# Silknet JSC

# Consolidated Financial Statements for 2017

## Contents

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# Independent Auditors' Report

**To the Shareholders 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 2017, 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 2017, 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' *Code of Ethics for Professional Accountants* (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.

<table>
<tr><th colspan="2">Early adoption of IFRS 15 Revenue from Contracts with Customers</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>As described in note 5 to the consolidated financial statements, the Group has early adopted IFRS 15 Revenue from Contracts with Customers. The application and early adoption of this accounting standard is complex. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized.<br><br>The Group applied the exemption provided by IFRS 15 Revenue from Contracts with Customers not to restate the comparative periods as a result of the IFRS 15 adoption.<br><br>As such, early adoption of IFRS 15 is an area of focus in the audit.</td><td>We have performed the following audit procedures to address the key audit matter:<br>- Obtained a schedule of contracts with customers from the Group and evaluated the existence and completeness of that population, subject to transition adjustments, based on our knowledge of the Group and experience of the industry in which it operates;<br>- Obtained a schedule of cumulative effect adjustments as at 1 January 2017 from the Group and evaluated the completeness and mathematical accuracy of the schedule by assessing whether the schedule of adjustments is complete and reflects appropriate consideration for the changes in the revenue accounting under IFRS 15;<br>- Performed inquiries of Management to obtain an understanding of the process for the revenue recognition due to early adoption of IFRS 15;<br>- Evaluated the design and implementation of the processes and internal controls of the Group, surrounding the implementation and recording adjustments arising from the early adoption of IFRS 15;<br>- Analysed the existing contracts with customers and considered revenue recognition policy in the current period in respect of those revenue streams, as well as completeness and accuracy of relevant disclosures;<br>- Involved additional quality reviewers for the evaluation of the methodology used by the Group to determine whether the transaction price included a significant financing component and the method of calculation of the significant financing component in the transaction price;<br>- Involved our own valuation specialists in evaluating the interest rate used in the calculation of the significant financing component in the transaction price above.<br><br>In addition to the assessment of the existence of significant financing component in the transaction price, mentioned above, we also involved additional quality reviewers to assess the impact of early adopting IFRS 15 on interconnect, internet, IPTV, fixed line and wireless telephone service revenue streams and compared the results with the Group revenue recognition policy.</td></tr>
</table>

## Statement of Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the Management Report and we 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 Management Report when it becomes available and, in doing so, consider whether the Management Report 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, we conclude whether the other information:

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

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

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

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

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

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Andrew Coxshall

KPMG Georgia LLC

KPMG Georgia LLC
2 March 2018

LIMITED LIABILITY COMPANY
KPMG
KPMG GEORGIA
404437695

| **'000 GEL** | **Note** | **31 December 2017** | **31 December 2016** |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 12 | 194,519 | 187,746 |
| Intangible assets and contract costs | 13 | 16,526 | 16,483 |
| Other non-current assets | 12 | 13,604 | 10,827 |
| Loans due from related parties | 19 | - | 804 |
| **Total non-current assets** | | **224,649** | **215,860** |
| **Current assets** | | | |
| Inventories | | 8,424 | 8,226 |
| Loans due from related parties | 19 | 1,495 | - |
| Trade and other receivables | 14 | 20,291 | 19,400 |
| Restricted deposit | 19 | - | 2,664 |
| Cash and cash equivalents | 15 | 2,521 | 1,280 |
| **Total current assets** | | **32,731** | **31,570** |
| **TOTAL ASSETS** | | **257,380** | **247,430** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | 16 | | |
| Share capital | | 68,172 | 68,172 |
| Retained earnings | | 31,968 | 28,188 |
| **Equity attributable to owners of the Company** | | **100,140** | **96,360** |
| Non-controlling interests | | 800 | 165 |
| **TOTAL EQUITY** | | **100,940** | **96,525** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Loans and borrowings | 17 | 71,482 | 65,732 |
| Trade and other payables | 18 | 1,200 | 28,765 |
| Contract liabilities from prepayments | 18 | 37,603 | - |
| **Total non-current liabilities** | | **110,285** | **94,497** |
| **Current liabilities** | | | |
| Loans and borrowings | 17 | 5,044 | 16,370 |
| Trade and other payables | 18 | 31,464 | 38,914 |
| Contract liabilities from prepayments | 18 | 9,101 | - |
| Current income tax payable | | 546 | 1,124 |
| **Total current liabilities** | | **46,155** | **56,408** |
| **TOTAL LIABILITIES** | | **156,440** | **150,905** |
| **TOTAL LIABILITIES AND EQUITY** | | **257,380** | **247,430** |



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 38.

| '000 GEL | Note | 2017 | 2016 |
|---|---|---|---|
| Revenues | 7 | 172,625 | 161,896 |
| Purchased services | 8 | (37,568) | (35,527) |
| Salaries and benefits | 9 | (33,323) | (30,798) |
| Depreciation and amortization | | (38,548) | (36,318) |
| Other operating expenses | 10 | (31,335) | (28,929) |
| Other expenses | | (811) | (290) |
| **Profit from operating activities** | | **31,040** | **30,034** |
| Finance income | 6 | 910 | 1,208 |
| Finance costs | 6 | (13,856) | (10,245) |
| **Net finance costs** | | **(12,946)** | **(9,037)** |
| **Profit before income tax** | | **18,094** | **20,997** |
| Income tax (expense)/benefit | 11 | (597) | 14,216 |
| **Profit and total comprehensive income for the year** | | **17,497** | **35,213** |
| **Profit and total comprehensive income attributable to:** | | | |
| Owners of the Company | | 16,862 | 35,328 |
| Non-controlling interests | | 635 | (115) |
| | | **17,497** | **35,213** |

These consolidated financial statements were approved by management on 2 March 2018 and were signed on its behalf by:

David Mamulaishvili
General Director

Baia 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 41.

| **’000 GEL** | **Attributable to owners of the Company** | | | | |
|---|---|---|---|---|---|
| | **Share capital** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| Balance as at 1 January 2016 | 68,172 | 4,052 | 72,224 | (58) | 72,166 |
| **Total comprehensive income** | | | | | |
| Profit and total comprehensive income for the year | - | 35,328 | 35,328 | (115) | 35,213 |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Dividends to equity holders (note 16 (b)) | | (10,352) | (10,352) | - | (10,352) |
| Purchase of non-controlling interest (note 22 (a)) | - | (840) | (840) | 338 | (502) |
| **Balance as at 31 December 2016** | **68,172** | **28,188** | **96,360** | **165** | **96,525** |
| Balance as at 1 January 2017 | 68,172 | 28,188 | 96,360 | 165 | 96,525 |
| Adjustment due to early adoption of IFRS 15 (see note 5) | - | (1,379) | (1,379) | - | (1,379) |
| **Adjusted balance at 1 January 2017** | **68,172** | **26,809** | **94,981** | **165** | **95,146** |
| **Total comprehensive income** | | | | | |
| Profit and total comprehensive income for the year | | 16,862 | 16,862 | 635 | 17,497 |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Dividends to equity holders (note 16 (b)) | - | (11,703) | (11,703) | - | (11,703) |
| **Balance as at 31 December 2017** | **68,172** | **31,968** | **100,140** | **800** | **100,940** |



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 38.

| ’000 GEL | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash received from subscribers | | 173,349 | 163,820 |
| Cash received from other telecom operators and for IRU contracts | | 23,905 | 28,190 |
| Salaries and benefits paid to and on behalf of employees | | (32,077) | (31,537) |
| Interconnection fees and expenses paid | | (6,890) | (13,651) |
| Purchase of inventory | | (12,833) | (4,438) |
| Taxes paid other than on income | | (22,824) | (22,881) |
| Income tax paid | | (1,214) | (361) |
| Network maintenance costs paid | | (9,907) | (10,393) |
| Other operating expenses paid | | (30,147) | (31,949) |
| **Net cash from operating activities** | | **81,362** | **76,800** |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment | | (48,328) | (36,075) |
| Acquisition of intangible assets | | (12,848) | (9,551) |
| Proceeds from disposals of property and equipment | | 2,880 | 1,182 |
| Acquisition of subsidiaries, net of cash acquired | 22 | (511) | - |
| Investment in term deposit | | 2,444 | (2,606) |
| Issue of loans | | (570) | (534) |
| Repayment of issued loans | | - | 26 |
| Interest received | | 252 | 13 |
| **Net cash used in investing activities** | | **(56,681)** | **(47,545)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 113,378 | 23,116 |
| Repayment of borrowings | | (119,256) | (37,168) |
| Interest paid | | (8,715) | (9,696) |
| Dividends paid | | (8,788) | (9,766) |
| **Net cash used in financing activities** | | **(23,381)** | **(33,514)** |
| Effect of exchange rate changes on cash and cash equivalents | | (59) | 52 |
| **Net (decrease)/ increase in cash and cash equivalents** | | **1,241** | **(4,207)** |
| Cash and cash equivalents at the beginning of year | 15 | 1,280 | 5,487 |
| **Cash and cash equivalents at the end of year** | **15** | **2,521** | **1,280** |



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 38.

# 1. Reporting entity

## (a) Georgian business environment

The Group's operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## (b) Organisation and operations

These consolidated financial statements include the financial statements of Silknet JSC (the Company) and its subsidiaries as detailed in note 22 (together referred to as the Group and individually as the Group entities). The Company and its subsidiaries are limited liability and joint stock companies as defined under the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia.

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

The principal activity of the Group is provision of telecommunication services to corporate and individual customers in Georgia, including local and international telephone services, internet and internet television (IPTV) services and leasing the underground communication facilities. The Group directs its activities as one operating segment.

In September 2016, the Fitch Rating agency affirmed the Company's Long-Term Issuer Default Rating as 'B+' with a Stable Outlook. In December 2017, the Company's Long-Term Issuer Default Rating was reassessed and was reconfirmed as 'B+' with a Stable Outlook.

The Company is wholly-owned by Rhinestream Holdings Limited and is ultimately controlled by an individual, Giorgi Ramishvili. Related party transactions are detailed in note 21.

# 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 critical judgments in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognised in the consolidated financial statements is included in note 5 – changes in accounting policies and note 24 (g) (iii) – useful lives of property and equipment.

In the opinion of management, there are no assumptions or estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

***Measurement of fair values***

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

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

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

Further information about the assumptions made in measuring fair values is included in note 19 (a) – fair values of financial assets and liabilities.

## 5. Changes in accounting policies

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

The Group has early adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") with a date of initial application of 1 January 2017. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group has applied IFRS 15 using the cumulative effect method, by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2017. Therefore, the comparative information has not been restated and continues to be reported under Pre-IFRS 15 accounting policies, disclosed in note 24 (b). The details of the significant changes and quantitative impact of the changes resulting from the early adoption of IFRS 15 are set out below.

### (a) Significant accounting policy

Revenue is recognised when the Group satisfies a performance obligation by transferring the promised service to a customer. When the performance obligation is satisfied, the Group recognises 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.

### (b) Nature of services provided and accounting policies

The principal activity of the Group is provision of telecommunication services to corporate and individual customers in Georgia (see note 1 (b)). The Group has the following main revenue streams: internet and internet television (IPTV) services, fixed line and wireless telephone services (which mainly consists of airtime usage and monthly subscription fees) interconnect services and facility rental service. Revenue is recognized net of credits and adjustments for service discounts, value-added and excise taxes. The nature of services provided, together with the significant accounting policy for the recognition and measurement of most significant revenue streams in accordance with IFRS 15 is summarized in the table below:

| ***Products and services*** | ***Nature, timing of satisfaction of performance obligation and significant payment terms*** |
|---|---|
| *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.<br><br>Revenue from interconnect fees is recognized at the time the services are performed. Interconnect services are billed and paid for on a monthly basis. |
| *Internet, IPTV, Fixed line and wireless telephone services* | Revenue for airtime usage and subscription fees by contracts with customers are recognized as revenue as services are performed, based upon minutes of use and contracted fees. For bundled packages, the Group accounts for individual services separately, if they are distinct, that is, if a service is separately identifiable from other items in the bundled package and if a customer can benefit from it. The consideration is allocated between separate services in a bundle based on their stand-alone selling prices.<br><br>Monthly subscription fee is recognised as revenue in the month when the service is provided to the subscriber. These services are billed and paid for on a monthly basis. |
| *Facility rental services* | 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 and are billed and paid for on a monthly basis, except for Indefeasible Right to Use ("IRU") arrangements.<br><br>For IRU contracts with an effective term of 20 years, where the obligation for the network maintenance and the related risk of return remains with the Group during the life of the contract, under IAS 18, the Group recognized any up-front payments received from the suppliers in profit or loss on a straight-line basis over the term of the contract.<br><br>As a result of early adoption of IFRS 15, the Group adjusts the above transaction price for a significant financing component and recognises the related interest expense in the current consolidated statement of profit or loss and other comprehensive income and the cumulative effect in the retained earnings as at 1 January 2017.<br><br>The effect of a significant financing component is reflected in the Group's estimate of the transaction price as an increase in the advance received using an interest rate of 12.50% to 14.50%, depending on the inception of the IRU contract and the receipt of prepayments. |

### (c) Contract balances

If the Group has recognised revenue, which is unbilled at the end of the reporting date, the entitlement to the consideration is recognised as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.

Consideration received for services to be provided in future periods are deferred and recognised as a contract liability. The contract liability is transferred to revenue when the above service is provided.

The following table provides information about receivables and contract liabilities from contracts with customers.

| **'000 GEL** | **31 December 2017** | **1 January 2017** |
|---|---|---|
| Receivables, included in Trade and other receivables | 14,450 | 14,576 |
| Contract liabilities from prepayments | (46,704) | (36,949) |
| | **(32,254)** | **(22,373)** |

The contract liability primarily relates to the advance consideration received from subscribers and from customers under IRU contracts, for which the revenue is recognised upon service provision. Significant changes in the contract liabilities from prepayments during the period is as follows:

| **’000 GEL** | **Contract liabilities** |
|---|---|
| Revenue recognized, included in the facility rental services (see note 7) | 61,660 |
| Increase due to cash received | (67,444) |
| Recognition of interest expense on IRU contracts, included in the interest expense (see note 5 (e)) | (3,971) |

**(d) Contract costs**

Management expects that the incremental costs incurred, such as sales agent bonuses, are recoverable. Accordingly, the Group capitalised them as contract costs, which is included in intangible assets as at 31 December 2017. In the comparative period, such costs were recognised as salaries and benefit costs, when incurred.

Capitalised contract costs are amortised based on the average useful life of the subscriber on a straight-line basis (see note 13 and note 24 (h) (iv)).

**(e) Impact on the consolidated financial statements**

The following tables summarise the impacts of adopting IFRS 15 on the Group’s consolidated financial statements for the year ending 31 December 2017.

***(i) Consolidated statement of financial position***

| ***In thousands of GEL*** | **Impact of changes in accounting policy** | | |
|---|---|---|---|
| **31 December 2017** | **As reported** | **Adjustments** | **Balance without adoption of IFRS 15** |
| Intangible assets | 16,526 | (1,542) | 14,984 |
| **Total assets** | **16,526** | **(1,542)** | **14,984** |
| Trade and other payables | (32,664) | (43,208) | (75,872) |
| Contract liabilities | (46,704) | 46,704 | - |
| **Total liabilities** | **(79,368)** | **3,496** | **(75,872)** |
| Retained earnings | (31,968) | (1,954) | (33,922) |
| **Total equity** | **(31,968)** | **(1,954)** | **(33,922)** |

The adjustment on retained earnings represents the net effect from the cumulative effect from early adoption of IFRS 15 as at 1 January 2017 of GEL 1,379 thousand and the effect on the consolidated statement of profit or loss and other comprehensive income during the period (see note 5 (e) (ii)).

***(ii) Consolidated statement of profit or loss and other comprehensive income***

| ***In thousands of GEL*** | **Impact of changes in accounting policy** | | |
|---|---|---|---|
| **For the year ended 31 December 2017** | **As reported** | **Adjustments** | **Balance without adoption of IFRS 15** |
| Revenues * | 172,625 | (2,692) | 169,933 |
| Salaries and benefits ** | (33,323) | (1,290) | (34,613) |
| Depreciation and amortisation ** | (38,548) | 586 | (37,962) |
| Interest expense * | (3,971) | 3,971 | - |
| **Total** | **96,783** | **575** | **97,358** |

* The adjustments on revenues and interest expense relates to the significant financing component reflected in the Group's estimate of the transaction price (see note 5 (b)).

** The adjustments on salaries and benefits and depreciation and amortisation relates to the capitalised incremental costs of obtaining contract with customers (see note 5 (d) and note 13).

## 6. Net finance costs

| ’000 GEL | Note | 2017 | 2016 |
|---|---|---|---|
| **Recognised in profit or loss** | | | |
| Interest income on loans and receivables | | 397 | 340 |
| Net foreign exchange gain | | 513 | 868 |
| **Finance income** | | **910** | **1,208** |
| Interest expense on financial liabilities measured at amortised cost | | (9,885) | (10,245) |
| Interest expense on contract liabilities from prepayments | | (3,971) | - |
| **Finance costs** | | **(13,856)** | **(10,245)** |
| **Net finance costs recognised in profit or loss** | | **(12,946)** | **(9,037)** |

## 7. Revenues

| ’000 GEL | 2017 | 2016 |
|---|---|---|
| Internet service | 88,840 | 79,592 |
| Internet television | 29,687 | 27,941 |
| Fixed telephone service | 25,868 | 29,082 |
| Interconnect service * | 11,668 | 10,073 |
| Facility rental service (note 5 (b) and note 5 (e)) | 10,995 | 10,883 |
| Wireless telephone ("CDMA") service | 3,237 | 3,967 |
| Other non-operating revenues | 2,330 | 358 |
| **Total revenues** | **172,625** | **161,896** |

Tariffs, other than for interconnect service, are not subject to government regulation.

* In October 2017, the Georgian National Communications Commission (“GNCC”) proposed new local interconnection tariffs, which becomes effective partially from July 2018 and fully from January 2019. The determination of the tariffs above are based on Long-Run Incremental Costing (LRIC) and are significantly lower than those, that were effective during 2017 and periods before. Management expects that the changes above, with the assumption of all else being equal, would have a negative effect on the consolidated profit before income tax of about GEL 300 thousand and GEL 700 thousand during 2018 and 2019, respectively.

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

# 8. Purchased services

| ’000 GEL | 2017 | 2016 |
|---|---|---|
| IPTV content cost | 9,216 | 8,296 |
| Professional fees * | 7,309 | 1,361 |
| Interconnect fees and expenses (note 7*) | 6,895 | 4,676 |
| Internet service cost | 3,524 | 3,762 |
| Utility expenses | 3,254 | 3,245 |
| Internet clear channel costs ** | 2,828 | 7,548 |
| Software maintenance service | 2,494 | 3,478 |
| Advertising expenses | 1,898 | 2,947 |
| Other purchased services | 150 | 214 |
| **Total purchased services** | **37,568** | **35,527** |

* The Group incurred advisory, legal and other professional and consulting fees of approximately GEL 4,700 thousand, in respect of the possible acquisition of Geocell LLC (see note 26). Acquisition-related costs above also include fees paid to JSC TBC Bank for the provision of a commitment letter (see note 19 (b) (iii)). The professional fees above also include fees paid to the audit firms of about GEL 600 thousand, for the provision of audit and other professional services.

** The significant decrease in internet clear channel costs is associated with the renegotiated service fee for the provision of internet clear channel costs during the fourth quarter of 2016.

# 9. Salaries and benefits

| ’000 GEL | 2017 | 2016 |
|---|---|---|
| Salaries | 28,640 | 26,477 |
| Bonuses | 3,968 | 3,679 |
| Employee health insurance | 440 | 339 |
| Other benefits | 275 | 303 |
| **Total salaries and benefits** | **33,323** | **30,798** |

# 10. Other operating expenses

| ’000 GEL | 2017 | 2016 |
|---|---|---|
| Network maintenance costs * | 13,985 | 13,270 |
| Operating lease expenses | 4,235 | 3,885 |
| Taxes, other than on income | 1,940 | 2,078 |
| Bank fees and charges ** | 1,810 | 1,319 |
| Provision for impairment of trade and other receivables (19 (b) (ii)) | 1,776 | 1,503 |
| Charity expenses | 1,266 | 765 |
| Communication regulation fee | 1,244 | 1,209 |
| Security expenses | 1,119 | 1,168 |
| Office stationary and other supplies | 736 | 896 |
| Commission for cash receipts | 711 | 693 |
| Business trip expenses | 662 | 687 |
| Fuel and lubricants used | 421 | 352 |
| Transportation services | 346 | 239 |
| Wireless devices cost | 190 | 252 |
| Other | 894 | 613 |
| **Total other operating expenses** | **31,335** | **28,929** |

* In 2017 78% (2016: 84%) of network maintenance costs represent expenses to ServiceNet LLC. Services from ServiceNet LLC, depending on their nature, are either capitalised or expensed by the Group. Total contract fees paid to ServiceNet LLC, excluding Value Added Tax, during 2017 was approximately GEL 17 million (2016: GEL 19 million).

If ServiceNet LLC breaches any of its contractual obligations, pursuant to the shareholders agreement, signed by and between the shareholders of Silknet JSC and ServiceNet LLC, the shareholders of the Group will have an option to acquire ServiceNet LLC.

** Included in the bank fees and charges is GEL 1,044 thousand, incurred by the Group as a result of JSC Bank of Georgia loan refinancing (see note 17).

## 11. Taxation

### (a) Amounts recognised in profit or loss

| **’000 GEL** | **2017** | **2016** |
|---|---|---|
| Current year | (1,595) | (1,482) |
| Adjustment for prior years | 998 | - |
| **Current tax expense** | **(597)** | **(1,482)** |
| Change in recognized deductible temporary differences (due to change in the legislation) * | - | 15,698 |
| **Deferred tax benefit** | **-** | **15,698** |
| **Income tax (expense)/benefit for the year** | **(597)** | **14,216** |

* Reversal of previously recognized deferred tax liabilities of GEL 15,698 in 2016 thousand is attributable to changes in Georgian tax legislation. On 13 May 2016 the Parliament of Georgia passed a 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 became effective for tax periods starting after 1 January 2017. Considering that the change in the Georgian Tax Code was enacted before 31 December 2016, the Group has recognized the full effect of the change by derecognizing previously recognized deferred tax liabilities through the previous period consolidated statement of profit or loss as an income tax benefit.

### (b) Reconciliation of effective tax rate:

| | **2017** | | **2016** | |
|---|---|---|---|---|
| | **’000 GEL** | **%** | **’000 GEL** | **%** |
| Dividends declared / Profit before income tax | **11,703** | **100** | **20,997** | **100** |
| Tax using the Group’s domestic tax rate | 2,087 | 18 | 3,150 | 15 |
| Set off the tax payable on dividends (see note 24 (e) (i)) * | (994) | (8) | - | - |
| Adjustment for over provided in prior years | (998) | (9) | - | - |
| Differences between tax and IFRS base of income and expense | - | - | (1,668) | (8) |
| Change in recognised deductible temporary differences (due to change in the legislation) | - | - | (15,698) | (75) |
| Income tax on other non-deductible expenses | 502 | 4 | - | - |
| | **597** | **5** | **(14,216)** | **(68)** |

* Total tax reimbursement as at 31 December 2017, available for those earnings that are distributed in 2018 or further years amounts to GEL 1,785 thousand (31 December 2016: GEL 2,380 thousand).

# 12. Property and equipment and other non-current assets

| ’000 GEL | Land | Buildings and facilities | Machinery and equipment | Vehicles | Furniture and fixture | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Cost at 1 January 2016 | 21,509 | 107,582 | 144,166 | 3,957 | 12,428 | 48 | 289,690 |
| Accumulated depreciation | - | (28,176) | (69,405) | (3,827) | (9,015) | - | (110,423) |
| **Carrying amount at 1 January 2016** | **21,509** | **79,406** | **74,761** | **130** | **3,413** | **48** | **179,267** |
| Additions | - | - | 19,362 | - | 956 | 19,091 | 39,409 |
| Disposals | (311) | (1,166) | (7,845) | (61) | (687) | - | (10,070) |
| Transfers and others | - | 2,865 | 13,767 | 554 | 425 | (18,528) | (917) |
| Disposals of depreciation | - | 447 | 7,415 | 130 | 601 | - | 8,593 |
| Depreciation charge | - | (2,341) | (24,858) | (134) | (1,203) | - | (28,536) |
| **Carrying amount at 31 December 2016** | **21,198** | **79,211** | **82,602** | **619** | **3,505** | **611** | **187,746** |
| Cost at 31 December 2016 | 21,198 | 109,281 | 169,450 | 4,450 | 13,122 | 611 | 318,112 |
| Accumulated depreciation | - | (30,070) | (86,848) | (3,831) | (9,617) | - | (130,366) |
| **Carrying amount at 31 December 2016** | **21,198** | **79,211** | **82,602** | **619** | **3,505** | **611** | **187,746** |
| Additions | 15 | 83 | 21,254 | - | 523 | 19,228 | 41,103 |
| Disposals | (563) | (1,867) | (6,451) | (56) | (96) | - | (9,033) |
| Transfers and others | - | 3,598 | 14,935 | 138 | 45 | (19,763) | (1,047) |
| Disposals of depreciation | - | 639 | 4,304 | 51 | 85 | - | 5,079 |
| Depreciation charge | - | (2,150) | (26,324) | (195) | (660) | - | (29,329) |
| **Carrying amount at 31 December 2017** | **20,650** | **79,514** | **90,320** | **557** | **3,402** | **76** | **194,519** |
| Cost at 31 December 2017 | 20,650 | 111,095 | 199,188 | 4,532 | 13,594 | 76 | **349,135** |
| Accumulated depreciation | - | (31,581) | (108,868) | (3,975) | (10,192) | - | **(154,616)** |
| **Carrying amount at 31 December 2017** | **20,650** | **79,514** | **90,320** | **557** | **3,402** | **76** | **194,519** |

### (a) Security

At 31 December 2017 property and equipment with a carrying amount of GEL 194,443 thousand (2016: GEL 186,990 thousand) is pledged under the secured bank loans (see note 17).

### (b) Other non-current assets

As at 31 December 2017 other non-current assets include uninstalled equipment of GEL 11,644 thousand and prepayments for non-current assets of GEL 1,863 thousand (2016: uninstalled equipment of GEL 8,897 thousand and prepayments for non-current assets of GEL 1,808 thousand).

### (c) Change in estimates

During 2016, the Group made a decision to abandon the CDMA technology due to the significant decline in the customer base of this particular technology. As a result, the remaining useful lives of the assets supporting the CDMA technology were reduced so that these assets will be fully depreciated by July 2017, when the Group expects to leave the CDMA business line.

During 2017, the Group revised the above decision and decided to prolong the licence for operating in the above business line until July 2018. The above change did not have a significant effect on the current year consolidated financial statements.

# 13. Intangible assets and contract costs

| **’000 GEL** | **Computer software licenses** | **Telecom operating licenses** | **Broadcasting rights** | **Goodwill** | **CSAC*** (note 5 (d)) | **Total** |
|---|---|---|---|---|---|---|
| Cost at 1 January 2016 | 10,783 | 21,083 | 10,120 | 2,894 | - | **44,880** |
| Accumulated amortization | (7,359) | (17,548) | (6,218) | - | - | **(31,125)** |
| **Carrying amount at 1 January 2016** | **3,424** | **3,535** | **3,902** | **2,894** | **-** | **13,755** |
| Additions | 1,664 | 3,177 | 5,797 | - | - | 10,638 |
| Amortization charge | (901) | (3,621) | (3,260) | - | - | (7,782) |
| Disposals | - | (4,858) | (4,260) | - | - | (9,118) |
| Disposals of amortization | - | 4,858 | 4,132 | - | - | 8,990 |
| **Carrying amount at 31 December 2016** | **4,187** | **3,091** | **6,311** | **2,894** | **-** | **16,483** |
| Cost at 31 December 2016 | 12,447 | 19,402 | 11,657 | 2,894 | - | **46,400** |
| Accumulated amortization | (8,260) | (16,311) | (5,346) | - | - | **(29,917)** |
| **Carrying amount at 31 December 2016** | **4,187** | **3,091** | **6,311** | **2,894** | **-** | **16,483** |
| Additions | 1,677 | 1,984 | 3,473 | - | 2,128 | **9,262** |
| Amortization charge | (1,448) | (2,281) | (4,904) | - | (586) | **(9,219)** |
| Disposals and derecognitions, gross | - | (1,780) | - | - | - | **(1,780)** |
| Disposals and derecognitions, amortization | - | 1,780 | - | - | - | **1,780** |
| **Carrying Amount at 31 December 2017** | **4,416** | **2,794** | **4,880** | **2,894** | **1,542** | **16,526** |
| Cost at 31 December 2017 | 14,124 | 19,606 | 15,130 | 2,894 | 2,128 | **53,882** |
| Accumulated amortization at 31 December 2017 | (9,708) | (16,812) | (10,250) | - | (586) | **(37,356)** |
| **Carrying Amount at 31 December 2017** | **4,416** | **2,794** | **4,880** | **2,894** | **1,542** | **16,526** |

The net book values at 31 December and expiry dates of the most significant telecom operating licenses are as follows:

| **License N and technology** | **(RF) Spectrum** | **Expiry date** | **31 December 2017 ’000 GEL** | **31 December 2016 ’000 GEL** |
|---|---|---|---|---|
| F98 (LTE**) | 2,300 MHz - 2,350 MHz | August, 2026 | 1,032 | 1,160 |
| F48 (LTE**) | 2,299 MHz – 2,350 MHz | May, 2026 | 474 | 579 |
| F53 (LTE**) | 2,300 MHz - 2,350 MHz | January, 2027 | 535 | 23 |
| | | | **2,041** | **1,762** |

* CSAC-Capitalized Subscribers Acquisition Cost
** Long-term evolution technology

# 14. Trade and other receivables

| **'000 GEL** | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Receivables from customers | 12,362 | 12,937 |
| Receivables from telecom operators | 2,088 | 1,639 |
| Other trade receivables | 1,604 | 1,473 |
| **Total trade receivables** | **16,054** | **16,049** |
| | | |
| Prepaid expenses | 4,237 | 3,351 |
| **Total trade and other receivables** | **20,291** | **19,400** |

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 19.

# 15. Cash and cash equivalents

| **'000 GEL** | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Bank balances | 2,267 | 1,036 |
| Cash in transit | 254 | 244 |
| **Total cash and cash equivalents** | **2,521** | **1,280** |

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

# 16. Equity

## (a) Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. As at 31 December 2017 and 2016 the Company's share capital was pledged under the secured bank loans (see note 17).

| *Number of shares* | **Ordinary shares** | |
|---|---|---|
| | **2017** | **2016** |
| In issue at 1 January | 68,171,901 | 68,171,901 |
| **In issue at 31 December, fully paid** | **68,171,901** | **68,171,901** |
| **Authorised shares - par value** | **1** | **1** |

## (b) Dividends

In February, 2017 the Company declared dividends of GEL 11,703 thousand to its shareholder (2016: GEL 10,352 thousand). This represented dividends of GEL 0.17 per share (2016: GEL 0.15 per share).

On 15 July 2016, the Charter of the Company was amended. The amendments included restrictions on dividend distribution. According to the new Charter, total dividends declared during any financial year will be restricted to 70% of the consolidated net income for the two preceding financial years less dividends paid during the same preceding two years.

### (c) Capital management

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

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

## 17. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 19.

| '000 GEL | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Secured bank loans – non-current | 37,482 | 65,732 |
| Secured bank loans – current | 4,619 | 16,370 |
| Unsecured bonds – non-current | 34,000 | - |
| Unsecured bonds – current | 425 | - |
| | **76,526** | **82,102** |

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| | | | | 31 December 2017 | |
|---|---|---|---|---|---|
| **'000 GEL** | **Currency** | **Nominal interest rate** | **Year of maturity** | **Face value** | **Carrying amount** |
| Secured bank loans | GEL | 12% | 2024 | 42,101 | 42,101 |
| Unsecured bonds | GEL | 3.5% + Refinancing rate | 2022 | 34,425 | 34,425 |
| **Total loans and borrowings** | | | | **76,526** | **76,526** |

| | | | | 31 December 2016 | |
|---|---|---|---|---|---|
| **'000 GEL** | **Currency** | **Nominal interest rate** | **Year of maturity** | **Face value** | **Carrying amount** |
| Secured bank loans | USD | 5-6% | 2017 | 1,589 | 1,589 |
| Secured bank loans | USD | 10.5% | 2021 | 2,534 | 2,534 |
| Secured bank loans | GEL | 12% | 2021 | 77,979 | 77,979 |
| **Total loans and borrowings** | | | | **82,102** | **82,102** |

In July 2017, loans payable to JSC Bank of Georgia were fully refinanced by the secured bank loans received from JSC TBC Bank. Loans payable to JSC TBC Bank mature in 2024 and bear interest rate of 12% till 2019 and a variable interest rate of 5.5% + the refinancing rate (monetary policy rate determined by the National Bank of Georgia) after 2019. The Group incurred a net refinancing fee of GEL 1,044 thousand as a result of the above transaction (see note 10).

In August 2017, the Group carried out the issuance, placement and registration (listing) of unsecured bonds on the Georgian Stock Exchange ("GSE"). As a result, the Group issued GEL 34 million unsecured bonds which bear a variable interest rate of 3.5% + the refinancing rate (monetary policy rate determined by the National Bank of Georgia), maturing in 2022. The proceeds from the above bonds were used for the early payment of the secured bank loan.

The secured bank loan is collateralised by the Company's share capital, inventories and property and equipment.

## (b) Changes in liabilities arising from financing activities

| '000 GEL | Dividends payable | Loans and borrowings | Total |
|---|---|---|---|
| Balance at 1 January 2017 | 123 | 82,102 | 82,225 |
| Proceeds from borrowings | - | 113,378 | 113,378 |
| Repayment of borrowings | - | (119,256) | (119,256) |
| Interest paid | - | (8,715) | (8,715) |
| Dividend paid | (8,788) | - | (8,788) |
| **Total changes from financing cash flows** | **(8,788)** | **(14,593)** | **(23,381)** |
| **The effect of changes in foreign exchange rates** | **-** | **(350)** | **(350)** |
| ***Other changes*** | | | |
| Interest expense | | 9,095 | 9,095 |
| Transaction cost * | | 272 | 272 |
| **Total liability-related other changes** | **-** | **9,367** | **9,367** |
| **Total equity-related other changes (see note 16 (b))** | **11,703** | **-** | **11,703** |
| **Balance at 31 December 2017** | **3,038** | **76,526** | **79,564** |

* Transaction cost of GEL 272 thousand relates to certain expenses incurred by the Group in relation to the issuance, placement and registration of unsecured bonds (see note 17 (a)).

# 18. Trade and other payables and contract liabilities from prepayments

| | 31 December 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| **’000 GEL** | **Non-current** | **Current** | **Non-current** | **Current** |
| Payable to suppliers | - | 14,568 | - | 14,406 |
| Payable for licenses and broadcasting rights | 1,200 | 4,486 | 1,557 | 5,524 |
| Payable for non-current assets | - | 3,720 | - | 7,774 |
| Payable to other operators | - | 2,895 | - | 1,617 |
| Taxes payable, other than on income | - | 726 | - | 1,219 |
| Advances received under IRU contracts | - | - | 25,525 | 3,457 |
| Advances received from subscribers | - | - | - | 1,672 |
| Deferred revenue | - | - | 1,683 | 2,395 |
| Dividend payable | - | 3,038 | - | 123 |
| Payable to employees | - | 1,397 | - | 265 |
| Other payables | - | 634 | - | 462 |
| **Total trade and other payables** | **1,200** | **31,464** | **28,765** | **38,914** |
| Contract liabilities, due to advances received under IRU contracts | 35,994 | 4,694 | - | - |
| Contract liabilities, due to advances received from subscribers | 1,609 | 4,407 | - | - |
| **Total contract liabilities from prepayments (note 5 (c))** | **37,603** | **9,101** | **-** | **-** |
| **Total** | **38,803** | **40,565** | **28,765** | **38,914** |

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

# 19. Fair values and financial risk management

## (a) Fair values of financial assets and liabilities

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

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

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

## (b) Financial risk management

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

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

### *(i) Risk management framework*

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

The Group's risk management policies 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 policies 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 shareholder oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### *(ii) 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 2017** | **31 December 2016** |
|---|---|---|
| Trade receivables | 16,054 | 16,049 |
| Loans due from related parties | 1,495 | 804 |
| Restricted deposit | - | 2,664 |
| Cash and cash equivalents | 2,521 | 1,280 |
| **Recognized financial assets** | **20,070** | **20,797** |
| **Credit related commitments (note 20 (c))** | **35,000** | **35,000** |

### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

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 incurred 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 ageing of trade and other receivables at the reporting date was as follows:

| **2017**<br>**'000 GEL** | **Gross** | **Impairment** | **Net** |
|---|---|---|---|
| Neither past due nor impaired | 15,400 | - | 15,400 |
| Past due less than 30 days | 328 | (97) | 231 |
| Past due 30-90 days | 480 | (214) | 266 |
| Past due 91-180 days | 524 | (394) | 130 |
| Past due 181-360 days | 603 | (576) | 27 |
| Past due more than 365 days | 13,089 | (13,089) | - |
| **Total** | **30,424** | **(14,370)** | **16,054** |

| **2016**<br>**'000 GEL** | **Gross** | **Impairment** | **Net** |
|---|---|---|---|
| Neither past due nor impaired | 15,455 | - | 15,455 |
| Past due less than 30 days | 297 | (89) | 208 |
| Past due 30-90 days | 426 | (188) | 238 |
| Past due 91-180 days | 452 | (329) | 123 |
| Past due 181-360 days | 517 | (492) | 25 |
| Past due more than 365 days | 11,496 | (11,496) | - |
| **Total** | **28,643** | **(12,594)** | **16,049** |

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

| **'000 GEL** | **2017** | **2016** |
|---|---|---|
| **At 1 January** | (12,594) | (14,127) |
| Charge for the year (note 10) | (1,776) | (1,503) |
| Amounts written off during the year as uncollectible | - | 3,036 |
| **At 31 December** | **(14,370)** | **(12,594)** |

An impairment rate of 100% was applied to gross trade and other receivables from retail customers overdue by more than 365 days, with lower impairment rates applied for ageing 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.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 30 days.

### Bank balances

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

### *(iii) 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 2017**

| ’000 GEL | Carrying amount | Total | On demand | Less than 3 mths | 3-12 mths | 1-5 yrs | Over 5 yrs |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Loans and borrowings | 76,526 | 112,224 | - | 3,227 | 9,668 | 84,690 | 14,639 |
| Trade and other payables | 32,664 | 32,664 | 26,980 | 1,644 | 2,840 | 1,200 | - |
| Credit related commitments | 35,000 | 35,000 | 35,000 | - | - | - | - |
| | **144,190** | **179,888** | **61,980** | **4,871** | **12,508** | **85,890** | **14,639** |

**31 December 2016**

| ’000 GEL | Carrying amount | Total | On demand | Less than 3 mths | 3-12 mths | 1-5 yrs | Over 5 yrs |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Loans and borrowings | 82,102 | 105,482 | - | 7,430 | 17,525 | 80,527 | - |
| Trade and other payables | 32,947 | 32,947 | 14,203 | 4,395 | 12,792 | 1,557 | - |
| Credit related commitments | 35,000 | 35,000 | 35,000 | - | - | - | - |
| | **150,049** | **173,429** | **49,203** | **11,825** | **30,317** | **82,084** | **-** |

As at 31 December 2017, the Company's current liabilities of GEL 37,054 thousand (which exclude the deferred revenue, included in the current portion of trade and other payables) were in excess of current assets by GEL 4,323 thousand. Notwithstanding the above, at the end of reporting date, the Group maintains an unused credit line facility of approximately GEL 10 million with JSC TBC Bank. Additionally, the Group generated a positive cash flow from operating activities of GEL 82,362 thousand during 2017. Accordingly, management does not see any issues with regards to its working capital.

In December 2017, the Group concluded an engagement letter with JSC TBC Bank (Georgian Bank with Long-Term Issuer Default Rating BB-/Stable Outlook). Under the above letter, the bank guaranteed the financing of up to USD 112,500 thousand for the possible acquisition of Geocell LLC (see note 26). JSC TBC Bank was also engaged as an arranger for the above loan, due to which the Group incurred costs of about GEL 2 million, included in professional fees (see note 8).

### *(iv) 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 2017, the Group's exposure to currency risk is mainly attributable to USD-denominated purchases.

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

| **'000 GEL** | **USD-denominated 31 December 2017** | **USD-denominated 31 December 2016** |
|---|---|---|
| Bank balances | 249 | 229 |
| Trade and other receivables | 978 | 1,097 |
| Due from related parties | 1,495 | 804 |
| Restricted deposit | - | 2,664 |
| Trade and other payables | (11,985) | (16,466) |
| Loans and borrowings | - | (4,123) |
| **Net exposure** | **(9,263)** | **(15,795)** |

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

| **in GEL** | **Average rate** | | **Reporting date spot rate** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| USD 1 | 2.5086 | 2.3667 | 2.5922 | 2.6468 |

***Sensitivity analysis***

A reasonably possible strengthening/(weakening) of GEL, as indicated below, against the USD as at 31 December 2017 and 2016 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 2017** | - | 926 | - | (926) |
| USD (10% movement) | | | | |
| **31 December 2016** | | | | |
| USD (10% movement) | - | 1,580 | - | (1,580) |

***Exposure to interest rate risk***

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

| '000 GEL | Carrying amount | |
|---|---|---|
| | **31 December 2017** | **31 December 2016** |
| **Fixed rate instruments** | | |
| Financial liabilities | 42,101 | 82,102 |
| | **42,101** | **82,102** |
| **Variable rate instruments** | | |
| Financial liabilities | 34,425 | - |
| | **34,425** | **-** |

***Fair value sensitivity analysis for fixed rate instruments***

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

***Cash flow sensitivity analysis for variable rate instruments***

A reasonably possible change of 100 basis points in interest rates at the reporting date would have affected profit or loss by GEL 344 thousand. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

## 20. Contingencies and commitments

### (a) Taxation contingencies

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

### (b) Litigation

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

### (c) Credit related commitments

In 2017, the Group guaranteed the indebtedness of the parent company in the amount of GEL 35,000 thousand (2016: GEL 35,000 thousand).

The facility amounts represent the maximum accounting loss that would be recognized at the reporting dates if counterparties failed completely to perform as contracted. Therefore, the total outstanding contractual commitment does not necessarily represent future cash requirements, as the commitment may expire or terminate without being funded. As at 31 December 2017 and 2016 no events of default under the agreements occurred and management believes that the probability of any of the counterparties failing to meet their contractual obligations under the respective agreements was remote. Therefore, no provision was recognized for the arrangements.

# 21. Related parties

## (a) Parent and ultimate controlling party

The Company's immediate and ultimate parent company is Rhinestream Holdings Limited. The Company is ultimately controlled by an individual, Giorgi Ramishvili. No publicly available financial statements as at 31 December 2017 and 31 December 2016 are produced by the Company's parent company or ultimate controlling party.

## (b) Key management remuneration

Key management received the following remuneration during the year:

| '000 GEL | 2017 | 2016 |
|---|---|---|
| Salaries | 1,501 | 1,982 |
| Bonuses | 2,165 | 3,093 |
| | **3,666** | **5,075** |

## (c) Other related party transactions

| '000 GEL | Transaction value for the year ended 31 December | | Outstanding balance as at 31 December | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Loans issued:** | | | | |
| Other related party | 569 | 534 | 1,495 | 804 |
| **Professional fees:** | | | | |
| Entities under common control | - | 296 | - | - |
| **Fuel and lubricants used:** | | | | |
| Entities under common control | 467 | 297 | (49) | (34) |
| **Purchase of goods and services from subsidiaries:** | | | | |
| Marketing | 329 | - | (3) | - |

In 2016, the dividend payable of GEL 1,530 thousand was settled against the loan receivable from the parent company. The loan receivable from the other related party in amount of GEL 1,495 thousand (31 December 2015: GEL 804 thousand) bears an interest rate of 12% and matures in 2018.

During 2017 interest income of GEL 121 thousand (2016: GEL 110 thousand) was recognised in profit and loss in respect of related party loans.

*Credit related commitments*

In 2017, the Group guaranteed the indebtedness of related parties of GEL 35,000 thousand (2016: GEL 35,000 thousand) (see note 20 (c)).

## 22. Subsidiaries

| Subsidiary | Country of incorporation | 31 December 2017 Ownership/voting | 31 December 2016 Ownership/voting |
|---|---|---|---|
| Qarva LLC | Georgia | 51% | 51% |
| WiMax Georgia LLC | Georgia | 100% | 100% |
| Novus LLC | Georgia | 100% | 100% |
| NG Georgia | Georgia | 100% | 100% |

### (a) Significant business combinations

On 30 June 2014, the Group acquired an 85% ownership in Georgia Media Network LLC, one of the Group's IPTV content providers, for a cash consideration of GEL 4,575 thousand. The business combination was undertaken to gain control over the supply and development of the IPTV content and achieve cost-savings as a result of the vertical integration.

On 20 December 2016, the Group acquired an additional 15% interest in Georgia Media Network LLC, increasing its ownership to 100%. On the same date, the Group merged with Georgia Media Network LLC. The Group has recognized the difference between the carrying amount of Georgia Media Network LLC’s negative net assets in the consolidated financial statements on the date of acquisition of GEL 338 thousand and consideration payable for the acquisition of 15% interest of GEL 502 thousand directly in equity.

## 23. 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.

## 24. Significant accounting policies

The accounting policies set out below have been applied consistently (except for those, mentioned in note 5) to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. Note 24 (b) of these consolidated financial statements discloses pre-IFRS 15 accounting policies for the recognition and measurement of revenue.

### (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) Pre-IFRS 15 accounting policy for the recognition and measurement of revenue**

Revenue is recognized to the extent the Group has rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is measured at the fair value of the consideration received, exclusive of sales taxes and discounts. Revenue from the services, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service.

The Group has the following main revenue streams: internet and internet television (IPTV) services, fixed line and wireless telephone services, which mainly consists of connection, airtime usage and monthly subscription fees, interconnect services and rent of lines. Revenue is recognized net of credits and adjustments for service discounts, value-added and excise taxes.

*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.

*Internet and internet television services:* Revenue from internet and IPTV provision primarily consists of monthly fixed charges for usage of an internet connection and IPTV services and is recognized as the service is provided.

*Fixed line and wireless telephone services:* 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.

*Facility rental:* 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.

**(c) Finance income and costs**

The Group's finance income and finance costs include:

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

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

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

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

**(d) Foreign currency transactions**

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

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

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

**(e) Income tax**

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

***(i) Current tax***

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

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

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

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

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

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

## (f) Inventories

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

## (g) Property and equipment

### *(i) Recognition and measurement*

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

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

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

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

### *(ii) Subsequent expenditure*

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

### *(iii) Depreciation*

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

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

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

- buildings and facilities 25 -50 years;
- machinery and equipment 3-20 years;
- vehicles, furniture and fixture 3-5 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (h) Intangible assets

#### *(i) Goodwill*

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

#### *(ii) Other intangible assets*

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

#### *(iii) Subsequent expenditure*

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

#### *(iv) Amortisation*

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

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

### (i) Financial instruments

Non-derivative financial instruments comprise loans and receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

#### *(i) 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.

***Loans and receivables***

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise the following classes of financial assets: loans receivable, trade and other receivables, restricted deposit and cash and cash equivalents.

***Cash and cash equivalents***

Cash and cash equivalents comprise bank balances with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

***(ii) Non-derivative financial liabilities – measurement***

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Other financial liabilities comprise loans and borrowings and trade and other payables.

***(iii) 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.

**(j) 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.

**(k) 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.

### (l) Leases

#### _(i) Determining whether an arrangement contains a lease_

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

IRU ("Indefeasible Right to Use") arrangements are not classified as leases. For IRU contracts with an effective term of 20 years, where the obligation for the network maintenance and the related risk of return remains with the Group during the life of the contract, the Group recognizes any up-front payments received from the suppliers in profit or loss on a straight-line basis over the term of the contract.

#### _(ii) Leased assets_

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. All leases are operating leases and the leased assets are not derecognised from the Group's consolidated statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

### (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.

## 25. New standards and interpretations

### (a) Estimated impact of the adoption of IFRS 9

The Group is required to adopt IFRS 9 Financial Instruments from 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 (see note 25 (b)) will have on its consolidated financial statements. The estimated impact of the adoption of this standard on the Group's equity as at 1 January 2018 is based on preliminary assessments undertaken to date and is summarised below.

| _**In thousands of GEL**_ | **Impact of changes in accounting policy** | | |
|---|---|---|---|
| **31 December 2017** | **As reported at 31 December 2017** | **Estimated adjustments due to adoption of IFRS 9** | **Estimated adjusted opening balance at 1 January 2018** |
| Retained earnings | 31,968 | (501) | 31,467 |
| | **31,968** | **(501)** | **31,467** |

### (b) IFRS 9 Financial Instruments

IFRS 9 _Financial Instruments_ 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_.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology, the Group has estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in additional impairment losses as disclosed in note 25 (a).

### (c) IFRS 16 *Leases*

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 Operating Leases—Incentives and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. The actual impact of applying IFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

## 26. Events subsequent to the reporting date

In January 2018 the Group signed a share-purchase agreement to acquire a 100% holding in Georgia's second-largest mobile operator, Geocell LLC (the Target), for a transaction price of USD 153 million, roughly corresponding to an EV/EBITDA multiple of 4.5. The Target has more than 1.7 million mobile voice and almost 1 million mobile data subscribers representing approximately 35% of the local market. The transaction will be financed through a combination of debt (see note 19 (b) (iii)), raised from local financial institutions, and equity.

The acquisition of Geocell LLC is subject to GNCC approval. As at the date these consolidated financial statements were authorised for issue, management expects that GNCC will approve the above acquisition by the end of March 2018. The completion of the transaction above is expected to be finalized shortly after the GNCC approval.

In January, 2018 the Group acquired the pay TV operating segment from JSC Global TV Group (three Georgian companies are considered under the Group: JSC Global Contact Consulting, JSC Eurasia XX1 and JSC Global TV) for the consideration of GEL 5,095 thousand, net of VAT. Considering the fact that the assets acquired and liabilities assumed constitute a business, the Group accounts for this transaction as a business acquisition, pursuant to the requirements of IFRS 3 *Business Combination*. As at the date these consolidated financial statements were authorised for issue the initial accounting for the above business combination is not complete and thus, it is impracticable for the Group to make any additional disclosures, except for those, mentioned above.