-use assets	21	36,342	44,783
Other non-current assets	13(b)	32,400	39,611
Financial instrument at FVTPL	20(e)	-	13,425
Prepayments related to IRU* contracts		9,311	9,849
Total non-current assets		**724,767**	**760,839**
Current assets			
Inventories	16	10,675	10,645
Prepayments related to IRU contracts		2,173	2,173
Financial instrument at FVTPL	20(e)	6,583	-
Trade and other receivables	17	31,750	30,349
Cash and cash equivalents	18	71,539	77,791
Total current assets		**122,720**	**120,958**
TOTAL ASSETS		**847,487**	**881,797**
EQUITY AND LIABILITIES			
Equity	19		
Share capital		84,056	84,056
Additional paid-in capital		8,026	8,026
Accumulated losses		(141,122)	(151,321)
Equity (deficit) attributable to owner of the Company		**(49,040)**	**(59,239)**
Non-controlling interests		220	(74)
TOTAL EQUITY (DEFICIT)		**(48,820)**	**(59,313)**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	20	599,444	668,084
Lease liabilities	21	31,015	39,847
Trade and other payables	22	35,880	32,968
Advances received from IRU contracts and subscribers	22	13,171	13,911
Total non-current liabilities		**679,510**	**754,810**
Current liabilities			
Loans and borrowings	20	56,790	54,399
Lease liabilities	21	12,803	12,414
Trade and other payables	22	123,406	96,446
Advances received from IRU contracts and subscribers	22	23,798	23,041
Total current liabilities		**216,797**	**186,300**
TOTAL LIABILITIES		**896,307**	**941,110**
TOTAL LIABILITIES AND EQUITY		**847,487**	**881,797**

*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 46.

'000 GEL	Note	2021	2020
Revenues:			
Commercial revenue	7	369,681	347,557
Carrier services	7	43,738	34,598
		413,419	**382,155**
Costs and expenses:			
Depreciation and amortization		(116,995)	(117,444)
Salaries and benefits	9	(64,173)	(57,075)
Purchased services	8	(43,057)	(38,743)
Other expenses	10	(23,604)	(25,410)
Interconnect fees and roaming expense		(18,540)	(16,242)
Network management and maintenance costs		(16,875)	(16,410)
Pay TV content cost		(11,368)	(12,932)
Advertising and marketing		(6,646)	(6,204)
Infrastructure capacity rentals, IRU and lease expenses		(6,160)	(6,996)
Costs of SIM cards, scratch cards and other cost of sales		(909)	(916)
Change in fair value of investment property	15	2,168	(3,277)
Profit from operating activities		**107,260**	**80,506**
Finance income	6	4,140	4,415
Finance costs	6	(89,629)	(90,462)
Net change in fair value of financial instrument at FVTPL	20(e)	(16,726)	5,794
Net foreign exchange gain/(loss)	6	36,782	(88,136)
Net finance costs		**(65,433)**	**(168,389)**
Profit/(loss) before income tax		**41,827**	**(87,883)**
Income tax (expense)/benefit	11	(334)	723
Profit/(loss) and total comprehensive income/(loss) for the year		**41,493**	**(87,160)**
Profit/(loss) and total comprehensive income/(loss) attributable to:			
Owner of the Company		41,199	(87,032)
Non-controlling interests		294	(128)
		41,493	**(87,160)**

These consolidated financial statements were approved by management on 3 March 2022 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 46.

'000 GEL	**Attributable to owners of the Company**					
	Share capital	**Additional paid in capital**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity/ (deficit)**
Balance at 1 January 2021	**84,056**	**8,026**	**(151,321)**	**(59,239)**	**(74)**	**(59,313)**
Total comprehensive loss for the year						
Profit and total comprehensive income for the year	-	-	41,199	**41,199**	294	41,493
Transactions with owners, recorded directly in equity						
Dividends (note 19 (c))	-	-	(31,000)	**(31,000)**	-	**(31,000)**
Balance at 31 December 2021	**84,056**	**8,026**	**(141,122)**	**(49,040)**	**220**	**(48,820)**
Balance at 1 January 2020	**84,056**	**8,026**	**(64,289)**	**27,793**	**54**	**27,847**
Total comprehensive loss for the year						
Loss and total comprehensive loss for the year	-	-	(87,032)	**(87,032)**	(128)	**(87,160)**
Balance at 31 December 2020	**84,056**	**8,026**	**(151,321)**	**(59,239)**	**(74)**	**(59,313)**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 46.

’000 GEL	Note	2021	2020
Cash flows from operating activities			
Cash received from subscribers		434,752	407,659
Cash received from other telecom operators and for IRU contracts		24,973	20,045
Salaries and benefits paid to and on behalf of employees		(61,537)	(57,301)
Interconnection fees and other expenses paid		(14,213)	(11,759)
Purchase of inventory		(9,890)	(9,717)
Taxes paid other than on income		(53,627)	(45,294)
Income tax paid		(325)	(258)
Network management and maintenance costs paid		(12,430)	(11,273)
Other operating expenses paid		(78,319)	(65,329)
Net cash from operating activities		**229,384**	**226,773**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		(105,072)	(108,537)
Acquisition of investment property		(509)	(31,783)
Proceeds from disposals of property and equipment		1,448	1,692
Interest received		2,354	2,713
Net cash used in investing activities		**(101,779)**	**(135,915)**
Cash flows from financing activities			
Interest paid	20(d)	(81,498)	(83,782)
Repayment of borrowings		(33,846)	-
Net payments of financial instruments at FVTPL	20(d)	(9,884)	(7,798)
Repayment of lease liabilities	20(d)	(8,925)	(8,194)
Net cash used in financing activities		**(134,153)**	**(99,774)**
Effect of exchange rate changes on cash and cash equivalents		296	11,845
Net (decrease)/increase in cash and cash equivalents		**(6,252)**	**2,929**
Cash and cash equivalents at the beginning of the year	18	77,791	74,862
Cash and cash equivalents at the end of the year	18	**71,539**	**77,791**

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 46.

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 COVID-19 coronavirus pandemic and increased tensions over Ukraine in 2022 have further increased uncertainty in the business environment.

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

(b) Organisation and operations

These consolidated financial statements include the financial statements of Silknet JSC (the Company) with registration number 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 mainly are limited liability and joint stock companies as defined under the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia. In 2018 the Group acquired a 100% holding in, and was subsequently merged with, Georgia's second-largest mobile operator, Geocell LLC ("Geocell").

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 broadband, pay TV services, SMS (messaging) and other wholesale services. The Group directs its activities as three operating segments (see note 5): fixed services, mobile services and media services, directed by Silk Media LLC (an entity operating Euronews Georgia - a free-to-air news channel).

As at 31 December 2021, the Company was rated by two rating agencies with Long-Term Issuer Default Rating of 'B' with stable outlook and 'b1'with a negative outlook affirmed by Fitch and Moody's respectively. In January, 2022 the negative outlook was changed to stable by Moody's.

The Company's immediate parent is Silknet Holding LLC. In 2020 the Company's intermediate parent reorganized, as a result of which the Company has a new beneficial shareholder, Yerkin Tatishev, with indirect minority (36.3%) holding in the Company. The Company's ultimate parent remains Silk Road Group Holding (Malta) Limited – an entity controlled by an individual George Ramishvili.

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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in note 15 - valuation of investment property.

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

- Note 21 – determination of lease term;
- Note 30(g) and (h) – useful lives of property and equipment and intangible assets;
- Note 30(g) and (h) – recognition of property and equipment and intangible assets.

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 the following notes:

- Note 15 – fair value of investment property;
- Note 20 (e) - fair value of financial instrument at FVTPL;
- Note 23 (a) - fair values of financial assets and liabilities;
- Note 25 (c) – fair value of financial guarantee contract.

5. Operating segments

The Group directs its activities as three operating segments: fixed services, mobile services and media services, directed by Silk Media LLC (an entity operating Euronews Georgia - a free-to-air news channel). 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 each operating segment.

For fixed and mobile services liquidity and leverage are managed on a centralized basis. As a result for these segments cash and cash equivalents, debt, finance costs and related foreign exchange gain/(loss) are disclosed in aggregate under unallocated amounts. Investment property held for undetermined future use (see note 15) is also managed on a centralized basis and is disclosed under unallocated amounts. Silk Media LLC segment is presented separately, as it represents a stand-alone entity and is a separate operating segment.

'000 GEL	**31-Dec-21**	**31-Dec-21**	**31-Dec-21**	**31-Dec-21**	**31-Dec-21**
Consolidated statement of financial position	**Mobile services**	**Fixed Services**	**Silk Media LLC**	**Unallocated amounts**	**Total**
ASSETS					
Non-current assets					
Property and equipment	144,161	221,263	3,807	5,303	374,534
Intangible assets	151,026	52,441	3,559	3,094	210,120
Investment property	-	-	-	62,060	62,060
Other non-current assets	14,469	14,841	-	3,090	32,400
Right-of-use assets	31,834	3,283	1,225	-	36,342
Prepayments related to IRU contracts	9,311	-	-	-	9,311
Total non-current assets	**350,801**	**291,828**	**8,591**	**73,547**	**724,767**
Current assets					
Inventories	3,740	5,396	316	1,223	10,675
Prepayments related to IRU contracts	2,173	-	-	-	2,173
Financial instrument at FVTPL	-	-	-	6,583	6,583
Trade and other receivables	7,702	18,544	99	5,405	31,750
Cash and cash equivalents	-	-	7	71,532	71,539
Total current assets	**13,615**	**23,940**	**422**	**84,743**	**122,720**
TOTAL ASSETS	**364,416**	**315,768**	**9,013**	**158,290**	**847,487**
LIABILITIES					
Non-current liabilities					
Loans and borrowings	-	-	-	599,444	599,444
Lease liabilities	26,979	3,090	946	-	31,015
Trade and other payables	16,265	15,149	758	3,708	35,880
Advances received related to IRU contracts and subscribers	-	13,171	-	-	13,171
Total non-current liabilities	**43,244**	**31,410**	**1,704**	**603,152**	**679,510**
Current liabilities					
Loans and borrowings	-	-	-	56,790	56,790
Lease liabilities	10,693	1,793	317	-	12,803
Trade and other payables	42,070	37,212	2,676	41,448	123,406
Advances received related to IRU contracts and subscribers	17,592	5,278	-	928	23,798
Total current liabilities	**70,355**	**44,283**	**2,993**	**99,166**	**216,797**
TOTAL LIABILITIES	**113,599**	**75,693**	**4,697**	**702,318**	**896,307**
NET ASSETS/ (LIABILITIES)	**250,817**	**240,075**	**4,316**	**(544,028)**	**(48,820)**

’000 GEL	31-Dec-20	31-Dec-20	31-Dec-20	31-Dec-20	31-Dec-20
Consolidated statement of financial position	**Mobile services**	**Fixed services**	**Silk Media LLC**	**Unallocated amounts**	**Total**
ASSETS					
Non-current assets					
Property and equipment	156,845	228,189	4,341	4,512	393,887
Intangible assets	143,745	35,859	4,979	11,646	196,229
Investment property	-	-	-	63,055	63,055
Other non-current assets	14,500	22,816	-	2,295	39,611
Right-of-use assets	38,886	4,350	1,547	-	44,783
Financial instrument at FVTPL	-	-	-	13,425	13,425
Prepayments related to IRU contracts	9,849	-	-	-	9,849
Total non-current assets	**363,825**	**291,214**	**10,867**	**94,933**	**760,839**
Current assets					
Inventories	4,689	4,194	206	1,556	10,645
Prepayments related to IRU contracts	2,173	-	-	-	2,173
Trade and other receivables	7,266	19,346	1,237	2,500	30,349
Cash and cash equivalents	-	-	38	77,753	77,791
Total current assets	**14,128**	**23,540**	**1,481**	**81,809**	**120,958**
TOTAL ASSETS	**377,953**	**314,754**	**12,348**	**176,742**	**881,797**
LIABILITIES					
Non-current liabilities					
Loans and borrowings	-	-	-	668,084	668,084
Lease liabilities	34,031	4,619	1,197	-	39,847
Trade and other payables	19,648	7,266	2,277	3,777	32,968
Advances received related to IRU contracts and subscribers	-	13,911	-	-	13,911
Total non-current liabilities	**53,679**	**25,796**	**3,474**	**671,861**	**754,810**
Current liabilities					
Loans and borrowings	-	-	-	54,399	54,399
Trade and other payables	42,501	43,594	3,073	7,278	96,446
Advances received related to IRU contracts and subscribers	17,617	4,932	-	492	23,041
Lease liabilities	10,658	1,756	-	-	12,414
Total current liabilities	**70,776**	**50,282**	**3,073**	**62,169**	**186,300**
TOTAL LIABILITIES	**124,455**	**76,078**	**6,547**	**734,030**	**941,110**
NET ASSETS/ (LIABILITIES)	**253,498**	**238,676**	**5,801**	**(557,288)**	**(59,313)**

Capital expenditures incurred by the Group in relation to the mobile services segment was approximately GEL 43,783 thousand for the year ended 31 December 2021 (out of which GEL 17,656 thousand was added to property and equipment and GEL 26,127 thousand was added to intangible assets) (2020: Total mobile services: GEL 42,923; out of which: property and plant - GEL 32,269 thousand and intangible assets - GEL 10,654 thousand). Capital expenditures related to the fixed services operating segment for the year ended 31 December 2021 were approximately GEL 28,209 thousand and GEL 31,629 thousand in terms of property and equipment and intangible assets, respectively (2020: Fixed services included: property and equipment – GEL 43,235 thousand and intangible assets - GEL 21,564 thousand). Capital expenditures incurred by Silk Media LLC was GEL 186 thousand for property and equipment and GEL 281 thousand for intangible assets for the year ended 31 December 2021, (2020: Capital expenditures for Silk Media LLC included GEL 4,675 thousand for property and equipment and GEL 4,690 thousand – for intangible assets).

’000 GEL	2021	2021	2021	2021	2021	2021	2021
Consolidated statement of profit or loss and other comprehensive income	**Mobile services**	**Fixed services**	**Elimination mobile services**	**Elimination fixed services**	**Silk Media LLC**	**Unallocated amounts**	**Total**
Segment revenue	**228,479**	**189,674**	**-**	**(5,010)**	**276**	**-**	**413,419**
Depreciation and amortization	(60,589)	(52,311)	-	-	(2,743)	(1,352)	(116,995)
Other costs and expenses	(92,803)	(95,189)	5,010	-	(4,554)	(1,628)	(189,164)
Segment operating profit	**75,087**	**42,174**	**5,010**	**(5,010)**	**(7,021)**	**(2,980)**	**107,260**
Finance income	1,636	21	-	-	-	2,483	4,140
Finance costs	(6,872)	(3,958)	-	-	(552)	(78,247)	(89,629)
Financial instrument at FVTPL – net change in fair value (note 20 (e))	-	-	-	-	-	(16,726)	(16,726)
Net foreign exchange loss	(1,085)	2,208	-	-	568	35,091	36,782
Segment profit/(loss) before tax	**68,766**	**40,445**	**5,010**	**(5,010)**	**(7,005)**	**(60,379)**	**41,827**
Income tax expense	-	(4)	-	-	-	(330)	(334)
Profit/(loss) for the period	**68,766**	**40,441**	**5,010**	**(5,010)**	**(7,005)**	**(60,709)**	**41,493**

’000 GEL	2020	2020	2020	2020	2020	2020	2020
Consolidated statement of profit or loss and other comprehensive income	**Mobile services**	**Fixed services**	**Elimination mobile services**	**Elimination fixed services**	**Silk Media LLC**	**Unallocated amounts**	**Total**
Segment revenue	**203,239**	**182,919**	**-**	**(4,063)**	**60**	**-**	**382,155**
Depreciation and amortization	(67,200)	(47,373)	-	-	(2,219)	(652)	(117,444)
Other costs and expenses	(80,596)	(95,949)	4,063	-	(2,709)	(9,014)	(184,205)
Segment operating profit	**55,443**	**39,597**	**4,063**	**(4,063)**	**(4,868)**	**(9,666)**	**80,506**
Finance income	1,701	12	-	-	3	2,699	4,415
Finance costs	(6,476)	(5,005)	-	-	(623)	(78,358)	(90,462)
Financial instrument at FVTPL – net change in fair value (note 20 (e))	-	-	-	-	-	5,794	5,794
Net foreign exchange loss	(460)	(7,387)	-	-	(1,171)	(79,118)	(88,136)
Segment profit/(loss) before tax	**50,208**	**27,217**	**4,063**	**(4,063)**	**(6,659)**	**(158,649)**	**(87,883)**
Income tax benefit/(expense)	-	(197)	-	-		920	723
Profit/(loss) for the period	**50,208**	**27,020**	**4,063**	**(4,063)**	**(6,659)**	**(157,729)**	**(87,160)**

6. Net finance costs

’000 GEL	**2021**	**2020**
Recognized in profit or loss		
Interest income on current bank accounts and other receivables	2,504	2,713
Interest income on IRU related prepayments	1,636	1,702
Finance income	**4,140**	**4,415**
Interest expense on financial liabilities	(83,456)	(82,761)
Interest expense accrued under IFRS 16	(4,635)	(6,126)
Interest expense on advances received from IRU contracts	(1,538)	(1,575)
Finance costs	**(89,629)**	**(90,462)**
Net foreign exchange gain/ (loss)	36,782	(88,136)
Net change in fair value of financial instrument at FVTPL	(16,726)	5,794
Net finance costs recognized in profit or loss	**(65,433)**	**(168,389)**

7. Revenues

’000 GEL	**2021**	**2020**
Commercial revenue	**369,681**	**347,557**
Mobile revenue	**200,329**	**183,357**
Mobile callout	103,409	103,179
Mobile data	82,651	66,286
Revenue from SMS	9,220	9,212
Revenue from other services	4,263	3,873
Revenue from phone sales and accessories	786	807
Fixed revenue	**169,352**	**164,200**
Fixed broadband	101,955	98,164
Pay TV	46,168	45,453
Fixed telephone	14,186	16,449
Revenue from other services	4,371	1,798
Infrastructure capacity rental service	2,672	2,336
Carrier and other services	**43,738**	**34,598**
Interconnect service*	26,186	22,609
Infrastructure capacity rental service**	10,021	7,763
Roaming revenue	5,031	2,043
Internet wholesale	2,500	2,183
Total revenues	**413,419**	**382,155**

* Revenue from interconnect service is generated by both segments as follows: GEL 22,877 thousand by the mobile services segment and GEL 3,309 thousand by the fixed services segment in 2021 (2020: GEL 17,609 thousand by the mobile services segment and GEL 5,000 thousand by the fixed services segment). Major part of revenue is generated in Georgia.

** Revenue from infrastructure capacity rental service include revenue from IRU contracts. Related advances received are included in note 22. Advances received related to IRU contracts relate to the advance consideration received from customers for granting an access to certain dark fibers from Group’s infrastructure.

8. Purchased services

’000 GEL	**2021**	**2020**
Utility expenses	16,058	10,128
Software maintenance service	11,579	11,498
Professional fees*	6,813	8,794
Internet clear channel costs	4,524	3,717
Internet protocol (IP) cost	4,045	4,510
Other purchased services	38	96
Total purchased services	**43,057**	**38,743**

* Professional fees include consulting services provided by the entity under common control (see note 25(c)).

Professional services include audit fees of GEL 540 thousand (2020: GEL 381 thousand).

9. Salaries and benefits

’000 GEL	**2021**	**2020**
Salaries	55,541	51,853
Bonuses	6,680	3,143
Employee health insurance	905	1,021
Pension fund	867	810
Other benefits	180	248
Total salaries and benefits	**64,173**	**57,075**

The average number of employees employed by the Group in 2021 and 2020 were 2,341 and 2,441, respectively.

In 2021, the IT transformation project and the related information technology systems were put in use. Staff costs of GEL 3,630 thousand were capitalized on this project during 2021 (see notes 14 and 25(b)).

10. Other expenses

’000 GEL	**2021**	**2020**
Property and other taxes	4,648	4,150
Communication regulation fee	3,443	3,233
Security expenses	2,414	2,254
Loss on disposals of property and equipment	2,442	487
Fuel and lubricants used	2,226	2,136
Bank fees and charges	1,845	1,708
Allowance for impairment of trade and other receivables	1,657	1,910
Transportation services	1,594	1,367
Charity expenses*	1,160	3,063
Office stationary and other supplies	985	1,132
Commission for cash receipts	634	670
Business trip expenses	495	350
Write-down of slow moving inventory, property and equipment and other non-current assets	354	4,118
Dealers commission	202	218
Other income	(495)	(1,386)
Total	**23,604**	**25,410**

* In 2020, charity expenses include amount of GEL 2,097 thousand related to donations and other charity costs incurred by the Company with regards to the COVID-19 pandemic.

11. Taxation

Amounts recognised in profit or loss

'000 GEL	**2021**	**2020**
Current year	334	(723)
Current tax expense/ (benefit)	**334**	**(723)**

In 2020, following the finalization of an ongoing tax inspection, the Company's tax position was closed, without any material penalties, through 1 August 2019. The tax inspection has also closed the pre-acquisition period of Geocell LLC (see note 1(b)). Following the tax inspection results, the Company has reversed previously accrued profit tax of GEL 1,163 thousand, that is included in 2020 tax income of GEL 723 thousand above.

12. 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	**2021**	**2020**
Profit/ (loss) for the year	**41,493**	**(87,160)**
Depreciation and amortization	116,995	117,444
Finance costs	89,629	90,462
Finance income	(4,140)	(4,415)
Net foreign exchange (gain)/ loss	(36,782)	88,136
Net change in fair value of financial instrument at FVTPL	16,726	(5,794)
Change in fair value of investment property	(2,168)	3,277
Income tax expense/ (income)	334	(723)
Specific items (see below)	5,504	10,276
Adjusted EBITDA	**227,591**	**211,503**

’000 GEL	**2021**	**2020**	**Note**	**Description**
a) Loss on disposals of property and equipment	2,442	487	10	Other expenses
b) Write-down of slow moving inventory, property and equipment and other non-current assets	354	4,118	10	Other expenses
c) Professional fees, one-time consulting* expenses	1,787	3,827	8	Purchased services
d) Charity**	1,160	3,063	10	Other expenses
e) Bonuses***	535	-	9	Salaries and benefits
f) Other income	(774)	(1,219)	10	Other expenses
Total specific items	**5,504**	**10,276**		

*Item c mainly consists of one-time professional fees incurred by the Company and mainly relates to the adoption of new regulations, development/ analysis of new business strategies and other one-time consulting costs.

**Charity expenses in 2020 mostly consists of charity expenses of GEL 2,097 thousand incurred by the Group in relation to the COVID-19 pandemic.

***Bonuses include amounts due to Group’s employees in relation to new Eurobonds issuance (see note 28).

(b) Adjusted EBITDA margin

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

’000 GEL	**2021**	**2020**
Adjusted EBITDA	227,591	211,503
Revenue	413,419	382,155
Adjusted EBITDA margin %	**55%**	**55%**

13. 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 2020	26,224	122,314	406,060	8,093	31,558	6,754	601,003
Accumulated depreciation	-	(34,851)	(166,440)	(5,139)	(16,887)	-	(223,317)
Carrying amount at 1 January 2020	**26,224**	**87,463**	**239,620**	**2,954**	**14,671**	**6,754**	**377,686**
Additions	84	1,526	29,662	3,119	2,949	46,571	83,911
Disposals	(347)	(2,267)	(2,089)	(230)	(692)	-	(5,625)
Transfers, gross	-	994	21,081	-	92	(31,721)	(9,554)
Transfers, accumulated depreciation	-	-	8,549	-	-	-	8,549
Depreciation of disposals	-	1,233	1,057	179	713	-	3,182
Depreciation charge	-	(3,087)	(56,659)	(1,019)	(3,497)	-	(64,262)
Carrying amount at 31 December 2020	**25,961**	**85,862**	**241,221**	**5,003**	**14,236**	**21,604**	**393,887**
Cost at 31 December 2020	25,961	122,567	454,714	10,982	33,907	21,604	669,735
Accumulated depreciation	-	(36,705)	(213,493)	(5,979)	(19,671)	-	(275,848)
Carrying amount at 31 December 2020	**25,961**	**85,862**	**241,221**	**5,003**	**14,236**	**21,604**	**393,887**
Additions	122	580	18,301	16	2,084	27,952*	49,055
Disposals	(2,789)	(488)	(4,570)	(48)	(218)	-	(8,113)
Transfers, gross	-	1,206	39,895	-	208	(45,777)*	(4,468)
Transfers, accumulated depreciation	-	-	4,468	-	-	-	4,468
Depreciation of disposals	-	271	2,680	28	124	-	3,103
Depreciation charge	-	(3,033)	(55,945)	(1,001)	(3,419)	-	(63,398)
Carrying amount at 31 December 2021	**23,294**	**84,398**	**246,050**	**3,998**	**13,015**	**3,779**	**374,534**
Cost at 31 December 2021	23,294	123,865	508,340	10,950	35,981	3,779	706,209
Accumulated depreciation	-	(39,467)	(262,290)	(6,952)	(22,966)	-	(331,675)
Carrying amount at 31 December 2021	**23,294**	**84,398**	**246,050**	**3,998**	**13,015**	**3,779**	**374,534**

* These amounts include capital expenditure attributable to the rollout of Gigabit-LTE (4.9 G) (1 Gbps capacity mobile network that is deployed throughout the major urban cities of Georgia) and 4G project (upgrade of current sites).

(a) Security

As at 31 December 2021, property with a carrying value of GEL 80,105 thousand (2020: GEL 81,862 thousand) is collateralized and guarantees the indebtedness of a revolving credit facility ("RCF") (refer to note 20 (c)) and letters of credit related to operating activities of the Group. The RCF was cancelled in 2022, following the refinancing of the Eurobond (see note 28). Currently, the Company is in the process of revoking the pledge from the secured assets above.

(b) Other non-current assets

As at 31 December 2021 other non-current assets include uninstalled equipment of GEL 25,489 thousand, prepayments for non-current assets of GEL 4,741 thousand and a financial guarantee contract receivable of GEL 2,170 thousand (2020: uninstalled equipment of GEL 30,660 thousand and prepayments for non-current assets of GEL 8,951 thousand). For further details on the financial guarantee receivable, please, see note 25 (c).

(c) Capital commitments

As at 31 December 2021 the capital commitments borne by the Company amounted to GEL 28,330 thousand, which mainly relate to the rollout of the Gigabit-LTE (4.9 G) project (31 December 2020: GEL 34,321 thousand, out of which GEL 26, 151 thousand was related to the ongoing IT transformation project (replacement and upgrade of many of the Company's current information technology systems)).

14. Intangible assets

'000 GEL	**Network operating & computer software licenses**	**Telecom operating licenses**	**Broadcasting rights**	**Goodwill**	**Other*****	**CSAC***	**Total**
Cost at 1 January 2020	64,187	175,096	49,356	6,983	-	5,003	300,625
Accumulated amortization	(29,019)	(37,402)	(31,224)	-	-	(3,264)	(100,909)
Carrying amount at 1 January 2020	**35,168**	**137,694**	**18,132**	**6,983**	**-**	**1,739**	**199,716**
Additions	16,789	901	18,854	-	4,286	511	41,341
Amortization charge	(13,007)	(14,588)	(14,739)	-	(274)	(1,213)	(43,821)
Disposals and derecognitions, gross**	(682)	-	(15,763)	-	-	(1,103)	(17,548)
Disposals and derecognitions, amortization**	548	-	14,977	-	-	1,016	16,541
Carrying amount at 31 December 2020	**38,816**	**124,007**	**21,461**	**6,983**	**4,012**	**950**	**196,229**
Cost at 31 December 2020	80,294	175,997	52,447	6,983	4,286	4,411	324,418
Accumulated amortization	(41,478)	(51,990)	(30,986)	-	(274)	(3,461)	(128,189)
Carrying amount at 31 December 2020	**38,816**	**124,007**	**21,461**	**6,983**	**4,012**	**950**	**196,229**
Additions****	39,651	860	17,922	-	152	868	59,453
Amortization charge	(13,552)	(13,693)	(15,684)	-	(443)	(955)	(44,327)
Disposals and derecognitions, gross	-	-	(4,537)	-	-	-	(4,537)
Disposals and derecognitions, amortization	-	-	3,302	-	-	-	3,302
Carrying amount at 31 December 2021	**64,915**	**111,174**	**22,464**	**6,983**	**3,721**	**863**	**210,120**
Cost at 31 December 2021	119,945	176,857	65,832	6,983	4,438	5,279	379,334
Accumulated amortization	(55,030)	(65,683)	(43,368)	-	(717)	(4,416)	(169,214)
Carrying amount at 31 December 2021	**64,915**	**111,174**	**22,464**	**6,983**	**3,721**	**863**	**210,120**

* CSAC-Capitalized Subscribers Acquisition Cost.

** In 2020, The write-off of gross book value and related accumulated amortisation is mainly attributable to fully amortized broadcasting rights.

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

**** In 2021, the Company finalised replacement and upgrade of its information technology systems -in particular, the billing system supporting the operations of its fixed segment. As a result, the new billing system replaced seven different information technology modules, such as the business support system (including billing, CRM, product catalogue, etc.), and certain operations support systems.

In 2021, the IT transformation project and the related information technology systems were put in use. Additions of GEL 24,325 thousand represent the discounted value of deferred payments (GEL 20,695 thousand) for the costs incurred on the IT transformation project and capitalized staff costs during 2021 of GEL 3,630 thousand (see note 25(b)). The discount rate used was the Group's incremental borrowing rate of 7.4% for USD denominated contracts and a discount of GEL 4,384 thousand was recognized as a reduction of the cost of the intangible assets.

15. Investment property

In 2019, the Company acquired a land plot of 20,397 m² situated on a prime location in the centre of Tbilisi from a related party for the acquisition price of GEL 29,582 thousand (USD 10 million) plus a contingent consideration of an additional USD 10 million, payable in case the approval for the 60,000 sq.m. gross buildable area master plan (Development Regulation Plan) would be received from the municipal authorities. The Development Regulation Plan was approved in 2020 and the Company paid the remaining USD 10 million in April 2020 in accordance with the original terms. The Group considers the future use of the land plot to be undefined and thus classifies the asset as an investment property. In 2021, the gross buildable area was increased and reached 69,000 sq.m.

In 2021 and 2020, movement on investment property was as follows:

'000 GEL	**2021**	**2020**
Carrying amount as at 1 January	63,055	29,582
Additions	290	29,438
Change in fair value	2,168	(3,277)
Effect of foreign currency exchange rate movements	(3,453)	7,312
	62,060	**63,055**

The fair value of the investment property as at 31 December 2021 was determined as USD 20,035 thousand (2020: USD 19,244 thousand) by the independent valuator and was based on announced asking prices and recent market transactions of similar properties in a similar location and physical condition. The significant unobservable inputs related to the differences in the characteristics of the properties, such as size, location, access to the properties and conditions for sale. The valuator discounted the final market value of the property at 11.39% (2020: 12.2%) in order to reflect the additional liquidity factor related to the improved time needed to sell the investment property. The adjustments related to each of the significant unobservable input above varied between 5% to 25% in 2021 and 2020. A 5% change in the adjusted market prices used in the valuation would have changed the fair value measurement by approximately GEL 3 million (2020: GEL 3 million). Investment property is categorized within Level 3 of the fair value hierarchy.

16. Inventories

'000 GEL	**31 December 2021**	**31 December 2020**
Spare parts and installation materials	6,426	6,655
Mobile phones and accessories	403	699
Fuel	972	807
Other	2,874	2,484
Total	**10,675**	**10,645**

17. Trade and other receivables

’000 GEL	**31 December 2021**	**31 December 2020**
Receivables from subscribers	17,480	17,024
Receivables from telecom operators	4,594	4,341
Other trade receivables	4,010	3,363
Total trade receivables	**26,084**	**24,728**
Prepaid expenses	2,511	4,749
Deferred transaction costs (notes 22 and 28)	3,155	-
Prepaid taxes	-	872
Total trade and other receivables	**31,750**	**30,349**

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

18. Cash and cash equivalents

’000 GEL	**31 December 2021**	**31 December 2020**
Bank balances	70,593	76,874
Cash in transit	942	903
Cash on hand	4	14
Total cash and cash equivalents	**71,539**	**77,791**

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.

19. Equity

(a) Share capital

Number of shares	**Ordinary shares**	
	2021	**2020**
In issue at 1 January	84,056,099	84,056,099
Issued during the year	-	-
In issue at 31 December, fully paid	**84,056,099**	**84,056,099**
Authorised shares - par value (in GEL)	**1**	**1**

(b) Additional paid-in capital

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

In 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. The exercise price of the option is set as GEL 5.214 per share for a 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. 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

In 2021 the Company declared dividends of GEL 31,000 thousand (2020: nil). Declared dividend per ordinary share amounted GEL 0.3188. In 2022, dividends of GEL 29,867 thousand were paid (see note 28).

(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 the 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. As at 31 December 2021, despite the negative equity, which is mainly driven by the foreign exchange currency fluctuations related to long-term borrowings, the Group believes that its operational and strategic needs are not impeded (see note 23 (b) (ii)).

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

20. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at 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 2021**	**31 December 2020**
Eurobonds - non-current	599,444	634,084
Unsecured local bonds - non-current	-	34,000
	599,444	**668,084**
Eurobonds - current	22,209	21,124
Unsecured local bonds – current	34,581	33,275
	56,790	**54,399**
Total	**656,234**	**722,483**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2021	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Eurobond	USD	11%	2024	628,095	621,653
Unsecured local bonds*	GEL	3.5% + refinancing rate	2022	34,581	34,581
Total loans and borrowings				**662,676**	**656,234**

*In 2022, the Company repaid unsecured local bonds of GEL 34,981 thousand (principal paid – GEL 34,000 thousand; interest paid – GEL 981 thousand) with proceeds from the newly issued Eurobond. For the details, see note 28.

				31 December 2020	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Eurobond	USD	11%	2024	664,588	655,208
Unsecured local bonds	GEL	3.5% + refinancing rate	2022	34,461	34,461
Unsecured local bonds**	USD	8.50%	2021	32,814	32,814
Total loans and borrowings				**731,863**	**722,483**

**In 2021, the Company repaid unsecured local bonds of GEL 34,520 thousand that reached its maturity date (principal paid – GEL 33,846 thousand; interest paid – GEL 674 thousand).

(b) Eurobonds

On 2 April 2019, the Company successfully completed issuance of USD 200,000 thousand 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 27 December 2021 was 107.59% of par value.

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.

As at 31 December 2021 and 2020, the Company holds repurchased Eurobonds with a nominal value of USD 2,600 thousand.

In 2022, the Group redeemed Eurobonds with the proceeds from the newly issued Eurobonds (see note 28).

(c) Secured bank loan ("RCF")

In March 2019, the Company entered into a five-year agreement with a 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 2020 and 2019, the credit facility was not used.

In 2022, following the refinancing of the Eurobond (see note 28), the RCF agreement was cancelled.

(d) Changes in liabilities arising from financing activities

'000 GEL	Dividends payable	Lease liabilities	Financial instruments at FVTPL*	Loans and borrowings	Total
Balance at 1 January 2021	**1,043**	**52,261**	**(13,425)**	**722,483**	**762,362**
Interest paid	-	(4,498)	-	(77,000)	(81,498)
Principal paid	-	-	-	(33,846)	(33,846)
Net payments of financial instruments at FVTPL	-	-	(9,884)	-	(9,884)
Lease payments	-	(8,925)	-	-	(8,925)
Total changes from financing cash flows	**-**	**(13,423)**	**(9,884)**	**(110,846)**	**(134,153)**
The effect of changes in foreign exchange rates	**-**	**(612)**	**-**	**(33,359)**	**(33,971)**
Other changes					
Interest expense	-	4,634	-	77,992	82,626
Effect of change in financial instruments at FVTPL (note 20 (e))	-	-	16,726	-	16,726
Non-resident income tax paid	-	-	-	(28)	(28)
Income tax paid to resident individuals	-	-	-	(8)	(8)
Recognition of lease liabilities arising from lease contracts came into force during the period	-	8,398	-	-	8,398
Write-off of ROU and respective lease liability for terminated contracts	-	(7,440)	-	-	(7,440)
Total liability-related other changes	**-**	**5,592**	**16,726**	**77,956**	**100,274**
Total equity-related other changes (dividends declared (note 19 (c))	**31,000**	**-**	**-**	**-**	**31,000**
Balance at 31 December 2021	**32,043**	**43,818**	**(6,583)**	**656,234**	**725,512**

'000 GEL	Dividends payable	Lease liabilities	Financial instruments at FVTPL*	Loans and borrowings	Total
Balance at 1 January 2020	1,043	57,617	167	634,620	693,447
Interest paid	-	(6,126)	-	(77,656)	(83,782)
Net payments of financial instruments at FVTPL	-	-	(7,798)	-	(7,798)
Lease payments	-	(8,194)	-	-	(8,194)
Total changes from financing cash flows	**-**	**(14,320)**	**(7,798)**	**(77,656)**	**(99,774)**
The effect of changes in foreign exchange rates	**-**	**1,739**	**-**	**87,484**	**89,223**
Other changes					
Interest expense	-	6,126	-	78,173	84,299
Effect of change in financial instruments at FVTPL (note 20 (e))	-	-	(5,794)	-	(5,794)
Non-resident income tax paid	-	-	-	(30)	(30)
Income tax paid to resident individuals	-	-	-	(108)	(108)
Recognition of lease liabilities arising from lease contracts came into force during the period	-	6,440	-	-	6,440
Write-off of ROU and respective lease liability for terminated contracts	-	(5,341)	-	-	(5,341)
Total liability-related other changes	**-**	**7,225**	**(5,794)**	**78,035**	**79,466**
Balance at 31 December 2020	**1,043**	**52,261**	**(13,425)**	**722,483**	**762,362**

(e) Financial instrument at FVTPL

Financial instrument at FVTPL represents a foreign currency swap-instrument with TBC Bank JSC measured at fair value at each reporting date. The Company entered into an agreement in June 2019 to manage its USD denominated currency exposure related to Eurobonds. The swap is structured as a cash cover loan, whereby the Company deposited USD 35,000 thousand (GEL 108,416 thousand as at 31 December 2021) and took out a loan with an equivalent GEL amount (GEL 98,948 thousand). The loan bears an interest rate of 5.14% plus refinancing rate determined by the National Bank of Georgia; the deposit bears an interest rate of 3.1% plus six-month LIBOR rate. The deposit is pledged to secure the bank loan. As at 31 December 2021, the fair value of the financial instrument at FVTPL amounted to asset of GEL 6,583 thousand (2020: GEL 13,425 thousand). Fair value is estimated in accordance with Level 2 of the fair value hierarchy.

In 2022 the swap agreement above was partially terminated. As of 3 March 2022, the amount of the deposit is USD 3,726 thousand and of the outstanding loan – GEL 7,939 thousand.

21. Leases

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. The Group recognises the right-of-use asset and respective lease liability for the contracts that are long-term either contractually or 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 follows:

	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.

When measuring lease liabilities for leases, the Group discounts lease payments using its incremental borrowing rate at the date of lease recognition. The weighted-average rate (in GEL) applied in 2021 and 2020 was approximately 12%.

'000 GEL	Site rent for mobile services	Site rent for fixed services	Space rent for Silk Media LLC	Total
Carrying amount of RoU at 1 January 2021	**38,886**	**4,350**	**1,547**	**44,783**
Additions	8,398	-	-	8,398
Disposals	(10,345)	-	-	(10,345)
Disposals of accumulated depreciation	2,779	-	-	2,779
Depreciation charge	(7,884)	(1,067)	(322)	(9,273)
Gross balance at 31 December 2021	51,364	5,859	1,934	59,157
Accumulated depreciation at 31 December 2021	(19,530)	(2,576)	(709)	(22,815)
Carrying amount of RoU at 31 December 2021	**31,834**	**3,283**	**1,225**	**36,342**
Lease liability at 1 January 2021	**(44,690)**	**(6,374)**	**(1,197)**	**(52,261)**
Additions	(8,398)	-	-	(8,398)
Disposals	7,440	-	-	7,440
Interest charge	(3,882)	(616)	(136)	(4,634)
Payments	11,610	1,813	-	13,423
The effect of changes in foreign exchange rates	246	296	70	612
Lease liability at 31 December 2021	**(37,674)**	**(4,881)**	**(1,263)**	**(43,818)**

'000 GEL	Site rent for mobile services	Site rent for fixed services	Space rent for Silk Media LLC	Total
Carrying amount of RoU at 1 January 2020	47,618	5,254	-	52,872
Additions	4,506	-	1,934	6,440
Disposals	(6,489)	-	-	(6,489)
Disposals of accumulated depreciation	1,210	-	-	1,210
Depreciation charge	(7,958)	(904)	(387)	(9,249)
Gross balance at 31 December 2020	53,311	5,859	1,934	61,104
Accumulated depreciation at 31 December 2020	(14,425)	(1,509)	(387)	(16,321)
Carrying amount of RoU at 31 December 2020	**38,886**	**4,350**	**1,547**	**44,783**
Lease liability at 1 January 2020	(51,415)	(6,202)	-	(57,617)
Additions	(4,506)	-	(1,934)	(6,440)
Disposals	5,340	-	-	5,340
Interest charge	(5,279)	(701)	(146)	(6,126)
Payments	11,879	1,363	1,078	14,320
The effect of changes in foreign exchange rates	(709)	(834)	(195)	(1,738)
Lease liability at 31 December 2020	**(44,690)**	**(6,374)**	**(1,197)**	**(52,261)**

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

	31 December 2021		31 December 2020	
'000 GEL	**Non-current**	**Current**	**Non-current**	**Current**
Payables for non-current assets	25,307	37,862	23,209	42,580
Payable to suppliers*	-	25,068	-	27,111
Payable for licenses and broadcasting rights	8,576	14,340	8,716	17,863
Payable to other operators	-	3,060	-	4,550
Payable to employees	-	5,600	-	3,276
Other payables	-	538	-	1,066
VAT and other tax liabilities	-	4,895	-	-
Financial guarantee contract liability	1,997	-	-	-
Dividend payable	-	32,043	1,043	-
Total trade and other payables	**35,880**	**123,406**	**32,968**	**96,446**
Advances received related to IRU contracts	12,519	1,888	13,014	1,888
Advances received related to subscribers	652	21,910	897	21,153
Total contract liabilities from prepayments	**13,171**	**23,798**	**13,911**	**23,041**
Total	**49,051**	**147,204**	**46,879**	**119,487**

Payables for non-current assets represent the discounted value of deferred payments for acquisition of property and equipment related to network upgrade and expansionary projects undertaken by the Group. Major part of payables for non-current assets are denominated either in USD or EUR and thus are exposed for foreign currency exchange rate fluctuations (see note 23 (b)).

In the second half of 2020, in order to maintain the strong cash liquidity in uncertain market condition of 2020, the management negotiated extended payment terms with some of its major vendors. In 2021, upon initial recognition, payables for acquisition of property, equipment and intangible assets were discounted using the Group's incremental borrowing rate of average 8.6% and the discount of approximately GEL 5.4 million was recognized as a reduction of the cost of the property and equipment and intangible assets, as the payments were deferred beyond twelve months. Part of liabilities were settled in 2021.

In 2021, payables for non-current assets also include payables for the IT transformation project (see note 14).

*In 2021, payables to suppliers include accrued transaction costs of GEL 3,155 thousand related to issuance of the USD 300,000 thousand Eurobonds in January 2022 (see note 28). Transaction costs were not paid as at 31 December 2021 and respectively the related asset is recognised in other receivables (note 17).

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, except for bonds (see note 20(b)), 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.

Risk management framework

The management 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.

(i) 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 2021**	**31 December 2020**
Trade receivables	26,084	24,728
Cash and cash equivalents	71,535	77,777
Recognized financial assets	**97,619**	**102,505**

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:

	Collectively assessed			**Individually assessed**		
31 December 2021	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**
Current	16,390	124	No	9,152	-	No
1-30 past due	563	76	No	-	-	No
31-90 days past due	398	226	No	-	-	No
Past due 91-150 days	328	321	Yes	-	-	Yes
Past due more than 150 days	19,572	19,572	Yes	2,675	2,675	Yes
Total	**37,251**	**20,319**		**11,827**	**2,675**	

	Collectively assessed			**Individually assessed**		
31 December 2020	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**	**Gross carrying amount**	**Impairment loss allowance**	**Credit-impaired**
Current	16,009	186	No	8,120	-	No
1-30 past due	765	151	No	-	-	No
31-90 days past due	453	297	No	-	-	No
Past due 91-150 days	355	340	Yes	-	-	Yes
Past due more than 150 days	17,952	17,953	Yes	2,410	2,410	Yes
Total	**35,534**	**18,927**		**10,530**	**2,410**	

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

'000 GEL	**2021**	**2020**
At 1 January	(21,337)	(19,427)
Charge for the year	(1,731)	(2,040)
Reversal of amounts written off during the year as uncollectible	74	130
At 31 December	**(22,994)**	**(21,337)**

An impairment rate of 100% was applied to gross trade and other receivables from retail customers overdue by more than 150 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 2021

’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	656,234	817,200	-	1,220	103,622	712,358	-
Lease liability	43,818	65,473	-	3,349	10,285	50,390	1,450
Trade and other payables	159,286	167,325	18,413	26,295	74,826	45,794	1,997
Total	**859,338**	**1,049,998**	**18,413**	**30,864**	**188,733**	**808,542**	**3,447**

31 December 2020

’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	722,483	970,148	-	34,479	74,073	861,596	-
Lease liability	52,261	66,887	-	3,262	9,943	51,441	2,241
Trade and other payables	129,414	136,590	17,275	31,319	41,542	46,454	-
Total	**904,158**	**1,173,625**	**17,275**	**69,060**	**125,558**	**959,491**	**2,241**

The management believes that, as at and for the foreseeable future, the Group has sufficient funds to meet its liabilities as they fall due. Management's assessment is based on factors like the significant cash balance as at 31 December 2021 (note 18), positive adjusted EBITDA (note 12) and a growing customer base for key business segments and new network deployment (note 13). The Group's liquidity risk, including its significant exposure to foreign currency exchange movements (note 23), is managed by foreign currency hedge (note 20 (e)), closely monitoring capital expenditure, that is mostly discretionary by nature, and the Company's capacity to roll over its existing debt instruments (see note 20). As at the date these consolidated financial statements are authorised for issue, the largest roll over risk faced by the Group was related to its USD 200 thousand Eurobonds, which was repaid in 2022 from proceeds of the newly issued Eurobonds (note 28). The existing Eurobonds were traded with a significantly lower yielding (approx. 8%) compared to the initial yield of 11%. The management believes that the market data adequately captured the appetite of the market and the investors and consequently, in 2022, the Company issued bonds and refinanced the existing Eurobonds without any major implications.

(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 2021, the Group's exposure to currency risk is mainly attributable to capital expenditures and USD-denominated Eurobonds.

The Group's exposure to foreign currency risk, considering the effect of the derivative financial instrument (see note 20 (e)), was as follows:

'000 GEL	**USD-denominated 31 December 2021**	**USD-denominated 31 December 2020**
Bank balances	51,638	34,146
Trade and other receivables	4,814	2,768
Financial guarantee contract receivable	2,170	-
Trade and other payables	(88,140)	(77,411)
Loans and borrowings (including financial instrument at FVTPL)	(513,278)	(573,341)
Net exposure	**(542,796)**	**(613,838)**

'000 GEL	**EUR-denominated 31 December 2021**	**EUR-denominated 31 December 2020**
Bank balances	628	281
Trade and other receivables	431	1,869
Trade and other payables	(19,143)	(36,709)
Net exposure	**(18,084)**	**(34,559)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2021	**2020**	**2021**	**2020**
USD 1	3.2209	3.1097	3.0976	3.2766
EUR 1	3.8140	3.5519	3.5040	4.0233

Sensitivity analysis

A reasonably possible strengthening/(weakening) of GEL, as indicated below, against the USD as at 31 December 2021 and 2020 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 2021				
USD (10% movement)	-	54,280	-	(54,280)
EUR (10% movement)	-	1,808	-	(1,808)
31 December 2020				
USD (10% movement)	-	61,384	-	(61,384)
EUR (10% movement)	-	3,456	-	(3,456)

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group’s variable interest-bearing financial instruments was as follows:

’000 GEL	**Carrying amount**	
	31 December 2021	**31 December 2020**
Variable rate instruments		
Financial liabilities	34,581	34,461
	34,581	**34,461**

Fair value sensitivity analysis for fixed rate instruments

Except for the derivative financial instrument (see note 20 (e)), the Group does not account for any fixed-rate financial instruments as fair value through profit or loss or fair value through other comprehensive income. Therefore a change in interest rates at the reporting date would not have a material 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 each reporting date would have affected profit or loss by GEL 346 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. The Company’s tax position through 1 August 2019 was covered by the tax inspection (see note 11).

(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.

(c) Regulatory environment

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

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

25. Related parties

(a) Parent and ultimate controlling party

The Company's immediate parent is Silknet Holding LLC. The Company's ultimate parent is Silk Road Group Holding (Malta) Limited, an entity controlled by an individual, George Ramishvili. The annual consolidated financial statements of Silknet Holding LLC and Silk Road Group Holding LLC are publicly available through the website of Service for Accounting, Reporting and Auditing Supervision.

(b) Remuneration

The key management remuneration contains the salary and bonus of the key management and Supervisory Board of the Company and are included in salaries and benefits (see note 9):

'000 GEL	**2021**	**2020**
Salaries	5,560	4,964
Bonuses capitalized on the IT transformation project (note 14)	2,785	-
Other bonuses	1,920	185
	10,265	**5,149**

(c) Other related party transactions

'000 GEL	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2021	**2020**	**2021**	**2020**
Other operating expenses:				
Other related party	-	212	-	-
Entities under common control*	7,121	5,784	(1,805)	(1,896)
Fuel and lubricants used:				
Entities under common control	2,394	2,014	(169)	(157)
Investment property acquisition (note 15):				
Entities under common control	-	31,783	-	-
Purchase of goods and services from subsidiaries:				
Marketing	39	20	(8)	(1)
Other:				
Entities under common control	33	697	-	(19)
Guarantee contract eceivable:**				
Parent	76	-	2,170	-

* In 2021, other operating expenses with entities under common control mainly include: consulting services of GEL 3,136 thousand (2020: GEL 3,062 thousand) provided by SRG Investments to the Company in relation to strategy development, funding, investment decisions and certain regulatory matters, and security expenses of GEL 2,135 thousand (2020: GEL 1,935 thousand).

** On 30 June 2021, the Company entered into a guarantee agreement with its parent, Silknet Holding LLC, to guarantee its indebtedness of a maximum of USD 18,000 thousand from 1 May 2024 to 1 May 2032. The fair value of the guarantee was assessed by an independent appraiser and was determined to be USD 647 thousand. As at 31 December 2021, a financial guarantee contract liability of GEL 1,997 thousand is recorded in trade and other payables (see note 22) and a related receivable from the parent of GEL 2,170 thousand is recorded in other non-current assets (see note 13(b)). The Company will receive a fee for the service provided.

The outstanding balance as at 31 December 2021 of GEL 1,263 thousand represents a lease liability for the office space rent by Silk Media LLC from a related party (2020: GEL 1,197 thousand) . There was no cash outflow related to the lease liability during the year ended 31 December 2021 (2020: GEL 1,078 thousand) (see note 21). The lease contract expires in 2025. Except for the lease liability, 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 2021 Ownership/voting**	**31 December 2020 Ownership/voting**
Qarva LLC	Georgia	51%	51%
Silk Media LLC	Georgia	100%	100%
Novus LLC	Georgia	100%	100%
WiMax Georgia 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 is aired in the Georgian language. For this purpose, Silknet established Silk Media LLC., a 100%-owned subsidiary. Euronews is in charge of Euronews Georgia's editorial policy and nominate its news director. Euronews shares its content with Euronews Georgia, while the latter prepares certain local content which is shared with Euronews.

27. Impact of COVID-19

The COVID-19 outbreak started to have a significant impact in Georgia in late February 2020. On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic and the Georgian government started to take measures to contain the virus – imposed restrictions on cross-border movements, instructed the business community to transfer employees to work from home, etc. To enhance social distancing schools, restaurants, cinemas and sports activities stayed suspended for most of 2020.

During the first half of 2021, the Government of Georgia started to gradually lift major restrictions imposed due to the COVID-19 pandemic. Distribution of vaccines that demonstrate an ability to provide a high degree of immunity from COVID-19 provides a positive overlook on the future prospects of the economy and business environment both in Georgia and around the world. Despite the fact, that, currently, there is still a high number of COVID-19 cases in the country, no lock-down is anticipated and the economy is gradually recovering, with positive outlook. Preliminary real GDP has grown on average by 10.6% during twelve months of 2021. (source: Geostat).

There is a positive trend in the telecommunication industry as well. According to the Georgian Communication Committee (ComCom), the telecommunication sector results in 2021 approached and exceeded those of pre-pandemic levels.

Despite the short-term negative implications, the management observes the long-term shifts in how people work and study as a result of this disruption. While some of these behavioral shifts may be temporary, the management assumes the accelerated digitalization patterns will stay long-term and together with the economy's recovery, provide additional headroom to benefit from elevated consumption and growing demand for digital and OTT ('Over the counter') services.

In July 2021, ComCom took into consideration the devaluation of the national currency and the COVID-19 pandemic's adverse impact on the telecommunication sector. As a result, ComCom decided to eliminate the retail mobile sector's tariff regulation and give flexibility to existing mobile operators to adjust their tariff plans when needed.

28. Subsequent events

After 31 December 2021, the following events took place:

1) On 31 January 2022, the Company successfully issued USD 300,000 thousand of Eurobonds due 2027 with an interest rate of 8.375%. The proceeds from the issuance were used for:

   a. Redemption of the USD 200,000 thousand unsecured Eurobonds (note 20);
   b. Redemption of the GEL 34,000 thousand unsecured local bonds (note 20);
   c. Payment of premia and fees in connection with the new issuance and the tender offer and consent solicitation; and
   d. General corporate purposes.

2) As result of refinancing existing Eurobonds, the secured bank loan RCF contract was cancelled (note 20 (c)) and the related financial instrument at FVTPL was partially closed (note 20 (e)).

3) In 2022, the Group incurred additional transaction costs (success fees) of approximately USD 3,200 thousand related to successful issuance of USD 300,000 thousand Eurobonds.

4) In 2022, the Group paid dividends in amount of GEL 29,867 thousand. The dividends were declared in 2021 (note 19 (c)).

5) In January, 2022 the Company's Long-Term Issuer Default Rating of b1 by Moody's was improved from Negative outlook to Stable.

6) In February, 2022 the Company announced a modified tariff plan that will be enforced from March 2022.

29. 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;
– investment property is measured at fair value; and
– derivative financial instruments are measured at fair value.

30. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) 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.

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, financial liabilities and investment property;
- financial instruments measured at FVTPL.

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 recognized in profit or loss except to the extent that it relates to a business combination, or items recognized 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. Cost of the acquired property and equipment is the present value of the expected cash outflows if the payments are deferred beyond the twelve months' period.

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.

Long term financial liabilities for capital expenditures are measured at amortised cost using incremental borrowing rate.

(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. A broadcasting rights contract is capitalised if the following conditions are met:

– it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;
– the cost of the asset can be measured reliably.

The company considers other terms of a contract such as termination terms. Capitalised broadcasting rights contracts are discounted based on incremental borrowing rate.

(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.

Long term financial liabilities for capital expenditures are measured at amortised cost using incremental borrowing rate.

(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 ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*: 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.

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 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.

(m) 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.

31. New standards and interpretations not yet adopted

A number of new standards and interpretations are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements. The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).*
- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).*
- *Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*
- *Annual Improvements to IFRS Standards 2018–2020.*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*