# Vibro Diagnostik, branch of a foreign entity Vibro Diagnostik – F.Z.E

Financial statements

*for the year ended 31 December 2019*
*with independent auditor's report*

**FINANCIAL STATEMENTS**
**for the year ended 31 December 2019**

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# Independent auditor's report

To the Management and Owner of Vibro Diagnostik, a branch of a foreign entity Vibro Diagnostik – F.Z.E

## *Disclaimer of opinion*

We were engaged to audit the financial statements of Vibro Diagnostik, a branch of a foreign entity Vibro Diagnostik F.Z.E. (the "Branch"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the *Basis for disclaimer of opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

## *Basis for disclaimer of opinion*

As described in Note 2 to the accompanying financial statements, as at 31 December 2019 the Branch's current liabilities exceeded its current assets by GEL 44,413 thousand, and a significant portion of the trade payables and borrowings were overdue. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Branch's ability to continue as a going concern. In Note 2 to the accompanying financial statements, management has disclosed its plan for future action, which, it believes, will remedy the Branch's financial difficulties as well as its assessment of the appropriateness of use of the going concern assumption in the preparation and presentation of these financial statements. Management has not been able to provide us with sufficient appropriate audit evidence about its plan for future actions. As a result, we were unable to determine whether management's use of the going concern assumption was appropriate.

We were unable to obtain sufficient appropriate audit evidence in respect of payable for transhipment to a non-related party which is included in trade and other payables in the statement of financial position in the amount of GEL 7,471 thousand, GEL 7,988 thousand and GEL 8,394 thousand as at 31 December 2019, 31 December 2018 and 1 January 2018, respectively.

We were unable to obtain sufficient appropriate audit evidence in respect of payable for transhipment to a related party which is included in trade and other payables in the statement of financial position in the amount of GEL 3,716 thousand as at 31 December 2019, 31 December 2018 and 1 January 2018.

We were unable to obtain sufficient appropriate audit evidence in respect of advances received from a non-related party which are included in advances received in the statement of financial position at GEL 4,216 thousand as at 31 December 2019, 31 December 2018 and 1 January 2018.

As a result of these matters, we were unable to determine whether any adjustments may have been necessary in respect of accounting or presentation if the financial statements were presented on a basis other than going concern, or any other adjustments which may have been necessary in respect to recorded or unrecorded trade and other payables or advances received, and the related elements included in the statement of comprehensive income, statement of changes in equity and statement of cash flows.

## *Departures from International Financial Reporting Standards*

The Branch has material cross-border transactions with related parties and entities residing in controlled countries, as defined by the transfer pricing regulation of Georgia. The Branch has not performed an assessment of these transactions for their compliance with the transfer pricing rules and has not accrued a provision or disclosed contingent liability for

respective risks. This represents a departure from *IAS 37 Provisions, Contingent Liabilities and Contingent Assets,* which requires the creation of provision for all potential liabilities, where outflow of resources is probable. The effect on the financial statements of this departure from IFRS has not been determined.

### *Other information included in the Company's 2019 Annual report*

Other information consists of the information included in the Annual report, other than the financial statements and our auditor's report thereon Management is responsible for the other information. The Company's 2019 Annual report is expected to be made available to us after the date of this auditor's report.

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

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

### *Responsibilities of management for the financial statements*

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

In preparing the financial statements, management is responsible for assessing the Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

*Auditor's responsibilities for the audit of the financial statements*

Our responsibility is to conduct an audit of the Branch's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Branch in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Ruslan Khoroshvili
On behalf of EY LLC
Tbilisi, Georgia
30 September 2020

## STATEMENT OF COMPREHENSIVE INCOME
**for the year ended 31 December**

*(Thousands of Georgian Lari unless otherwise stated)*

| | Notes | 2019 | 2018 |
|---|---|---|---|
| Revenue | 6 | 6,405 | 8,366 |
| Cost of sales | 7 | (4,643) | (5,968) |
| **Gross profit** | | **1,762** | **2,398** |
| General and administrative expenses | 8 | (1,062) | (1,046) |
| Provision for bad debts | 11 | (35) | (24) |
| Other operating income | 9 | 9 | 891 |
| Other operating expenses | 9 | – | (1,890) |
| **Operating profit** | | **674** | **329** |
| Finance costs | 13 | (6,068) | (7,051) |
| Non-operating expense | | (212) | (204) |
| Foreign exchange loss, net | | (6,185) | (3,024) |
| **Loss before income tax** | | **(11,791)** | **(9,950)** |
| Income tax expense | | – | – |
| **Loss for the year** | | **(11,791)** | **(9,950)** |
| Other comprehensive income | | – | – |
| **Total comprehensive loss for the year** | | **(11,791)** | **(9,950)** |

Approved for issue and signed on 30 September 2020

Soliko Pridonashvili
Director

Lasha Kharebava
Chief Accountant

*The accompanying notes on pages 8-24 are an integral part of these financial statements.*

## STATEMENT OF FINANCIAL POSITION
## as at 31 December

*(Thousands of Georgian Lari unless otherwise stated)*

| | Notes | 31 December 2019 | 31 December 2018 | 1 January 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 10 | 9,453 | 10,112 | 10,783 |
| Right of use assets | 11 | 1,000 | 1,077 | 1,154 |
| Intangible assets | | 3 | 3 | 3 |
| **Total non-current assets** | | **10,456** | **11,192** | **11,940** |
| **Current assets** | | | | |
| Trade and other receivables | 11 | 148 | 57 | 12,577 |
| Prepayments and other assets | | 38 | 30 | 28 |
| Tax assets, net | | 308 | 288 | 323 |
| Restricted cash | 12 | 200 | 200 | 200 |
| Cash and cash equivalents | 12 | 399 | 103 | 138 |
| **Total current assets** | | **1,093** | **678** | **13,266** |
| **Total assets** | | **11,549** | **11,870** | **25,206** |
| **Equity and liabilities** | | | | |
| **Equity** | | | | |
| Owner's contributions | 16 | 6,240 | 6,240 | 6,193 |
| Accumulated losses | | (107,635) | (95,844) | (85,894) |
| **Total equity** | | **(101,395)** | **(89,604)** | **(79,701)** |
| **Non-current liabilities** | | | | |
| Borrowings | 13 | 66,232 | 18,253 | 56,955 |
| Lease liabilities | 11 | 1,206 | 1,178 | 1,194 |
| **Total non-current liabilities** | | **67,438** | **19,431** | **58,149** |
| **Current liabilities** | | | | |
| Borrowings | 13 | 22,088 | 59,293 | 15,630 |
| Lease liabilities | 11 | 912 | 683 | 491 |
| Trade and other payables | 14 | 11,240 | 11,467 | 25,633 |
| Advances received | 15 | 8,931 | 8,404 | 4,216 |
| Other current liabilities | | 2,335 | 2,196 | 788 |
| **Total current liabilities** | | **45,506** | **82,043** | **46,758** |
| **Total liabilities** | | **112,944** | **101,474** | **104,907** |
| **Total equity and liabilities** | | **11,549** | **11,870** | **25,206** |

*The accompanying notes on pages 8-24 are an integral part of these financial statements.*

**STATEMENT OF CHANGES IN EQUITY**
**for the year ended 31 December**

*(Thousands of Georgian Lari unless otherwise stated)*

| | Owner's contributions | Accumulated Losses | Total |
|---|---|---|---|
| **As at 1 January 2018** | **6,193** | **(85,894)** | **(79,701)** |
| Additions to Owner's contributions | **47** | – | **47** |
| Total comprehensive loss for the year | – | (9,950) | **(9,950)** |
| **As at 31 December 2018** | **6,240** | **(95,844)** | **(89,604)** |
| Total comprehensive loss for the year | – | (11,791) | **(11,791)** |
| **As at 31 December 2019** | **6,240** | **(107,635)** | **(101,395)** |

*The accompanying notes on pages 8-24 are an integral part of these financial statements.*

## STATEMENT OF CASH FLOWS
**for the year ended 31 December**

*(Thousands of Georgian Lari unless otherwise stated)*

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before income tax | | (11,791) | (9,950) |
| *Non-cash adjustments to reconcile loss before tax to net cash flows* | | | |
| Depreciation | | 748 | 749 |
| Impairment of trade and other receivables | | 35 | 24 |
| Net foreign exchange loss on investing and financing activities | | 5,647 | 2,425 |
| Finance costs | | 6,068 | 7,051 |
| **Operating cash flow before working capital changes** | | **707** | **299** |
| *Working capital adjustments* | | | |
| Change in tax assets, other than income tax | | (20) | 35 |
| Change in prepayments and other assets | | (8) | (2) |
| Change in trade and other receivables * | | (126) | (622) |
| Change in trade and other payables * | | (227) | (1,048) |
| Change in advances received | | 527 | 4,188 |
| Change in other current liabilities | | 139 | 1,408 |
| **Net cash flows from operating activities** | | **1,423** | **4,258** |
| **Investing activities** | | | |
| Payments for property, plant and equipment | | (12) | (1) |
| **Net cash flows used in investing activities** | | **(12)** | **(1)** |
| **Financing activities** | | | |
| Increase in Owner's contribution | | – | 47 |
| Proceeds from borrowings | | 4,427 | 555 |
| Repayment of borrowings | 14 | (5,111) | (4,894) |
| **Net cash flows used in financing activities** | | **(684)** | **(4,292)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **296** | **(35)** |
| Cash and cash equivalents at 1 January | 13 | 103 | 138 |
| **Cash and cash equivalents at 31 December** | 13 | **399** | **103** |

** In 2018, the Branch offseted trade receivables and trade payables of GEL 13,181 (Note 6), which was treated as non-cash transaction for the purposes of the statement of cash flows.*

*(Thousands of Georgian Lari unless otherwise stated)*

## 1. Corporate information

Vibro Diagnostik (hereinafter "the Branch") was registered on 27 December 2013 as a branch of a foreign entity Vibro Diagnostik – F.Z.E (registered in United Arab Emirates; hereinafter "the Owner"). The registered office of the Branch is Volski str. N2, Batumi, Georgia. Main activities of the Branch include transhipment and storage of oil and oil products.

As at 31 December 2019, 31 December 2018 and 1 January 2018, the Owner's shareholder structure was as follows:

| | |
|---|---|
| Eduard Surlevich (a citizen of Kazakhstan) | 66% |
| Otar Katamadze (a citizen of Georgia) | 12% |
| Givi Gigineishvili (a citizen of Georgia) | 11% |
| Rati Ghvamberia (a citizen of Georgia) | 11% |
| | **100%** |

In June 2016, the Owner signed an agreement with GR Trans-shipment LLC (100% subsidiary of JSC Georgian Railway) according to which GR Trans-shipment LLC provides management services to the Branch in exchange for quarterly service fee payments. The management agreement is valid until May 2023. The Branch's main assets are 11 oil reservoirs located on a rented land plot on the territory of the Batumi Oil Terminal, which has access to Batumi Sea Port and connection to the Georgian Railway network.

These financial statements have not yet been approved by shareholders at their meeting. The shareholders have the power and authority to amend the financial statements after the issuance.

## 2. Going concern

As at 31 December 2019, the Branch's current liabilities exceeded its current assets by GEL 44,413 (2018: GEL 82,340). The Branch generated a net loss of GEL 11,791 in 2019 (2018: GEL 10,136) which are mostly related to finance costs and foreign exchange losses attributable to borrowings. The Branch has an ongoing material litigation with one of its major counterparties (Note 18). These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Branch's ability to continue as a going concern.

In July 2019, the Branch restructured its loan from Georgian commercial bank (Note 14). In June 2020, the Branch's related parties JSC Tbilisi Tobacco, JSC Tobacco Holdings and JSC Geo distributions signed guarantee agreements relating to loan from Georgian commercial bank (Note 14).

However, there are risks and uncertainties, many of which are beyond management's control, which could cause a deviation between actual results and those expected. As of now, all the operations are based on the assumption that the business will be continued. Statements regarding going concern are primarily based on current expectations of continued support from shareholders. The financial statements are prepared on the basis that the Branch will continue to be a going concern and will realise its assets and discharge its liabilities in the ordinary course of business.

## 3. Significant accounting policies

### 3.1 Basis of preparation

These financial statements, for the year ended 31 December 2019, are the first the Branch has prepared in accordance with International Financial Reporting Standards (IFRS). No previous financial statements were prepared in accordance with other generally accepted accounting principles. The Branch has prepared financial statements that comply with IFRS applicable as at 31 December 2019, together with the comparative period data for the year ended 31 December 2018. In preparing the financial statements, the Branch's opening statement of financial position was prepared as at 1 January 2018, the Branch's date of transition to IFRS. No exemptions allowed under IFRS 1 were used by the Branch. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

*(Thousands of Georgian Lari unless otherwise stated)*

## 3. Significant accounting policies (continued)

### 3.1 Basis of preparation (continued)

The financial statements have been prepared on the historical cost basis. The financial statements are presented in Georgian Lari (GEL) and all values are rounded to the nearest thousand, except when otherwise indicated.

### 3.2 Summary of significant accounting policies

The following are significant accounting policies applied by the Branch in preparing its financial statements:

#### (a) Current versus non-current classification

The Branch presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Branch classifies all other liabilities as non-current.

#### (b) Foreign currency

The Branch's financial statements are presented in GEL, which is also the Branch's functional currency. Transactions in foreign currencies are initially recorded in functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at GEL currency spot rate of exchange ruling at the reporting date. All differences are recognised in the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### (c) Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Branch expects to be entitled in exchange for those goods or services.

The Branch assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Branch has concluded that it is the principal in all of its revenue arrangements (as it typically controls the goods and services before transferring them to the customer).

In the financial statements, the Branch recognises revenue for the following:

*Transhipment of goods*

Revenue from transhipment of goods is recognized at a point in time when control of the goods is transferred to the customer, generally when the goods are handed over to the customers. Revenue is recorded at an amount that reflects the consideration to which the Branch expects to be entitled in exchange for those goods.

***Contract balances***

*Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Branch performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is

*(Thousands of Georgian Lari unless otherwise stated)*

conditional. The Branch does not have contract assets.

*(Thousands of Georgian Lari unless otherwise stated)*

## 3. Significant accounting policies (continued)

### 3.2 Summary of significant accounting policies (continued)

### (c) Revenue recognition (continued)

*Trade receivables*

A receivable represents the Branch's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

*Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Branch has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Branch transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Branch performs obligations under the contract.

### (d) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Expenditures incurred after the property, plant and equipment have been put into operations, such as repair and maintenance costs, are normally charged to the profit or loss in the period the costs are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

| | Years |
|---|---|
| Buildings and other constructions | 20 |
| Furniture and fixtures | 5 |
| Vehicles | 5 |

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

### (e) Impairment of non-financial assets

The Branch assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Branch estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Branch bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for the Branch's CGU to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses recognised in respect of CGU are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses are recognised in the profit or loss.

*(Thousands of Georgian Lari unless otherwise stated)*

## 3. Significant accounting policies (continued)

### 3.2 Summary of significant accounting policies (continued)

### (e) Impairment of non-financial assets (continued)

An assessment is made at each reporting date as to whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Branch estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

### (f) Taxes

***Income tax***

The annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017. Corporate income tax is paid on dividends is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia. Withholding tax payable in respect of dividend distribution to the shareholders of the Branch is recognized as deduction from equity in the statement of changes in equity.

Georgian tax legislation also provides for charging corporate income tax on certain transactions that are considered deemed profit distributions (for example, transactions at non-market prices, non-business related expenses or supply of goods and services free of charge). Taxation of such transactions is accounted similar to operating taxes and is reported as other taxes within cost of sales in the profit or loss.

***Value added tax***

Revenues, expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- When receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of tax assets, net of tax liabilities, net in the statement of financial position.

### (g) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

***(i) Financial assets***

*Initial recognition and subsequent measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Branch's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Branch has applied the practical expedient, the Branch initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

*(Thousands of Georgian Lari unless otherwise stated)*

## 3. Significant accounting policies (continued)

### 3.2 Summary of significant accounting policies (continued)

### (g) Financial instruments (continued)

#### *(i) Financial assets (continued)*

Trade receivables that do not contain a significant financing component or for which the Branch has applied the practical expedient are measured at the transaction price determined under IFRS 15 *Revenue from Contracts with Customers*.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Branch's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Branch commits to purchase or sell the asset.

For the purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

The Branch measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

*Trade receivables*

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised as incurred.

All financial assets that the Branch owns at 31 December 2019, 31 December 2018 and 1 January 2018 are measured at amortised cost and include cash and cash equivalents, restricted cash and trade and other receivables.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Branch's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Branch has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Branch has transferred substantially all the risks and rewards of the asset, or (b) the Branch has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset

*(Thousands of Georgian Lari unless otherwise stated)*

## 3. Significant accounting policies (continued)

### 3.2 Summary of significant accounting policies (continued)

### (g) Financial instruments (continued)

#### *(i) Financial assets (continued)*

*Derecognition (continued)*

When the Branch has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Branch continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Branch also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained.

**Impairment of financial assets**

The Branch recognises an allowance for expected credit losses (ECLs) for all financial assets at amortized cost. The Branch applies a simplified approach in calculating ECLs. Therefore, the Branch does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Branch considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Branch may also consider a financial asset to be in default when internal or external information indicates that the Branch is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Branch. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the profit or loss.

#### *(ii) Financial liabilities*

*Initial recognition and subsequent measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

All financial liabilities of the Branch as at 31 December 2019, 31 December 2018 and 1 January 2018 are classified as loans and borrowings and comprise of borrowings, trade and other payables and other current liabilities.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the profit or loss.

***Derecognition***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

#### *(iii) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

*(Thousands of Georgian Lari unless otherwise stated)*

## 3. Significant accounting policies (continued)

### 3.2 Summary of significant accounting policies (continued)

#### (h) Cash and cash equivalents

Cash includes cash on hand and cash in bank. Cash in bank comprises of current accounts.

#### (i) Restricted cash

The Branch classifies cash pledged for services with maturity of more than three months as a restricted cash. Such cash is frozen by the commercial bank and is not available for use by the Branch.

#### (j) Leases

The Branch assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Branch as a lessee*

The Branch applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Branch recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

***(i) Right-of-use assets***

The Branch recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives for plant and machinery from 6 to 30 years.

If ownership of the leased asset transfers to the Branch at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section *Impairment of non-financial assets*.

At the commencement date of the lease, the Branch recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Branch and payments of penalties for terminating the lease, if the lease term reflects the Branch exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Branch uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. For further information, please refer to Note 11.

***(ii) Short-term leases and leases of low-value assets***

The Branch applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

*(Thousands of Georgian Lari unless otherwise stated)*

## 3. Significant accounting policies (continued)

### 3.2 Summary of significant accounting policies (continued)

### (j) Leases (continued)

*Branch as a lessor*

Leases in which the Branch does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income and is classified revenue under Revenue (Note 6). Contingent rents are recognised as revenue in the period in which they are earned.

### (k) Transactions with entities under common control

All transactions with entities under common control are measured at cost. In the cases when transactions do not include consideration, they are measured at zero.

## 4. Standards issued but not yet effective

Up to the date of approval of the financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Branch has not early adopted. Such standards that are not expected to have a significant impact on the Branch are as follows:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material

## 5. Significant accounting judgements, estimates and assumptions

The preparation of the Branch's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Branch based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Branch. Such changes are reflected in the assumptions when they occur.

### *(i) Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on Discounted Cash Flow (DCF) model. The cash flows are derived from budget for the next five years and do not include restructuring activities that the Branch is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Based on the assumptions used by the Branch's management no impairment of non-financial assets was recorded in the financial statements. For details please refer to Note 10.

*(Thousands of Georgian Lari unless otherwise stated)*

## 5. Significant accounting judgements, estimates and assumptions (continued)

**Estimates and assumptions (continued)**

***(ii) Provision for expected credit losses of trade and other receivables***

The impairment provision for accounts receivable is based on the Branch's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates. All of the trade and other receivables of the Branch are assessed individually for impairment provision.

Actual results may differ from the estimates and the Branch's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure (Note 12).

***(iii) Assessment of potential tax liabilities***

Uncertainties exist with respect to the interpretation of complex tax regulations. The Branch establishes provisions, based on reasonable estimates, for possible consequences of inspections by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax inspections and differing interpretations of tax regulations by the taxable entity and the responsible tax authorities. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country. Note 18 discloses specific circumstances related to the Branch's tax positions.

## 6. Revenue

| | 2019 | 2018 |
|---|---|---|
| Revenue from transhipment services | 6,405 | 8,366 |
| **Total revenue** | **6,405** | **8,366** |

The Branch recognised the following revenue-related assets and liabilities:

| | 31 December 2019 | 31 December 2018 | 1 January 2018 |
|---|---|---|---|
| Trade and other receivables (Note 12) | 148 | 57 | 12,577 |
| Contract liabilities (Note 16) | (470) | (227) | – |

Trade receivables are recognized when the right to consideration becomes unconditional. Trade receivables from transhipment services are denominated in GEL, as well as in USD and are generally on 30-90 days' term. None of trade receivables bear interest.

As at 31 December 2018, trade and other receivables significantly decreased as compared to 1 January 2018, as the Branch signed legally binding three party agreement with its related parties in 2018 offsetting its trade receivables and trade payables by GEL 13,181.

Contract liabilities are received consideration from the customers and represent the Branch's obligation to transfer goods or provide services to these customers. Contract liabilities of the Branch of GEL 528 is expected to be recognised as revenue in 2020 related to performance obligations that are unsatisfied at the reporting date.

## 7. Cost of sales

| | 2019 | 2018 |
|---|---|---|
| Cost of transhipment service | 3,455 | 4,847 |
| Salary and other employee benefits | 334 | 277 |
| Depreciation and amortisation expense (Notes 10 ,11) | 748 | 749 |
| Insurance expense | 99 | 88 |
| Maintenance and utility expense | 7 | 7 |
| **Total cost of sales** | **4,643** | **5,968** |

*(Thousands of Georgian Lari unless otherwise stated)*

## 8. General and administrative expenses

| | 2019 | 2018 |
|---|---|---|
| Salary and other employee benefits | 810 | 794 |
| Other tax expenses | 100 | 107 |
| Professional service fee | 74 | 52 |
| Other | 78 | 93 |
| **Total general and administrative expenses** | **1,062** | **1,046** |

## 9. Other operating income and expenses

| | 2019 | 2018 |
|---|---|---|
| Income from fines charged to customers | – | 856 |
| Income from demurrage | – | 19 |
| Other income | 9 | 16 |
| **Total other operating income** | **9** | **891** |

| | 2019 | 2018 |
|---|---|---|
| Accrued provision relating to taxes (Note 18) | | (1,008) |
| Fines for service delay and product quality deterioration | – | (855) |
| Demurrage charges | – | (27) |
| **Total other operating expenses** | – | **(1,890)** |

## 10. Property, plant and equipment

| | *Buildings and other construc-tions* | *Vehicles* | *Furniture and fixtures* | *Construc-tion in process* | **Total** |
|---|---|---|---|---|---|
| **Gross book value** | | | | | |
| **At 1 January 2018** | **12,702** | **71** | **118** | **254** | **13,145** |
| Additions | 1 | – | – | – | **1** |
| **At 31 December 2018** | **12,703** | **71** | **118** | **254** | **13,146** |
| Additions | – | – | 12 | – | **12** |
| **At 31 December 2019** | **12,703** | **71** | **130** | **254** | **13,158** |
| **Accumulated depreciation and impairment charges** | | | | | |
| **At 1 January 2018** | **(2,022)** | **(32)** | **(54)** | **(254)** | **(2,362)** |
| Depreciation charge for the year | (635) | (14) | (23) | – | **(672)** |
| **At 31 December 2018** | **(2,657)** | **(46)** | **(77)** | **(254)** | **(3,034)** |
| Depreciation charge for the year | (635) | (13) | (23) | – | **(671)** |
| **At 31 December 2019** | **(3,292)** | **(59)** | **(100)** | **(254)** | **(3,705)** |
| **Net book value** | | | | | |
| **At 1 January 2018** | **10,680** | **39** | **64** | – | **10,783** |
| **At 31 December 2018** | **10,046** | **25** | **41** | – | **10,112** |
| **At 31 December 2019** | **9,411** | **12** | **30** | – | **9,453** |

As a security for its counter-claim the BOT has requested and the court has granted a lien on the property of the Branch totalling GEL 9,453. For more details on legal cases please refer to Note 18.

*Impairment testing of property, plant and equipment*

As a result of impairment testing, management concluded its property, plant and equipment are not impaired as at 31 December 2019, 31 December 2018 and 1 January 2018. The Branch has engaged an independent specialist to perform impairment testing of its property, plant and equipment. The recoverable amount has been determined as value in use calculated using cash flow projections based on financial budgets approved by management. The pre-tax discount rate applied to cash flow projections was 14.7%.

*(Thousands of Georgian Lari unless otherwise stated)*

## 5. Significant accounting judgements, estimates and assumptions (continued)

*Impairment testing of property, plant and equipment (continued)*

Discount rate represents the current market assessment of the risks specific to the business activities of the Branch, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Branch and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Branch's investors. The cost of debt is based on the interest-bearing borrowings the Branch is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. A rise in the pre-tax discount rate to 23.2% (i.e. +850 basis points) would result in a further impairment.

The following assumptions were used in impairment testing of property, plant and equipment:

- Compound average growth rate for the period 2020-2022 is 9.2% - according to market trends, caused by a current economic environment and political situation. Reduction of compound average growth rate to zero would result in a further impairment;
- Long-term growth rate is 2.3% is applied for 2023 and beyond.
- Gross margin is budgeted at 40% on average. Decreased demand can lead to a decline in the gross margin. A decrease in the budgeted margin to 30% would result in a further impairment.

## 11. Right of use assets and lease liabilities

**Branch as a lessee**

The Branch has three lease contracts for land and buildings with a lease term from 6 and 30 years. The Branch's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Branch is restricted from assigning and subleasing leased assets. The lease agreement does not require the Branch to maintain certain financial ratios.

Set out below are the carrying amounts of right of use asset recognised and the movements during the period:

| | *Right of use assets* |
|---|---|
| **As at 1 January 2018** | **1,154** |
| Depreciation charge | (77) |
| **As at 31 December 2018** | **1,077** |
| Depreciation expense | (77) |
| **As at 31 December 2019** | **1,000** |

Set out below are the carrying amount of lease liabilities and the movements during the period:

| | 2019 | 2018 |
|---|---|---|
| **As at 1 January** | **1,861** | **1,685** |
| Accretion of interest | 122 | 115 |
| Foreign exchange differences | 135 | 61 |
| **As at 31 December** | **2,118** | **1,861** |
| Current | 912 | 683 |
| Non-current | 1,206 | 1,178 |

As at 31 December 2019 and 2018, the Branch applied incremental borrowing rate of 8.7%.

The maturity analysis of lease liabilities based on contractual undiscounted payments is as follows:

| | *On demand* | Less than 3 months | 3 to 12 months | 1 to 5 years | *More than 5 years* |
|---|---|---|---|---|---|
| 31 December 2019 | 739 | 50 | 151 | 615 | 2,686 |
| 31 December 2018 | 513 | 44 | 137 | 569 | 2,572 |
| 1 January 2018 | 326 | 41 | 126 | 512 | 2,426 |

*(Thousands of Georgian Lari unless otherwise stated)*

## 12. Trade and other receivables

| | 31 December 2019 | 31 December 2018 | 1 January 2018 |
|---|---|---|---|
| Receivables for transhipment services | 257 | 192 | 12,632 |
| Other receivables | 4,137 | 4,076 | 4,132 |
| Less: allowance | (4,246) | (4,211) | (4,187) |
| | **148** | **57** | **12,577** |

Trade receivables do not bear interest, are denominated in GEL and USD and are generally on 30 days' term in the ordinary course of the business. The customers receive 30 day as a grace period and receivable from them is deemed to be overdue if it has been outstanding for at least 91 days.

Movement in expected credit losses and provisions reveres and made in 2019 and 2018 can be analysed as follows:

| | |
|---|---|
| **1 January 2018** | **4,187** |
| Provisions made, net | 24 |
| **31 December 2018** | **4,211** |
| Provisions made, net | 35 |
| **31 December 2019** | **4,246** |

Analysis by credit quality of financial assets within trade receivables for the Branch is as follows:

| | Less than 30 days | 30 to 90 days | 91 to 180 days | 181 to 360 days | Total |
|---|---|---|---|---|---|
| 31 December 2019 | 148 | – | – | – | **148** |
| 31 December 2018 | 37 | 1 | 19 | – | **57** |
| 1 January 2018 | 686 | 182 | 180 | 11,529 | **12,577** |

## 13. Cash and cash equivalents

Cash and cash equivalents are represented with cash held in Georgian commercial banks. As at 31 December 2019 and 2018, restricted cash in amount of GEL 200 is held in bank and is restricted from usage by the Revenue Service as a guarantee for international transhipment operations.

## 14. Borrowings

| | 31 December 2019 | 31 December 2018 | 1 January 2018 |
|---|---|---|---|
| **Non-current** | | | |
| Loan from related party (a) | 19,948 | 18,253 | 17,267 |
| Loan from Georgian commercial bank (b) | 46,284 | – | 39,688 |
| | **66,232** | **18,253** | **56,955** |
| **Current** | | | |
| Loan from related party (a) | 16,493 | 9,513 | 6,458 |
| Loan from Georgian commercial bank (b) | 5,595 | 49,780 | 9,172 |
| | **22,088** | **59,293** | **15,630** |

a) As 31 December 2019, 31 December 2018 and 1 January 2018, the Branch's borrowings from GR Trans-shipment LLC comprised GEL 31,295, GEL 27,211 and GEL 23,725, respectively. These borrowings were denominated in USD bearing 10% per annum and maturing in June 2023.

In 2019, the Branch obtained short-term loan of GEL 3,996 from one of its shareholders Eduard Surlevich. These borrowings were denominated in USD, bearing 7.3% per annum and maturing in January 2020. The Branch has neither repaid its borrowings to Eduard Surlevich nor renegotiated its maturity, and as of the date of issuance of these financial statements it is overdue.

*(Thousands of Georgian Lari unless otherwise stated)*

## 14. Borrowings (continued)

b) As at 31 December 2018, the loan from Georgian commercial bank was classified as current as the Branch did not service the debt during 2018 in accordance with the contractual repayment schedule, which was considered a significant breach of loan agreement conditions and gave the Georgian commercial bank right to request immediate repayment of the loan in full. As at 31 December 2018 and 1 January 2018, the loan from Georgian commercial bank was denominated in USD bearing 9% per annum and maturing in December 2024.

In July 2019, the Branch renegotiated its maturity, payment schedule and interest rate of its loan from Georgian commercial bank. As at 31 December 2019, the loan from Georgian commercial bank was denominated in USD bearing 6% per annum and maturing in December 2026. The Branch agreed the grace period for repayment of its principal and interest payable until 31 December 2019 and recognised non-current portion of its loan from Georgian commercial bank in accordance with updated repayment schedule. The 6% per annum interest rate is contingent and will be remeasured to 8% from the origination date in case the Branch breaches the loan repayment schedule in the future. The Branch has recognised a loan at 6% interest rate, as it believes that it will be able to repay the loan in line with the agreed schedule. Also, as stated in Note 6, at a requested of the bank, the loan was guaranteed by related parties of the Branch, which further guaranteed adherence to the repayment schedule. The Branch was not in breach of its repayment schedule in 2020.

In 2019, interest expense on the loan from related party amounted to GEL 2,552 (2018: GEL 2,445) and interest expense on the loan from Georgian commercial bank amounted to GEL 3,396 (2018: GEL 4,491).

**Changes in liabilities arising from financial activities**

| | 2019 | 2018 |
|---|---|---|
| **As at 1 January** | **77,546** | **72,585** |
| Proceeds from borrowings | 4,427 | 555 |
| Repayment of borrowings | (5,111) | (4,894) |
| Finance costs | 5,946 | 6,936 |
| Foreign exchange loss | 5,512 | 2,364 |
| **As at 31 December** | **88,320** | **77,546** |

## 15. Trade and other payables

| | 31 December 2019 | 31 December 2018 | 1 January 2018 |
|---|---|---|---|
| Payable for transhipment to related parties | 3,726 | 3,478 | 17,240 |
| Payable for transhipment to non-related parties | 7,471 | 7,988 | 8,394 |
| Other payables | 43 | 1 | – |
| | **11,240** | **11,467** | **25,633** |

## 16. Advances received

| | 31 December 2019 | 31 December 2018 | 1 January 2018 |
|---|---|---|---|
| Advances received from non-related parties | 4,885 | 4,604 | 4,216 |
| Advances received from related parties | 3,576 | 3,573 | – |
| Contract liabilities | 470 | 227 | – |
| | **8,931** | **8,404** | **4,216** |

## 17. Equity

As at 31 December 2019 and 2018, the Owner's contribution of the Branch is GEL 6,240 (1 January 2018: GEL 6,193). In 2019, the Owner contributed GEL 47 in cash.

*(Thousands of Georgian Lari unless otherwise stated)*

## 18. Commitments and contingencies

*Tax inspection results*

During 2018 Georgian Revenue Service (the "RSG") conducted tax audit of the Branch covering a period before 1 January 2017. Based on the tax inspection the RSG imposed additional taxes payable in amount of GEL 451, penalties of GEL 380 and fines of GEL 267. The Branch's management does not agree with the above taxes, penalties and fines imposed and filed an appeal. Dispute resolution board of the RSG partially satisfied the Branch's appeal and reduced the imposed amount to taxes payable of GEL 266 and penalties of GEL 266. The Branch appealed this decision in the dispute resolution board of the Ministry of Finance of Georgia. The Branch has accrued respective provision of GEL 1,052, which is recorded as part of the other current liabilities in the balance sheet as at 31 December 2019 (31 December 2018: GEL 1,052, 1 January 2018: GEL 44).

*Litigation with Batumi Oil Terminal*

In December 2016, the Branch submitted claims towards Batumi Oil Terminal (the "BOT") to the Tbilisi City Court (the "Court") about violation of pre-agreed terms regarding transhipment tariffs. The Branch claims from the BOT resumption of the transhipment services at previously agreed and fair tariffs, reimbursement for lost profits of USD 2,318. The BOT has also presented a counterclaim against the Branch requesting reimbursement of service provided of GEL 1,187. The Court fully satisfied the Branch's claims and partially BOT's counterclaims by its decision dated 12 February 2019. As a security for its claim the Branch has requested and the Court has granted a lien on the property of the BOT. As a security for its counter-claim the BOT has requested and the court has granted a lien on the property of the Branch (Note 10). The BOT has appealed the court decision dated 12 February 2019 at Tbilisi Court of Appeals, claiming the cancelation of decision. On 27 February 2020, Tbilisi Court of Appeals, partially, satisfied the BOT's claim, cancelled the decision of Tbilisi City Court and case was returned to first instance. Currently the cases, appeals and counterclaims are being discussed by the Tbilisi City Court. The Branch believes that its claims are substantiated, and it will be successful as these claims are finally resolved by the courts. Meanwhile the Branch continues to use the services of the BOT and is pays the BOT service tariffs as claimed by the BOT for ongoing services. The Branch does not deem these tariffs to be appropriate and expects adjustment as the said court cases are resolved. For these reasons, the Branch and the BOT have disagreements as to the account balances of amounts due between them.

## 19. Financial instruments and risk management

### Overview

The Branch's principal financial liabilities comprise of borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Branch's operations. The Branch's principal financial assets include trade and other receivables and cash in bank that derive directly from its operations.

The Branch is exposed to credit risk, liquidity risk and currency risk. The Branch's exposure to other market risks is not significant since it does not have financial assets and liabilities for which value of future cash flows will fluctuate because of changes in market prices and the Branch does not have floating rate financial instruments and, respectively, does not face interest rate risk.

Financial risk management objective of the Branch's management is to safeguard Branch's day-to-day operations, raise sufficient cash from operations to finance operating and on-going capital expenditures and service obligations to third parties.

### (a) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Branch is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including accounts with banks.

Trade receivable comprises of receivables from customers of transhipment services from the Branch. The Branch has few large customers, including related parties. The Branch has provided almost total balance of its trade and other receivables as at 31 December 2019 and 2018 considering the credit risk of the counterparties (Note 12). As at 31 December 2019 and 2018, receivables from a single largest customers accounted for approximately 100% and 80% of the Branch's trade receivables.

*(Thousands of Georgian Lari unless otherwise stated)*

## 19. Financial instruments and risk management (continued)

### (a) Credit risk (continued)

All cash and cash equivalents are held with largest Georgian banks. None of the cash and cash equivalents are impaired or past due. The maximum exposure to credit risk at the reporting date was:

| | Carrying amount | | |
|---|---|---|---|
| | 31 December 2019 | 31 December 2018 | 1 January 2018 |
| Trade and other receivables (Note 11) | 148 | 57 | 12,577 |
| Cash at bank (Note 12) | 399 | 103 | 138 |
| Restricted cash (Note 12) | 200 | 200 | 200 |
| | **747** | **360** | **12,915** |

### (b) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. For more details on the Branch's plans to manage its liquidity please refer to Note 2.

The following are the contractual maturities of borrowings, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

| | Carrying value (Note 14) | Contractual cash flows | On demand | Less than 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **31 December 2019** | 88,320 | 97,231 | – | 23,659 | 49,212 | 24,360 |
| **31 December 2018** | 77,546 | 80,860 | 49,780 | 10,242 | 20,838 | – |
| **1 January 2018** | 72,585 | 90,105 | – | 14,047 | 54,725 | 21,333 |

Contractual maturities of lease liabilities are disclosed in Note 11.

### (c) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Branch's exposure to the risk of changes in foreign exchange rates relates primarily to the Branch's operating activities (when revenue or expense is denominated in a different currency from the Branch's functional currency) and the Branch's financial liabilities denominated in foreign currencies.

The Branch does not hedge its exposure to currency risk. The Branch's exposure to foreign currency risk was as follows:

| | USD-denominated | | |
|---|---|---|---|
| | 31 December 2019 | 31 December 2018 | 1 January 2018 |
| Cash and cash equivalents | – | – | 1 |
| Trade and other receivables | – | 20 | 12,404 |
| Borrowings | (88,320) | (77,546) | (72,585) |
| Trade and other payables | (3,840) | (3,545) | (17,305) |
| **Net exposure** | **(92,160)** | **(81,071)** | **(77,485)** |

*Foreign currency sensitivity*

The following tables demonstrate the sensitivity to a reasonably possible change in the USD and EUR exchange rates, with all other variables held constant. The impact on the Branch's profit/(loss) before tax is due to changes in the fair value of monetary assets and liabilities. The Branch's exposure to foreign currency changes for all other currencies is not material.

*(Thousands of Georgian Lari unless otherwise stated)*

## 19. Financial instruments and risk management (continued)

### (c) Foreign currency risk (continued)

*Foreign currency sensitivity (continued)*

| | Strengthening | Weakening |
|---|---|---|
| **31 December 2019** | | |
| USD (10%/-5% movement) | 4,608 | (9,216) |
| **31 December 2018** | | |
| USD (11%/-11% movement) | 8,918 | (8,918) |
| **1 January 2018** | | |
| USD (13.5%/-9.5% movement) | 7,361 | (10,460) |

### (d) Fair values

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. 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 settlement of liabilities.

All of the Branch's financial assets and financial liabilities, excluding borrowings, are short-term and therefore the carrying amounts approximate to their fair value.

The fair value of the borrowings also approximates the carrying value as the interest rates of the loans are within the range of interest rates prevailing on the market for similar financing arrangements.

All of the financial assets and financial liabilities for which fair values are disclosed are measured at level 3 of fair value hierarchy.

### (e) Capital management

The Branch has no formal policy for capital management.

## 20. Related party transactions

### (a) Transactions with management

Key management personnel of the Branch comprised of 2 individuals in 2019 (2018: 2 individuals). Their total remuneration during 2019 amounted to GEL 170 (2018: GEL 156), which is included in salaries and other employee benefits.

### (b) Transactions with related parties

#### *(i) Revenues and purchases from entities under common control*

| | 2019 | 2018 | Amounts owed by/(due to) as at 31 December 2019 | Amounts owed by/(due to) as at 31 December 2018 | Amounts owed by/(due to) as at 1 January 2018 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Caspian Transit Ltd | 425 | 2,310 | – | – | – |
| | **425** | **2,310** | – | – | – |
| **Purchases** | | | | | |
| GR transhipment | 25 | 24 | (223) | (208) | (202) |
| Libra Trading Ltd | 417 | 659 | (3,716) | (3,468) | (17,240) |
| | **442** | **683** | **(3,939)** | **(3,676)** | **(17,442)** |

*(Thousands of Georgian Lari unless otherwise stated)*

## 20. Related party transactions (continued)

### *(ii) Borrowings from entities under common control*

| | Interest expense 2019 | Interest expense 2018 | Amounts owed to related parties 31 December 2019 | Amounts owed to related parties 31 December 2018 | Amounts owed to related parties 1 January 2018 |
|---|---|---|---|---|---|
| GR Transhipment | 2,407 | 2,445 | 31,295 | 27,211 | 23,725 |
| Eduard Surlevich | 145 | – | 4,160 | – | – |
| Rati Ghvamberia | – | – | 986 | 555 | – |
| | **2,552** | **2,445** | **36,441** | **27,766** | **23,725** |

### *(iii) Advances received from related parties*

As at 31 December 2019, advances received from entities under common control comprised GEL 3,576 (2018: GEL 3,573).

## 21. Events after the reporting date

In June 2020, the Branch's related parties JSC Tbilisi Tobacco, JSC Tobacco Holdings and JSC Geo distributions signed guarantee agreements relating to loan from Georgian commercial bank (Note 2).

On 27 February 2020, Civil Cases Chamber of Tbilisi Appeal Court returned legal case between the Branch and the BOT, to the court of first instance for reconsideration. As of date of this financial statements, this decision has not been appealed (Note 18).

On 18 September 2020, the Branch signed new loan agreement with one of its shareholders Eduard Surlevich of USD 375 with maturity date of 31 December 2021.

The coronavirus (COVID-19) outbreak caused the country to declare State of Emergency, which had adverse effect on every business, however Georgia was among the counties which successfully prevented spread of coronavirus. We consider coronavirus (COVID-19) outbreak to be a non-adjusting post balance sheet event.