Silknet JSC

Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2021

Contents

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

To the Shareholder of Silknet JSC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Silknet JSC (the "Company") and its subsidiaries (the "Group") as at 30 June 2021, and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the condensed consolidated interim financial information (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 30 June 2021 and for the six-month period then ended is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting.*

Natia Tevzadze

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KPMG Georgia LLC
17 August 2021

'000 GEL	Note	30 June 2021	31 December 2020
ASSETS			
Non-current assets			
Property and equipment	10	388,796	393,887
Intangible assets	12	206,393	196,229
Investment property	13	60,839	63,055
Right-of-use assets	17	40,667	44,783
Other non-current assets	11	33,521	39,611
Financial instrument at FVTPL	16(e)	9,043	13,425
Prepayments related to IRU* contracts		9,582	9,849
Total non-current assets		**748,841**	**760,839**
Current assets			
Inventories		10,850	10,645
Prepayments related to IRU contracts		2,173	2,173
Trade and other receivables		30,797	30,349
Cash and cash equivalents	14	46,074	77,791
Total current assets		**89,894**	**120,958**
TOTAL ASSETS		**838,735**	**881,797**
EQUITY AND LIABILITIES			
Equity	15		
Share capital		84,056	84,056
Additional paid-in capital		8,026	8,026
Accumulated losses		(133,801)	(151,321)
Equity (deficit) attributable to owner of the Company		**(41,719)**	**(59,239)**
Non-controlling interests		201	(74)
TOTAL EQUITY (DEFICIT)		**(41,518)**	**(59,313)**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	16	645,578	668,084
Lease liabilities	17	35,706	39,847
Trade and other payables	18	40,570	32,968
Advances received from IRU contracts and subscribers	18	13,483	13,911
Total non-current liabilities		**735,337**	**754,810**
Current liabilities			
Loans and borrowings	16	21,743	54,399
Trade and other payables	18	87,215	96,446
Advances received from IRU contracts and subscribers	18	23,448	23,041
Lease liabilities	17	12,510	12,414
Total current liabilities		**144,916**	**186,300**
TOTAL LIABILITIES		**880,253**	**941,110**
TOTAL LIABILITIES AND EQUITY		**838,735**	**881,797**

* Indefeasible Right of Use

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 26.

'000 GEL	Note	For the six months ended 30 June 2021	2020
Revenues:			
Commercial revenue	6	177,428	168,622
Carrier services	6	20,329	16,285
		197,757	**184,907**
Costs and expenses:			
Depreciation and amortisation	10, 12, 17	(58,035)	(58,372)
Salaries and benefits		(30,981)	(28,332)
Purchased services	7	(21,038)	(18,158)
Other expenses		(10,913)	(12,021)
Interconnect fees and roaming expense		(8,928)	(7,467)
Network management and maintenance costs		(8,155)	(8,116)
Pay TV content cost		(6,032)	(6,351)
Advertising and marketing		(3,217)	(2,764)
Infrastructure capacity rentals, IRU and lease expenses		(2,949)	(3,603)
Costs of SIM cards, scratch cards and other cost of sales		(374)	(425)
Profit from operating activities		**47,135**	**39,298**
Finance income	8	2,353	2,101
Finance costs	8	(45,838)	(43,928)
Net change in fair value of financial instrument at FVTPL	8, 16 (e)	(8,850)	2,400
Net foreign exchange gain/ (loss)	8	23,156	(40,341)
Net finance costs		**(29,179)**	**(79,768)**
Profit/ (loss) before income tax		**17,956**	**(40,470)**
Income tax (expense)/ benefit		(161)	835
Profit/ (loss) and total comprehensive income/ (loss) for the period		**17,795**	**(39,635)**
Profit/ (loss) and total comprehensive income/ (loss) attributable to:			
Owner of the Company		17,520	(39,628)
Non-controlling interests		275	(7)
		17,795	**(39,635)**

These condensed consolidated interim financial statements were approved by management on 17 August 2021 and were signed on its behalf by:

David Mamulaishvili
General Director

Lili Pshavlishvili
Finance Director

The condensed consolidated interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 26.

	Attributable to owner of the Company					
’000 GEL	**Share capital**	**Additional paid in capital**	**Retained earnings /(Accumulated losses)**	**Total**	**Non-controlling interests**	**Total equity /(deficit)**
Balance as at 1 January 2021	**84,056**	**8,026**	**(151,321)**	**(59,239)**	**(74)**	**(59,313)**
Total comprehensive income for the period						
Profit and total comprehensive income for the period	-	-	17,520	**17,520**	**275**	**17,795**
Balance as at 30 June 2021	**84,056**	**8,026**	**(133,801)**	**(41,719)**	**201**	**(41,518)**
Balance as at 1 January 2020	84,056	8,026	(64,289)	27,793	54	27,847
Total comprehensive loss for the period						
Loss and total comprehensive loss for the period	-	-	(39,628)	**(39,628)**	**(7)**	**(39,635)**
Balance as at 30 June 2020	**84,056**	**8,026**	**(103,917)**	**(11,835)**	**47**	**(11,788)**

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 26.

		For the six months ended 30 June	
'000 GEL	**Note**	**2021**	**2020**
Cash flows from operating activities			
Cash received from subscribers		207,465	195,512
Cash received from other telecom operators and for IRU contracts		11,088	10,138
Salaries and benefits paid to and on behalf of employees		(30,490)	(26,964)
Interconnection fees and expenses paid		(7,689)	(5,783)
Purchase of inventory		(4,509)	(4,766)
Taxes paid other than on income		(27,469)	(22,425)
Income tax paid		(184)	(135)
Network management and maintenance costs paid		(5,860)	(5,457)
Other operating expenses paid		(40,994)	(30,388)
Net cash from operating activities		**101,358**	**109,732**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		(50,821)	(50,057)
Purchase of investment property		(234)	(31,065)
Proceeds from disposals of property and equipment		639	157
Interest received		1,534	1,249
Net cash used in investing activities		**(48,882)**	**(79,716)**
Cash flows from financing activities	16		
Repayment of borrowings		(33,846)	-
Interest paid		(42,599)	(42,248)
Net payments of financial instruments at FVTPL		(4,468)	(3,492)
Repayment of lease liabilities		(4,298)	(4,448)
Net cash used in financing activities		**(85,211)**	**(50,188)**
Effect of exchange rate changes on cash and cash equivalents		1,018	8,436
Net decrease in cash and cash equivalents		**(31,717)**	**(11,736)**
Cash and equivalents at the beginning of the period		77,791	74,862
Cash and cash equivalents at the end of the period	14	**46,074**	**63,126**

The condensed consolidated interim statement of cash flows is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 26.

1. Reporting entity

(a) Georgian business environment

The Group's operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The COVID-19 coronavirus pandemic has further increased uncertainty in the business environment.

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

(b) Organisation and operations

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

The Company is 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.

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 an 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. Related party transactions are disclosed in Note 20.

2. Basis of accounting

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2020 ("last annual consolidated financial statements"), which are published on the Company's web page: www.silknet.com.

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

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari (GEL), which is the functional currency of the Group entities and the currency in which these condensed consolidated interim financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

4. Use of estimates and judgments

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

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the last annual consolidated financial statements as at and for the year ended 31 December 2020, except for the fair value measurement of the guarantee. See Note 20.

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 (note 13) 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	30-Jun-21	30-Jun-21	30-Jun-21	30-Jun-21	30-Jun-21
Consolidated statement of financial position	**Mobile services**	**Fixed services**	**Silk Media LLC**	**Unallocated amounts**	**Total**
ASSETS					
Non-current assets					
Property and equipment	152,450	227,744	4,341	4,261	388,796
Intangible assets	156,169	37,678	4,311	8,235	206,393
Investment property	-	-	-	60,839	60,839
Other non-current assets	14,657	15,973	-	2,891	33,521
Right-of-use assets	35,415	3,834	1,418	-	40,667
Financial instrument at FVTPL	-	-	-	9,043	9,043
Prepayments related to IRU contracts	9,582	-	-	-	9,582
Total non-current assets	**368,273**	**285,229**	**10,070**	**85,269**	**748,841**
Current assets					
Inventories	3,667	5,643	312	1,228	10,850
Prepayments related to IRU contracts	2,173	-	-	-	2,173
Trade and other receivables	9,039	20,480	716	562	30,797
Cash and cash equivalents	-	-	28	46,046	46,074
Total current assets	**14,879**	**26,123**	**1,056**	**47,836**	**89,894**
TOTAL ASSETS	**383,152**	**311,352**	**11,126**	**133,105**	**838,735**
LIABILITIES					
Non-current liabilities					
Loans and borrowings	-	-	-	645,578	645,578
Lease liabilities	30,710	3,847	1,149	-	35,706
Trade and other payables	20,113	12,272	2,387	5,798	40,570
Advances received related to IRU contracts and subscribers	-	13,483	-	-	13,483
Total non-current liabilities	**50,823**	**29,602**	**3,536**	**651,376**	**735,337**
Current liabilities					
Loans and borrowings	-	-	-	21,743	21,743
Trade and other payables	44,788	32,984	2,067	7,376	87,215
Advances received related to IRU contracts and subscribers	18,043	5,421	-	(16)	23,448
Lease liabilities	10,659	1,781	70	-	12,510
Total current liabilities	**73,490**	**40,186**	**2,137**	**29,103**	**144,916**
TOTAL LIABILITIES	**124,313**	**69,788**	**5,673**	**680,479**	**880,253**
NET ASSETS/ (LIABILITIES)	**258,839**	**241,564**	**5,453**	**(547,374)**	**(41,518)**

’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 GEL 30,089 thousand for the six months ended 30 June 2021 (out of which GEL 12,520 thousand was added to property and equipment and GEL 17,569 thousand was added to intangible assets). Capital expenditures related to the fixed services operating segment for the six months ended 30 June 2021 were GEL 15,404 thousand and GEL 13,984 thousand in terms of property and equipment and intangible assets, respectively. Capital expenditures incurred by Silk Media LLC was GEL 143 thousand for property and equipment and GEL 313 thousand for intangible assets for the six months ended 30 June 2021.

The revenues generated from each segment for the six months ended 30 June 2021 are as follows:

'000 GEL

Condensed 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	**105,089**	**94,813**	**-**	**(2,260)**	**115**	**-**	**197,757**
Depreciation and amortization	(31,007)	(25,030)			(1,466)	(532)	(58,035)
Other costs and expenses	(42,169)	(51,838)	2,260		(2,167)	1,327	(92,587)
Segment operating profit	**31,913**	**17,945**	**2,260**	**(2,260)**	**(3,518)**	**795**	**47,135**
Finance income	819	10			-	1,524	2,353
Finance costs	(3,380)	(1,936)			(285)	(40,237)	(45,838)
Net change in fair value of financial instrument at FVTPL (note 16 (e))	-	-			-	(8,850)	(8,850)
Net foreign exchange loss	61	1,163			320	21,612	23,156
Segment profit/(loss) before tax	**29,413**	**17,182**	**2,260**	**(2,260)**	**(3,483)**	**(25,156)**	**17,956**
Income tax	-	(4)			-	(157)	(161)
Profit/(loss) for the period	**29,413**	**17,178**	**2,260**	**(2,260)**	**(3,483)**	**(25,313)**	**17,795**

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

'000 GEL

Condensed consolidated interim statement of profit or loss and other comprehensive income	**Mobile services**	**Fixed services**	**Elimination mobile services**	**Elimination fixed services**	**Silk Media LLC**	**Unallocated amounts**	**Total**
Segment revenue	**96,366**	**90,571**	**-**	**(2,031)**	**1**	**-**	**184,907**
Depreciation and amortization	(33,895)	(22,936)	-	-	(1,026)	(515)	(58,372)
Other costs and expenses	(38,306)	(47,904)	2,031	-	(645)	(2,413)	(87,237)
Segment operating profit	**24,165**	**19,731**	**2,031**	**(2,031)**	**(1,670)**	**(2,928)**	**39,298**
Finance income	853	(2,311)	-	-	-	3,559	2,101
Finance costs	(3,319)	(833)	-	-	(315)	(39,461)	(43,928)
Net change in fair value of financial instrument at FVTPL (note 16 (e))	-	-	-	-	-	2,400	2,400
Net foreign exchange loss	(266)	(3,519)	-	-	(419)	(36,137)	(40,341)
Segment profit/(loss) before tax	**21,433**	**13,068**	**2,031**	**(2,031)**	**(2,404)**	**(72,567)**	**(40,470)**
Income tax	-	(225)	-	-	-	1,060	835
Profit/(loss) for the period	**21,433**	**12,843**	**2,031**	**(2,031)**	**(2,404)**	**(71,507)**	**(39,635)**

6. Revenues

	For the six months ended 30 June	
’000 GEL	**2021**	**2020**
Commercial revenue	**177,428**	**168,622**
Mobile revenue	**93,076**	**86,947**
Mobile callout	49,784	49,608
Mobile data	36,633	30,680
Revenue from SMS	4,277	4,513
Revenue from other services	1,977	1,739
Revenue from phone sales and accessories	405	407
Fixed revenue	**84,352**	**81,675**
Fixed broadband	50,173	49,435
Pay TV	23,420	22,303
Fixed telephone	7,272	8,535
Infrastructure capacity rental service	1,258	1,094
Revenue from other services	2,229	308
Carrier and other services	**20,329**	**16,285**
Interconnect service*	12,953	10,323
Infrastructure capacity rental service	4,769	3,547
Internet wholesale	1,111	1,104
Roaming revenue	1,496	1,311
Total revenues	**197,757**	**184,907**

* Revenue from interconnect service is generated by both segments as follows: GEL 11,205 thousand by the mobile services segment and GEL 1,748 thousand by the fixed services during the six months ended 30 June 2021 (For the six months ended 30 June 2020: GEL 8,166 thousand by mobile services segment and GEL 2,157 thousand by the fixed services segment).

7. Purchased services

	For the six months ended 30 June	
’000 GEL	**2021**	**2020**
Utility expenses	7,895	5,005
Software maintenance service	5,450	5,126
Professional fees	3,182	3,928
Internet clear channel costs	2,326	1,669
Internet protocol (IP) cost	2,164	2,365
Other purchased services	21	65
Total purchased services	**21,038**	**18,158**

8. Net finance costs

	For the six months ended 30 June	
’000 GEL	**2021**	**2020**
Recognised in profit or loss		
Interest income on current bank accounts	1,534	1,249
Interest income on IRU related prepayments	819	852
Finance income	**2,353**	**2,101**
Interest expense on financial liabilities	(42,803)	(39,920)
Interest expense accrued under IFRS 16	(2,268)	(3,221)
Interest expense on advances received from IRU contracts	(767)	(787)
Finance costs	**(45,838)**	**(43,928)**
Net change in fair value of financial instrument at FVTPL	(8,850)	2,400
Net foreign exchange gain/ (loss)	23,156	(40,341)
Net finance costs recognised in profit or loss	**(29,179)**	**(79,768)**

9. Alternative performance measures

(a) Adjusted EBITDA

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

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

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

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

Reconciliation of adjusted EBITDA to profit from continuing operations:

	For the six months ended 30 June	
'000 GEL	**2021**	**2020**
Profit/(loss) for the period	**17,795**	**(39,635)**
Depreciation and amortisation	58,035	58,372
Finance costs	45,838	43,928
Finance income	(2,353)	(2,101)
Income tax	161	(835)
Net change in fair value of financial instrument at FVTPL	8,850	(2,400)
Net foreign exchange (gain)/loss	(23,156)	40,341
Specific items (see below)	1,479	4,347
Adjusted EBITDA	**106,649**	**102,017**

Specific items:

	For the six months ended 30 June		
'000 GEL	**2021**	**2020**	**FS line**
(Gain)/ loss on disposals of property and equipment	(113)	654	Other expenses
Write-down of slow moving inventory and other non-current assets	739	1,130	Other expenses
Professional fees, one-time consulting expenses	633	1,557	Purchased services
Charity	631	2,409	Other expenses
Other income	(411)	(1,403)	Other expenses
Total EBITDA adjustments	**1,479**	**4,347**	

(b) Adjusted EBITDA margin

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

	For the six months ended 30 June	
'000 GEL	**2021**	**2020**
Adjusted EBITDA	106,649	102,017
Revenue	197,757	184,907
Adjusted EBITDA margin %	**54%**	**55%**

10. Property and equipment

'000 GEL	**Land**	**Buildings and facilities**	**Machinery and equipment**	**Vehicles**	**Furniture and fixtures**	**Construction in progress**	**Total**
Cost at 1 January 2020	26,224	122,314	406,060	8,093	31,558	6,754	**601,003**
Accumulated depreciation	-	(34,851)	(166,440)	(5,139)	(16,887)	-	**(223,317)**
Carrying amount at 1 January 2020	**26,224**	**87,463**	**239,620**	**2,954**	**14,671**	**6,754**	**377,686**
Additions	-	-	13,732	-	616	15,767	**30,115**
Disposals	(14)	(35)	(2,704)	(137)	(18)	-	**(2,908)**
Transfers , gross	74	533	7,146	3,936	38	(15,594)	**(3,867)**
Transfers, accumulated depreciation	-	-	3,138	-	-	-	**3,138**
Disposals of depreciation	-	12	1,888	101	18	-	**2,019**
Depreciation charge	-	(1,326)	(27,895)	(473)	(1,675)	-	**(31,369)**
Carrying amount at 30 June 2020	**26,284**	**86,647**	**234,925**	**6,381**	**13,650**	**6,927**	**374,814**
Cost at 30 June 2020	26,284	122,812	424,234	11,892	32,194	6,927	**624,343**
Accumulated depreciation	-	(36,165)	(189,309)	(5,511)	(18,544)	-	**(249,529)**
Carrying amount at 30 June 2020	**26,284**	**86,647**	**234,925**	**6,381**	**13,650**	**6,927**	**374,814**
Cost at 1 January 2021	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 1 January 2021	**25,961**	**85,862**	**241,221**	**5,003**	**14,236**	**21,604**	**393,887**
Additions	107	483	10,445	-	858	17,086*	**28,979**
Disposals	(40)	(62)	(2,779)	-	(334)	-	**(3,215)**
Transfers , gross	-	396	29,166	-	203	(32,396)*	**(2,631)**
Transfers, accumulated depreciation	-	-	2,631	-	-	-	**2,631**
Disposals of depreciation	-	21	1,437	(3)	197	-	**1,652**
Depreciation charge	-	(1,503)	(28,774)	(483)	(1,747)	-	**(32,507)**
Carrying amount at 30 June 2021	**26,028**	**85,197**	**253,347**	**4,517**	**13,413**	**6,294**	**388,796**
Cost at 30 June 2021	26,028	123,384	491,546	10,982	34,634	6,294	**692,868**
Accumulated depreciation	-	(38,187)	(238,199)	(6,465)	(21,221)	-	**(304,072)**
Carrying amount at 30 June 2021	**26,028**	**85,197**	**253,347**	**4,517**	**13,413**	**6,294**	**388,796**

* These amount are mostly attributable to 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 30 June 2021 property with a carrying value of GEL 80,835 thousand (31 December 2020: GEL 81,862 thousand) is collateralized and guarantees the indebtedness of RCF (refer to note 17(c)) and letter of credits related to operating activities of the Group.

(b) Capital commitments

As at 30 June 2021 the capital commitments borne by the Company amounted GEL 7,645 thousand (31 December 2020: GEL 34,321 thousand out of which GEL 26, 151 thousand was related to the ongoing IT transformation project (see note 12) (replacement and upgrade of many of the Company's current information technology systems)).

11. Other non-current assets

As at 30 June 2021 other non-current assets include uninstalled equipment of GEL 26,946 thousand, prepayments for non-current assets of GEL 4,434 thousand and financial guarantee contract receivable of GEL 2,139 thousand (31 December 2020: uninstalled equipment of GEL 30,660 thousand and prepayments for non-current assets of GEL 8,951 thousand). For further details on financial guarantee receivable, please, see note 20 (c).

12. 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	9,885	604	15,227	-	4,079	168	**29,963**
Amortization charge	(7,100)	(7,193)	(7,418)	-	(68)	(633)	**(22,412)**
Disposals and derecognitions, cost **	(27)	-	(12,132)	-	-	-	**(12,159)**
Disposals and derecognitions, amortization**	-	-	11,755	-	-	-	**11,755**
Carrying amount at 30 June 2020	**37,926**	**131,105**	**25,564**	**6,983**	**4,011**	**1,274**	**206,863**
Cost at 30 June 2020	74,045	175,700	52,451	6,983	4,079	5,171	**318,429**
Accumulated amortization	(36,119)	(44,595)	(26,887)	-	(68)	(3,897)	**(111,566)**
Carrying amount at 30 June 2020	**37,926**	**131,105**	**25,564**	**6,983**	**4,011**	**1,274**	**206,863**
Cost at 1 January 2021	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 1 January 2021	**38,816**	**124,007**	**21,461**	**6,983**	**4,012**	**950**	**196,229**
Additions****	28,163	610	3,057	-	99	355	**32,284**
Amortization charge	(5,797)	(6,773)	(7,739)	-	(216)	(455)	**(20,980)**
Disposals and derecognitions, cost	-	-	(4,321)	-	-	-	**(4,321)**
Disposals and derecognitions, amortization	-	-	3,181	-	-	-	**3,181**
Carrying amount at 30 June 2021	**61,182**	**117,844**	**15,639**	**6,983**	**3,895**	**850**	**206,393**
Cost at 30 June 2021	108,457	176,607	51,183	6,983	4,385	4,766	**352,381**
Accumulated amortization	(47,275)	(58,763)	(35,544)	-	(490)	(3,916)	**(145,988)**
Carrying amount at 30 June 2021	**61,182**	**117,844**	**15,639**	**6,983**	**3,895**	**850**	**206,393**

* CSAC-Capitalized Subscribers Acquisition Cost.

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

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

****In 2021, IT transformation project (note 10(b)) and the related information technology systems were put in use. Additions of GEL 19,991 thousand represent the discounted value of deferred payments for the costs incurred on the IT transformation project. The discount rate used was the Group’s incremental borrowing rate of 7.4% for USD denominated contracts and the discount of GEL 4,261 thousand was recognised as a reduction of the cost of the intangible assets.

13. 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.

The movement on investment property was as follows:

’000 GEL	6 Months 2021	6 Months 2020
Carrying amount as at 1 January	63,055	29,582
Additions	33	28,742
Effect of foreign currency exchange rate movements	(2,249)	2,780
	60,839	**61,104**

The fair value of the investment property as at 31 December 2020 was determined as USD 19,244 thousand by an independent valuator and was based on announced asking prices or 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 12.2% in order to reflect the additional liquidity factor related to the extended time needed to sell the investment property. The adjustments related to each of the significant unobservable input above varied between 5% to 25%. A 5% change in the adjusted market prices used in the valuation would have changed the fair value measurement by approximately GEL 3 million. Investment property is categorized within Level 3 of the fair value hierarchy. The management believes that as at 30 June 2021 the fair value of the investment property in USD terms remained the same due to non-significant changes in the real estate prices for similar properties, with similar physical condition.

14. Cash and cash equivalents

’000 GEL	30 June 2021	31 December 2020
Bank balances	45,382	76,874
Cash in transit	684	903
Cash on hand	8	14
Total cash and cash equivalents	**46,074**	**77,791**

The Group’s exposure to interest rate and currency risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 19.

15. Equity

(a) Share capital

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

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

Number of shares	**Ordinary shares**	
	2021	**2020**
In issue at 1 January	84,056,099	84,056,099
Issued during the period	-	-
In issue at 30 June, fully paid	**84,056,099**	**84,056,099**
Authorised shares - par value	**1**	**1**

(b) Additional paid-in capital

In 2018 the Group issued a call option for 4,795,000 ordinary shares, representing approximately 6.6% ownership on a diluted basis, for the benefit of JSC TBC Bank as a part of the financing received for the acquisition of Geocell. Exercise price of the option is set as GEL 5.214 per share for the total amount of GEL 25,000 thousand. The option is exercisable at any time during the period of five years or conditionally upon the occurrence of a liquidity event, which is defined as an Initial Public Offering (IPO) or sale of 100% stake of the company. The fair value of the call option was accounted for as an equity instrument at the date of acquisition of Geocell/receipt of funds from TBC. The fair value of GEL 8,026 thousand is credited to additional paid-in capital. As the option is an equity instrument, no change in fair value is recognised in the statement of profit or loss and other comprehensive income.

(c) Dividends

During the six months ended 30 June 2021 and 30 June 2020, the Company did not declare any dividends.

16. Loans and borrowings

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

'000 GEL	**30 June 2021**	**31 December 2020**
Eurobonds - non-current	611,578	634,084
Unsecured local bonds - non-current	34,000	34,000
	645,578	**668,084**
Eurobonds - current	21,186	21,124
Unsecured local bonds – current	557	33,275
	21,743	**54,399**
Total	**667,321**	**722,483**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				30 June 2021	
’000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Eurobond	USD	11%	2024	640,999	632,764
Unsecured local bonds	GEL	3.5% + refinancing rate	2022	34,558	34,557
Total loans and borrowings				**675,557**	**667,321**

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

The closing market quotation as at 28 June 2021 was 109.84% 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 30 June 2021 and 31 December 2020, the Company holds repurchased Eurobonds with a nominal value of USD 2,600 thousand.

(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 30 June 2021 and 31 December 2020, the credit facility was not used.

(d) Changes in liabilities arising from financing activities

'000 GEL	Dividends payable	Lease liabilities	Other financial instruments at FVTPL	Loans and borrowings	Total
Balance at 1 January 2021	**1,043**	**52,261**	**(13,425)**	**722,483**	**762,362**
Interest paid	-	(2,201)	-	(40,398)	(42,599)
Repayment of local bonds	-	-	-	(33,846)	(33,846)
Net payments of financial instruments at FVTPL	-	-	(4,468)	-	(4,468)
Lease payments	-	(4,298)	-	-	(4,298)
Total changes from financing cash flows	**-**	**(6,499)**	**(4,468)**	**(74,244)**	**(85,211)**
The effect of changes in foreign exchange rates	**-**	**(403)**	**-**	**(20,989)**	**(21,392)**
Other changes					
Interest expense	-	2,268	-	40,107	42,375
Effect of change in financial instruments at FVTPL (note 16 (e))	-	-	8,850	-	8,850
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	-	5,000	-	-	5,000
Write-off of ROU and respective lease liability for terminated contracts	-	(4,411)	-	-	(4,411)
Total liability-related other changes	**-**	**2,857**	**8,850**	**40,071**	**51,778**
Balance at 30 June 2021	**1,043**	**48,216**	**(9,043)**	**667,321**	**707,537**

'000 GEL	Dividends payable	Lease liabilities	Other financial instruments at FVTPL	Loans and borrowings	Total
Balance at 1 January 2020	1,043	57,617	167	634,620	693,447
Interest paid	-	(3,221)	-	(39,027)	(42,248)
Net payments of financial instruments at FVTPL	-	-	(3,492)	-	(3,492)
Lease payments	-	(4,448)	-	-	(4,448)
Total changes from financing cash flows	**-**	**(7,669)**	**(3,492)**	**(39,027)**	**(50,188)**
The effect of changes in foreign exchange rates	**-**	**853**	**-**	**41,107**	**41,960**
Other changes					
Interest expense	-	3,221	-	38,071	41,292
Effect of change in financial instruments at FVTPL (note 16 (e))	-	-	(2,400)	-	(2,400)
Non-resident income tax paid	-	-	-	(14)	(14)
Income tax paid to resident individuals	-	-	-	(53)	(53)
Recognition of lease liabilities arising from lease contracts came into force during the period	-	4,569	-	-	4,569
Write-off of ROU and respective lease liability for terminated contracts	-	(2,845)	-	-	(2,845)
Total liability-related other changes	**-**	**4,945**	**(2,400)**	**38,004**	**40,549**
Balance at 30 June 2020	**1,043**	**55,746**	**(5,725)**	**674,704**	**725,768**

(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 110,611 thousand as at 30 June 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 30 June 2021, the fair value of the financial instrument at FVTPL amounted to asset of GEL 9,043 thousand (31 December 2020: GEL 13,425 thousand). Fair value is estimated in accordance with Level 2 of the fair value hierarchy.

17. 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 applied in 2021 was approximately 12% as lease contracts are denominated in GEL.

'000 GEL	**Site rent for mobile services**	**Site rent for fixed services**	**Space rent for Silk Media LLC**	**Total**
Carrying amount at 1 January 2021	38,886	4,350	1,547	44,783
Additions	5,000	-	-	5,000
Disposals	(6,246)	-	-	(6,246)
Disposals of accumulated depreciation	1,687	-	-	1,687
Depreciation charge	(3,912)	(516)	(129)	(4,557)
Gross balance at 30 June 2021	**52,066**	**5,859**	**1,934**	**59,859**
Accumulated depreciation at 30 June 2021	(16,651)	(2,025)	(516)	(19,192)
Carrying amount at 30 June 2021	**35,415**	**3,834**	**1,418**	**40,667**
Lease liability at 1 January 2021	(44,690)	(6,374)	(1,197)	(52,261)
Additions	(5,000)	-	-	(5,000)
Disposals	4,411	-	-	4,411
Interest charge	(1,868)	(332)	(68)	(2,268)
Payments	5,612	887	-	6,499
The effect of changes in foreign exchange rates	166	191	46	403
Lease liability at 30 June 2021	**(41,369)**	**(5,628)**	**(1,219)**	**(48,216)**

’000 GEL	Site rent for mobile services	Site rent for fixed services	Space rent for Silk Media LLC	Total
Carrying amount at 1 January 2020	47,618	5,253	-	52,871
Additions	2,632	-	1,938	4,570
Disposals	(3,283)	-	-	(3,283)
Disposals of Accumulated Depreciation	506	-	-	506
Depreciation Charge	(3,985)	(423)	(194)	(4,602)
Gross balance at 30 June 2020	54,643	5,858	1,938	62,439
Accumulated depreciation at 30 June 2020	(11,155)	(1,028)	(194)	(12,377)
Carrying amount at 30 June 2020	**43,488**	**4,830**	**1,744**	**50,062**
Lease liability at 1 January 2020	(51,414)	(6,202)	-	(57,616)
Additions	(2,632)	-	(1,938)	(4,570)
Disposals	2,846	-	-	2,846
Interest Charge	(2,796)	(349)	(77)	(3,222)
Payments	5,985	606	1,078	7,669
The effect of changes in foreign exchange rates	(331)	(398)	(124)	(853)
Lease liability at 30 June 2020	**(48,342)**	**(6,343)**	**(1,061)**	**(55,746)**

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

	30 June 2021		31 December 2020	
’000 GEL	Non-current	Current	Non-current	Current
Payables for non-current assets	31,362	44,321	23,209	42,580
Payable to suppliers	-	22,192	-	27,111
Payable for licenses and broadcasting rights	6,026	12,096	8,716	17,863
Payable to other operators	-	3,554	-	4,550
Payable to employees	-	3,940	-	3,276
Other payables	-	1,112	-	1,066
Financial guarantee contract liability	2,139	-		
Dividend payable	1,043	-	1,043	-
Total trade and other payables	**40,570**	**87,215**	**32,968**	**96,446**
Advances received related to IRU contracts	12,757	1,888	13,014	1,888
Advances received related to subscribers	726	21,560	897	21,153
Total contract liabilities from prepayments	**13,483**	**23,448**	**13,911**	**23,041**

Payables for non-current assets represent discounted value of deferred payments for acquisition of property and equipment related to network upgrade and expansionary projects undertaken by the Group. 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. The part of these liabilities were settled in 2021. In 2020, upon initial recognition, payables for acquisition of property and equipment were discounted using the Group’s incremental borrowing rate of 9% for foreign currency denominated contracts and the discount of approximately GEL 5 million was recognized as a reduction of the cost of the property and equipment, as the payments were deferred beyond twelve months. In 2021, payables for non-current assets also include payables for IT transformation project (see note 12). 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 19 (iii)).

19. Fair values and financial risk management

The Group has determined fair values of financial assets and liabilities using valuation techniques disclosed in the last annual consolidated financial statements. Management believes that the fair value of the Group's financial assets and liabilities, except for bonds (see note 16 (b)), approximates their carrying amounts.

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

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalent. Credit risk is consistent with those disclosed in the last annual consolidated financial statements and the Group has not faced a significant financial loss during the six months period ended 30 June 2021.

(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.

Despite the net current liability position, and taking account of reasonably possible downsides, the management believes that, as at 30 June 2021 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 30 June 2021 (note 14), positive adjusted EBITDA (note 9) and a growing customer base and new network deployment (note 12). The Group's liquidity risk, including its significant exposure to foreign currency exchange movements (note 19 (iii)), is managed by foreign currency hedge (note 16 (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 16). As at the date these condensed consolidated interim financial statements are authorised for issue, the largest roll over risk faced by the Group is related to its USD 200 million Eurobonds due in 2024. The bonds are currently traded with a significantly lower yielding (approx. 7%) compared to the initial yield of 11%. The management believes that the market data adequately captures the appetite of the market and the investors and consequently believes in the Company's capacity to roll over / refinance 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 30 June 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 was as follows:

’000 GEL	USD-denominated 30 June 2021	USD-denominated 31 December 2020
Bank balances	35,263	34,146
Trade and other receivables	3,598	2,768
Trade and other payables	(81,990)	(77,411)
Loans and borrowings (including financial instrument at FVTPL)	(522,189)	(573,341)
Net exposure	**(565,318)**	**(613,838)**

’000 GEL	EUR-denominated 30 June 2021	EUR-denominated 31 December 2020
Trade and other receivables	1,596	1,869
Trade and other payables	(26,410)	(36,709)
Net exposure	**(24,814)**	**(34,840)**

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

	Average rate		Reporting date spot rate	
in GEL	**Six months ended 30-Jun-21**	**Six months ended 30-Jun-20**	**30 June 2021**	**31 December 2020**
USD 1	3.3207	3.0323	3.1603	3.2766
EUR 1	4.0028	3.3402	3.7608	4.0233

Sensitivity analysis

A reasonably possible strengthening/(weakening) of GEL, as indicated below, against the USD as at 30 June 2021 and 31 December 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)**
30 June 2021				
USD (10% movement)	-	56,532	-	(56,532)
EUR (10% movement)	-	2,481	-	(2,481)
31 December 2020				
USD (10% movement)	-	61,384	-	(61,384)
EUR (10% movement)	-	3,484	-	(3,484)

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	
	30 June 2021	**31 December 2020**
Variable rate instruments		
Financial liabilities	34,557	34,461
	34,557	**34,461**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any material fixed-rate financial instruments at fair value through profit 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 the 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.

20. Related party transactions

(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 are publicly available through the website of Service for Accounting, Reporting and Auditing Supervision.

(b) Remuneration

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

	For the six months ended 30 June	
'000 GEL	**2021**	**2020**
Salaries	2,850	2,347
Bonuses	534	130
	3,384	**2,477**

(c) Other related party transactions

'000 GEL	**Transaction value for the six months ended 30 June**		**Outstanding balance**	
	2021	**2020**	**30 June 2021**	**31 December 2020**
Other operating expenses:				
Other related party	-	212	-	-
Entities under common control*	2,900	2,677	(1,618)	(1,896)
Fuel and lubricants used:				
Entities under common control	960	978	(188)	(157)
Investment property acquisition:				
Entities under common control	33	28,678	-	-
Purchase of goods and services from related parties:				
Marketing	13	20	(1)	-
Other:				
Entities under common control	-	601	-	(19)
Guarantee contract receivable:**				
Parent	-	-	2,139	-

* During the six months ended 30 June 2021, other operating expenses with entities under common control mainly include: consulting services of GEL 1,568 thousand (six months ended 30 June 2020: GEL 1,494 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 1,068 thousand (six months ended 30 June 2020: GEL 986 thousand).

** On 30 June 2021, the Company entered into a guarantee agreement with its parent, Silknet Holding LLC, to guarantee its indebtedness of maximum USD 18,000 thousand from 1 May 2024 to 1 May 2032. The fair value of the guarantee was assessed by the independent appraiser and was determined to be USD 647 thousand. As at 30 June 2021, financial guarantee contract liability of GEL 2,139 thousand is recorded in trade and other payables (see note 18) and a related receivable from the parent of GEL 2,139 thousand is recorded in other non-current assets (see note 11). The Company will receive a fee for the service provided.

The outstanding balance as at 30 June 2021 includes lease liability of GEL 1,219 thousand for the office space rent by Silk Media LLC from the related party (31 December 2020: GEL 1,197 thousand). There was no cash outflow related to lease liability in 2021 (2020: GEL 1,078 thousand) (see note 17). The lease contract expires in 2025. Except for 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. The related party balances, except for lease liabilities, do not bear interest and are repayable within six months from the reporting date.

21. Subsidiaries

Subsidiary	**Country of incorporation**	**30 June 2020 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%

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

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 recovery of the economy 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 constant 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 tariff regulation of the retail mobile sector and give flexibility to existing mobile operators to adjust their tariff plans when needed.