ANNUAL REPORT 2021

SILKNET

CONTENTS

OVERVIEW

SILKNET AT A GLANCE

NUMBER OF SUBSCRIBERS[1]

Mobile: 1.7 million
FBB: 300 thousand
Pay TV: 230 thousand

NUMBER OF EMPLOYEES[1]

1,988

NUMBER OF SHOPS[1]

51

NUMBER OF BASE STATIONS[1]

~1,300 Macro
~300 Micro

4G/LTE POPULATION COVERAGE[1]

98%

HOMES PASSED[1]

64%

FIBRE BACKBONE LENGTH[1]

4,000+ km

REVENUE (2021)

GEL **413** million
0.7% of Georgia's GDP

EBITDA[2] MARGIN (2021)

55%

TOTAL ASSETS[1]

GEL **847** million

RATINGS

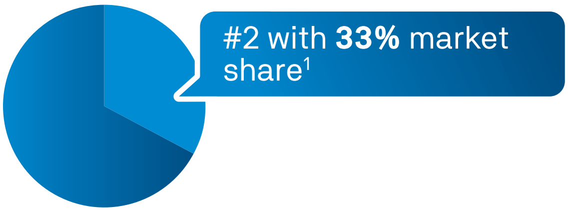
Credit ratings – Moody's B1/Stable; Fitch B/Stable
ESG risk ratings – Sustainalytics 26.1

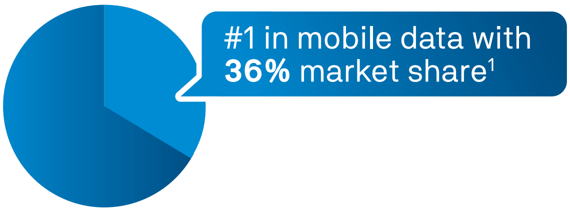
[1] As of 31 December 2021
[2] EBITDA in this Annual Report means adjusted EBITDA as per audited Consolidated Financial Statements. For the definition and details, refer to note 12 (alternative performance measures) of the Consolidated Financial Statements for 2021.

OUR PRODUCTS AND SERVICES

We offer a wide range of products and services to our customers.

MOBILE SERVICES





We offer voice and mobile broadband services, utilising 2G, 3G, 4G/LTE and Gigabit-LTE technologies.

48% of Revenue

B2C

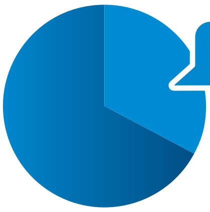
Our B2C subscribers predominantly use prepaid packages and pay-as-you-go tariff plans to receive various voice, SMS and data services, including international calls and roaming.

B2B

We cater to various government and public entities, as well as large, medium and small enterprises. Government and public contracts are usually awarded through annual tenders, while other enterprise relationships vary. Although tariffs are predominantly bespoke and tailored to each client, small enterprises usually receive standardised tariffs.

[1] Based on the number of subscribers as of 31 December 2021;

FIXED BROADBAND



#2 with **30%** market share[1]

We provide a technologically advanced offering of internet and data connectivity services to homes, businesses and other organisations, as well as additional data services to B2B customers.

25% of Revenue

B2C

Our B2C fixed home broadband services utilises FTTH, DSL and LTE technologies, allowing customers to choose a plan based on their data and broadband speed needs and connectivity in their area.

As the demand for broadband data usage has increased in recent years, most of our fixed broadband offerings include unlimited data, with tariff pricing based on broadband speeds and bundling of related services.

Our fibre broadband offering is our highest speed offering, available in areas with FTTH network infrastructure connectivity. It offers download speeds of up to 100 Mbps and upload speeds of up to 50 Mbps, along with an unlimited data allowance.

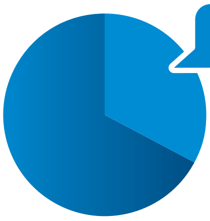
We offer DSL broadband plans in areas with DSL network infrastructure connectivity. However, we are carrying out an extensive replacement of the DSL network with higher-speed FTTH technology.

We launched our LTE internet service in December 2014 with the aim of providing a high-quality, fixed broadband service, in addition to its mobile use, in areas devoid of wireline networks or where the deployment of wireline networks is not cost-effective. In recent years, the number of LTE internet subscribers has declined, in line with the deployment of FTTH networks.

B2B

Our range of global services to B2B customers includes voice, internet and connectivity services, ranging from fixed line, VOIP, E1, PRI, ADSL, LTE, ISDN, broadband, Dedicated Internet Access, IP MPLS, Ethernet and national lease line (including national leased line to Inmarsat). Our revenue market share of the B2B fixed broadband segment reached 44% in 2021, which makes us segment leaders in the market.

PAY TV



#2 with **33%** market share[1]

We offer a variety of television programming options within our fixed line business through Silk TV, our IPTV digital offering, Global TV, our wireless television product, and SilkSat, our satellite television service. Both Global TV and SilkSat cater to subscribers still under-served by IPTV technology.

11% of Revenue

We are the only telecommunications provider in Georgia to have developed its own IPTV platform, which we believe to be "best in class" in Georgia.

Our ability to offer premium and exclusive sports content has been an important factor in new subscriber acquisition historically.

Our video content is provided through the free-to-air and paid channels included in our TV packages, along with content aggregation and limited production through our own channels.

The Silk Go application and website (www.silkgo.ge or www.silktv.ge) allows customers to watch selected TV programmes on any mobile device with internet access.

[1] Based on the number of subscribers as of 31 December 2021;
Pay TV market share does not include mobile streaming application subscribers.

The Silk TV Go offering includes the opportunity to watch TV on multiple screens with interactive functions, including catch-up TV. Currently, Silk TV Go includes our own channels as well as popular Georgian and international channels.

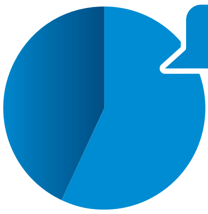
Our IPTV transmissions offer a variety of content, including sports, movies, children's programming and hobbies. The service is available to FTTH and DSL subscribers. However, only FTTH subscribers can connect multiple TV sets and receive high definition channels.

The main features of the NPVR-based IPTV service include catch-up TV, VOD services, an electronic programme guide including assignment of channel positions, and other value-added services.

The VOD services also include Home School, a community project that creates a variety of recorded classes for school students of all ages. This became particularly relevant during the COVID-19 pandemic. Lessons are available free of charge on our IPTV platform as well as online.

We also launched silksport.ge in 2019, an online video and news portal which streams some of our sports content.

FIXED TELEPHONE SERVICE



#1 with **57%** market share[1]

We provide a comprehensive range of fixed line services to B2C and B2B customers. Key fixed line services include national and international fixed line services. The majority of our fixed line revenue is derived from our Public Switch Telephone Network ("PSTN") business.

3% of Revenue

We provide fixed telephony services to B2C and B2B customers with two main technologies:

- PSTN on copper lines and
- VOIP on the fibre-optical network and LTE service.

In line with other telecommunication operators, we have experienced a consistent decline in PSTN subscribers over recent years. This decline is principally the result of the substitution of fixed line telephones for mobile phones, along with the rollout of FTTH networks, which accounts for the growth of VOIP subscribers.

WHOLESALE (CARRIER) SERVICES

11% of Revenue

Our wholesale service consists primarily of fixed interconnection services and data services provided to national and international operators, including local call termination, international call termination, transit, internet resale, rent of equipment and cash collections.

OTHER FIXED SERVICES

2% of Revenue

Revenue from other fixed services includes broadcasting fees that we receive from other providers that air Silknet channels as well as advertising revenue for ads placed on our own channels and through our streaming services.

[1] Based on the number of subscribers as of 31 December 2021;

SILKNET'S DEVELOPMENT

Silknet was established in 2009 and, subsequently, assets of United Telecom of Georgia, Adjara Telecom and Wanex were transferred to the share capital of the Company. Having inherited the legacy copper network from the incumbent operators, Silknet actively started to deploy fibre backbone and access networks and expand its footprint in new geographical areas. With a leading position in fixed line, fixed broadband and pay TV services, we became a full-fledged convergent operator in 2018 through the strategic acquisition of Geocell, the second-largest mobile service provider on the market.

2022	Issuance of **Eurobonds** and refinancing of all outstanding debt instruments
2021	Completion of **IT transformation** project
2020	Issuance of **depositary notes** linked to Eurobonds
2019	Issuance of **Eurobonds** and refinancing all bank loans **Shareholder loan** partial conversion to equity Franchise for **Euronews Georgia** and establishment of Silk Media Ltd.
2018	Acquisition of **Geocell** (mobile) Acquisition of **Global TV group**
2017	Issuance of **Silknet 2017 bond** Became public in Georgia
2016	Acquisition of remaining 15% stake in **GMN**
2015	Agreement signed with Servicenet to **outsource maintenance of cable network, acquisition of new subscribers and new network rollout** Merged with **Vtel Georgia** (fixed wireless broadband)
2014	Acquisition of **WiMax Georgia** (fixed wireless broadband) Acquisition of a 85% stake in **GMN** (pay TV channels) Acquisition of a 51% stake in **Qarva** (software, operation & maintenance support for IPTV)
2013	
2012	**Founded NG Georgia** (National Geographic magazine)
2011	Acquisition of **Novus** (TV broadcasting rights)
2010	Launched **FTTH** services
2009	Established **by JSC United Telecom,** Adjara Telecom Ltd. and Wannex Ltd.

MESSAGE FROM THE SILKNET TEAM

OPERATING ENVIRONMENT

It's mid June 2022 at the time of writing, and we feel there is a lot of uncertainty around us. The tragedy of the war in Ukraine has shaken the world and we are affected as well, both emotionally and by the heightened instability in the region.

Georgia has managed to mitigate the risks so far. Politically, this is the result of a pragmatic approach to relations with Russia. Prudent management of the economy during the pandemic, along with substantial support from international organizations, helped the country to remain relatively resilient at the height of the pandemic, despite the heavy impact on tourism, and embark on a rapid post-pandemic recovery. Georgia's diversified trade relationships and attractiveness as a tourist destination are helping the country achieve strong growth despite the international crisis. In Q1 2022, real GDP growth was estimated to be 14.4%, following an impressive growth rate of 10.4% in full year (FY) 2021. FY 2022 local estimates are at 7.5%-7.6%, having been revised upwards after initial assessments of the impact of the war in Ukraine.

At the time of writing, the Georgian Lari has also reverted to its February 2022 levels, after initial jitters when the war broke out. Several factors have contributed to the Lari's stability: a) a tighter fiscal policy; b) a high interest rate differential; c) healthy exports growth; d) continued strength in remittances; and e) a partial recovery of tourism revenues.

On the regulatory side, we saw a marked improvement in 2021. Our constructive and active engagement with the Georgian National Communications Commission (GNCC), alongside our peers, has borne fruit. The partial retail price regulation in the mobile segment was repealed, leaving us now free to adjust prices and change packages to better address our subscriber needs without seeking regulatory approval. In January 2022, we announced new packages and price adjustments, mainly in the mobile segment, which became effective from 28 February 2022.

The ex ante Mobile Virtual Network Operator (MVNO) access regulation was another point of active engagement with the regulator in 2021. The regulation has been postponed so far. The GNCC will further monitor the market and re-evaluate the need for ex ante regulation vis-à-vis the emergence of MVNOs on a commercial basis.

DELIVERING ON OUR STRATEGY

In 2021, we were busy with the pre-final stages of the infrastructure part of our strategy.

Silknet has already achieved mobile network leadership recognition: the GNCC's drive tests in most regions demonstrated that our 4G network is the fastest. However, we continued to develop our mobile network further in 2021. We commenced the new phase of the gigabit-LTE deployment, which was completed in 1H 2022, meaning that we now have 39% of the macro sites across Georgia, and 90% in Tbilisi, equipped with gigabit-LTE, affording Silknet unrivalled speed and network capacity. In addition, we started a project to increase 4G spectrum utilization, whereby we are re-farming the remaining 2x10MHz in the 1800 band from 2G to 4G.

We also continued to expand our FTTH network and passed c. 48K new homes in 2021, reaching over 700K homes in total, or approximately 64% of Georgia's households. In order to offer a superior broadband and IPTV experience to our customers, we have been replacing the legacy DSL network with FTTH technology in recent years, with the number of DSL subscribers at approximately 16K at the end of 2021, down from the peak of 160K in 2013. These deployments follow our approach of mostly focusing on urban areas in the FTTH deployment and we expect to stick to this approach in the short to medium term.

Information technology is a crucially important part of our foundation. We achieved an important milestone, having completed the IT transformation project whereby we replaced seven different information technology modules, such as the business support systems (including billing, CRM, product catalogue, etc.), and certain operations support systems. We now have a convergent IT suite that will allow us to substantially shorten time to market and better understand subscriber needs, hand-in-hand with increasing operating efficiency.

The new IT systems also serve as the foundation for the next phase of our strategy – advanced capabilities and services. While we pioneered digital products and services on the Georgian telecoms market, our subscribers are evolving and the way they conduct their lives, consume content, and interact with us is changing. As a result, we need to shift our emphasis towards digital sales and service channels, as well as enriching digital means of delivering our content.

The new IT systems also allow us to deploy advanced data analytics tools, which we expect to become indispensable part of the way we do business. In 2021, we started to implement an SAS institute campaign management system, which is expected to launch in the course of 2022 and is a first step towards Silknet becoming a data-driven organization.

Digitalization and data analytics will feed in to the refreshed customer-centric brand that we intend to develop in the course of 2022.

CORPORATE GOVERNANCE, ESG & CSR

In 2021, our supervisory board commenced the search for a second independent member with Stella Handler officially joining the board in March 2022. We are convinced that Stella's vast managerial experience, especially in the telecommunications sector, will contribute to our further development as an organization. Stella will join the supervisory board's governance and compliance and audit committees.

In the course of 2021, we proactively engaged with Sustainalytics, bringing our ESG rating from an unsolicited 27.5 to 26.1. This report includes a sustainability section which compiles Silknet's efforts on the ESG front. We realize that disclosure standards are evolving and intend to engage in conversations with different stakeholders to further improve our ESG practices and better disclose our activities in this area.

We also continued to support our long-term CSR projects, comprising the Tsinandali Festival, the Georgian Ski Federation, the Wounded Warriors Fund and National Geographic Georgia, in order to contribute to sustainable development for the benefit of all our stakeholders.

RESULTS

Silknet is growing well, continuing the trend from 2021. Our revenue increased by 8% in 2021, primarily driven by mobile data revenue. This growth was partially offset by increased utility expenses, as well as certain other items. As a result, our EBITDAaL grew by 9%.

Building on the strength of last year, we accelerated our growth in Q1 22, achieving a 10% increase in revenue and a 20% increase in EBITDAaL.

Our capex rate reverted to a relatively normal level of 20% in 2021, following our capex-intensive period in 2018-2020. We expect the capex rate to stabilize in the short and medium term as we shift our emphasis from network investments to relatively capex-light digital tools and products, in line with our strategy.

FUNDING

On 31 January 2022, we issued USD 300 million 8.375% Eurobonds which are due in 2027, out of which USD 50 million was simultaneously repurchased. The offering attracted an array of high quality institutional investors globally, despite the already heightened risk perception on the market. For a long time, Silknet remained the sole post-Soviet issuer outside of the Baltics states to place a Eurobond in 2022. This success has been a tremendous boost for our morale, and we thank our investors for their support and belief in Silknet and in Georgia.

STRATEGIC REPORT

OUR STRATEGY

Our **core strategy** is to compete by aiming to provide customers with an improved and innovative customer experience, through building and leveraging powerful telecommunications infrastructure and data, internal innovation and obtaining the rights to third-party products and services.

The acquisition of Geocell was strategically important to the Company. It resulted in the addition of mobile services to the Company's product range, which represents a significant opportunity to build the leading convergent operator in the Georgian market with leadership in innovation and the capability to market fixed-mobile and television content offering to new customers with competitive pricing and limited additional investment, compared to new players entering those markets.

Another important step in building a competitive operator with capabilities to offer the best quality on the market was gaining a competitive advantage in terms of network and infrastructure quality. At the time of the Geocell acquisition, our mobile network was underinvested and lagged behind the competition. Following the acquisition, we have invested heavily in our mobile network and are now market leaders in terms of network quality (as discussed under the Core strategy foundation, later in this section).

In the period of 2018-2021, we were busy implementing an IT transformation program. Now that the program has been successfully completed, we are well equipped to develop data analytics, which will give us a technological advantage over our competitors (as discussed under Core strategy foundation, later in this section).

We also have a high-quality customer base with high bundling rates (as discussed under Core strategy foundation, later in this section). As one of the top 20 employers in Georgia, we have an experienced executive team with extensive knowledge of the telecommunications sector in the country and a high-quality workforce (as discussed under Core strategy foundation, later in this section). These factors, combined with our network and technological leadership, provide a strong **foundation** for the next layers of our strategy.

Now that the foundation is built, we are well positioned to move to the next layer of our core strategy - offering **advanced services** to our customers and further developing our **capabilities**.

The management is now capable of shifting its focus from building the network and IT systems to utilizing this technological advantage to become more customer-centric by developing loyalty programs, investing in digital products and services, offering tailored products to our clients, and further developing our brand by emphasizing our focus on customers and leadership in innovation (as discussed under Advanced capabilities and services, later in this section).

Our ultimate goal is to build a digital ecosystem, unified by the Silknet ID, that may include third-party products and services, as well as financial services (as discussed under Ecosystem, later in this section).

FOUNDATION LAYER

NETWORK LEADERSHIP

We invest in and develop our network infrastructure in order to provide improved network quality to our customers and to create operating efficiencies. We invested heavily in our mobile network following the Geocell acquisition to catch up with the competition with respect to 4G/LTE coverage, reaching 98% 4G/LTE population coverage at the end of 2021 compared to 57% at the time of the acquisition in 2018. We have also pioneered the implementation of gigabit-LTE technology, having already installed gigabit-LTE on 519 sites or 39% of macro sites across Georgia (90% of macro sites in Tbilisi). The gigabit-LTE technology allows the Company to assume a technological advantage in the Georgian mobile market, as competitors have yet to implement the same technology and lack the spectrum resources to do so. We also invest in fixed network deployment. Our FTTH network already covers 64% of households in Georgia. Our strategy is selective, concentrating on urban areas rather than less densely populated areas where network deployment is less cost-effective.

Refer to Our network and infrastructure

MAINTAIN TECHNOLOGICAL INNOVATION THROUGH IT TRANSFORMATION

We have recently undergone an IT transformation program, switching many of our current systems to new solutions, to improve and standardize processes across the Company. We believe that this will give us a technological advantage over our competitors by improving customer experience, reducing the time required to launch new products and services, and improving customer segmentation and real-time analysis of data. The new system provides an improved time to market for new product and service launches by implementing advanced business process tools in accordance with the BPMN 2.0 standard, which allows the implementation of new processes or the update of existing processes without requiring new coding by developers.

Refer to Information Technology (IT)

HIGH QUALITY CUSTOMER BASE

The Georgian market has low entry and exit barriers for subscribers due to the absence of long-term contracts, which makes bundling a key indicator of customer base quality. We believe that high bundling rates are indicative of a high-quality customer base and lead to a lower churn rate. Our fixed services are highly bundled: for example, 79% of our B2C FTTH subscribers also subscribe to IPTV, while most of our fixed broadband subscribers have voice service. We believe that there is an ongoing increase in the number of mobile subscribers using packages: for instance, on average approximately 28% of our B2C subscribers purchased 'Meti' packages (voice/data/SMS) in 2021, while the Company has recorded approximately 69% data penetration in mobile subscribers.

Subscribers with a broadband and IPTV bundle, many of whom likely use the Company's fixed line service, constitute the main target for cross-selling mobile services, as we believe that barriers to entry into new households are substantially higher than the barriers to entry for existing customers switching their mobile subscription. The Group has experienced an increase in convergence since the launch of the inaugural fixed-mobile convergent offers in Georgia in 2018, with approximately 15 thousand Silk+ subscribers (with over 33 thousand SIM cards), or 5.7% of the FTTH B2C subscribers as of 31 December 2021. Our main focus is completing the mobile network modernization program and then promoting convergent offers across our B2C subscriber base.

We maintain a high level of interaction with our customers is through the Company's 51 shops, three retail booths, call centers, website and social media. In 2021, our call centers answered approximately 416 thousand calls per month, with an average waiting time of 43 seconds. We also had over 500 thousand likes on Facebook by the end of 2021, with a total of 1.6 million users visiting our website over the year.

Refer to Our customers

EXPERIENCED MANAGEMENT TEAM AND HIGH-QUALITY WORKFORCE

We believe that our employees are integral to our business, and therefore aim to create job opportunities for people from diverse backgrounds, and to create a safe workplace environment where all employees feel engaged and supported. In 2021, the Company's employee retention rate amounted to 88% and employee turnover was 10%. We believe that the Company has a strong and stable Supervisory Board and executive team. All senior members of the Company's Supervisory Board and executive team have extensive knowledge of the telecommunications sector in Georgia and significant experience in leading telecommunications institutions. We continuously ensure that the composition of our executive team is aligned with the Company's strategy. The Company's internal process involving its employees is continuously evolving to support our goal of building a high-quality workforce. We are in the process of evaluating our remuneration policy with the aim of improving performance management, ensuring more equitable pay, and better aligning the interests of the Company with those of its employees.

Refer to Ownership and governance

ADVANCED CAPABILITIES AND SERVICES

On top of the foundation outlined above, we are working on furthering our capabilities and the services we offer by investing in additional areas.

ADVANCED ANALYTICS: We procured a campaign management solution from the SAS Institute, which we are currently in the process of implementing in our operations. We expect to expand our use of data analytics by procuring third-party solutions and developing our in-house expertise to better serve our subscribers and streamline the Company's operations.

LOYALTY PROGRAMS: We also intend to create a loyalty program for the Company's subscribers. Initially, the loyalty program will focus on the services currently provided by the Company.

CONVERGENCE: We intend to unify all services with a single Silknet ID and will seek to generate direct commercial synergies, such as obtaining incremental fixed-mobile-digital applications subscribers from our competitors, lower migration from prepaid to postpaid resulting in higher customer lifetime value, and the premium price effect of fixed-mobile offers (blended ARPU growth). Residential consumers in the Georgian mobile telephone market have historically favored prepaid mobile contracts over postpaid services. As part of our convergent strategy, we intend to gradually switch certain customer segments from prepaid to postpaid contracts.

DIGITAL PRODUCTS AND SERVICES: Historically, we have offered separate self-service applications and websites for fixed and mobile services. Following the completion of our IT transformation, we developed a new convergent website and intend to develop a new and convergent self-service application to offer increased flexibility to our subscribers. We have pioneered digital content delivery on the Georgian telecommunications market through our applications and websites, such as Silk Go and silktv.ge. We intend to further develop our digital applications to increase subscriber satisfaction and gain a competitive advantage. Such applications may include improved video content delivery, music, and gaming platforms. Digital applications are expected to play an important role in our convergence strategy. A product innovation and digital ecosystem development department was recently created to further focus the Company's efforts in this area.

DEVELOPING OUR BRAND: We intend to further develop our brand to reflect our technological improvements and emphasize our focus on customers and digital services. We are currently in the process of evaluating our branding, including the merits of continuing with both the Silknet and Geocell brands.

B2B ICT SERVICE: We are in the process of evaluating potential information and telecommunications solutions for our B2B subscribers, such as security, data center services, and systems integration.

ECOSYSTEM

In the longer term, we intend to implement an advanced layer of capabilities and services, which will form the basis of our digital ecosystem. This digital ecosystem, unified by the Silknet ID, will also encompass third-party products and services and the loyalty program, which is open to third parties. Such an ecosystem may include financial services as well.

OUR COMPETITIVE STRENGTHS

We believe that our business is characterized by the following key competitive strengths.

CONVERGENT TELECOMMUNICATIONS OPERATOR WITH LEADING MARKET POSITIONS

We are one of the leading convergent telecommunications operators in Georgia. We are market leaders in terms of mobile internet subscribers. We have the market-leading position as a fixed line operator and are the second largest IPTV, fixed broadband operator, and mobile provider based on the number of subscribers. Our status as a converged telecommunication operator with leading positions across major product segments strongly positions us to capitalize on trends in the global telecommunications markets, which are likely to be adopted in Georgia, towards bundled and combined product offerings containing broadband, pay television, fixed line and mobile. By combining our network with our product differentiation based on digital applications and premium and exclusive content, we believe that there are significant opportunities to increase revenues by cross-selling bundled services. Broadband and IPTV bundled subscribers, who are also likely to use the Company's fixed line service, constitute the main target for cross-selling mobile services, as the barriers to entry into households are substantially higher than the barriers to switching mobile subscription.

MOBILE BUSINESS

We have a well-established position as the second largest mobile operator in Georgia, based on the number of subscribers, with a market share of 35.2% of total service revenue in 2021. Silknet's mobile services have a strong brand in Georgia as a result of being a leader in distribution network and customer service in the Georgian telecommunications market. We have provided a number of customer service innovations including the digitization of customer channels, online self-service portals, customer service contacts through social media, and e-signatures. Since the Geocell acquisition in 2018, we have continued to significantly upgrade our network, improve network performance, provide a better mobile data experience to our subscribers, and drive further mobile data usage. Such investments will allow us to provide a competitive network experience and ensure market-leading end-to-end quality for our subscribers.

FIXED LINE, FIXED BROADBAND AND PAY TELEVISION BUSINESS

We are a leader in the fixed line markets in Georgia, with a market share of 57%, and are the second largest fixed broadband and IPTV provider in Georgia based on the number of subscribers, with a market share of 30% and 33% in fixed broadband and pay television, respectively, as of 31 December 2021 (Source: GNCC). Our fixed infrastructure supports the further expansion of the network in previously under-served localities, including for mobile service needs. Our pay TV market position is supported by access to premium and exclusive content.

Refer to Our products and services; Telecommunications sector overview; Our network and infrastructure

UNIQUE AND DIVERSIFIED CONTENT PORTFOLIO

We are the only telecommunications provider in Georgia that has developed its own IPTV platform, which we believe to be “best in class” in Georgia. We have also directly acquired the rights to film, documentary, entertainment, and sports content for our channels and provide Georgian language programs to our subscribers. Our ability to offer premium sports content, including the Champions League, Europa League and La Liga football, NBA basketball and other competitions, some of it via exclusive contracts, has been an important factor in our ability to acquire new subscribers. We are also continuously developing streaming applications for Android, iOS and PC.

Refer to Content portfolio

LEADERSHIP IN UNDER-PENETRATED AND GROWING MARKET SEGMENTS

MOBILE MARKET

While wireless penetration rates in Georgia are high, as in most of Europe, there is potential for further increases in wireless data penetration due to increasing smartphone penetration and mobile data usage. As of 31 December 2021, the mobile data penetration rate in Georgia was 63%, compared to 69% for Silknet. We believe that we are positioned within the mobile service market as a high-quality provider and aim to capitalize on this by emphasizing the adoption of smartphones and increasing mobile data penetration in Georgia. Our strategy of content-based convergence also supports the trend in customer demand for data-related services.

FIXED MARKET

We are one of the market leaders in both fixed broadband and pay TV services in Georgia, which are growing market segments based on the number of subscribers. As of 31 December 2021, we had a market share of 30% and 33% in the broadband and pay TV markets in Georgia, respectively, based on the number of subscribers.

Residential fixed broadband penetration in Georgia, expressed as a percentage of households, was 85% as of 31 December 2021. According to the GNCC, revenue from fixed broadband services in Georgia has grown from GEL 99 million in 2011 to GEL 294 million in 2021. According to the GNCC, household penetration of pay TV services in Georgia is approximately 64%, while pay TV revenue has grew from GEL 19 million in 2011 to GEL 129 million in 2021.

The growing economy and increasing urbanization in Georgia drive further demand for telecommunications services. We expect to continue to roll out our fiber networks, increasing penetration in major cities. We expect that this will increase the number of subscribers, as copper network penetration in smaller towns tends to be relatively low, substantially increase the service quality, and upsell IPTV and mobile services.

We believe that our leadership position in these growing market segments puts us in a strong position to benefit from current market trends.

Refer to Telecommunications sector overview

ROBUST OPERATING PERFORMANCE

We have historically maintained stable growth across our operations in Georgia. In 2021, we had an EBITDA of GEL 227.6 million, compared to GEL 211.5 million in 2020. Our balanced and disciplined expansion policy has enabled us to maintain and develop our strong infrastructure network. We believe that our strong operating performance, financial condition, and prudent risk management will enable us to continue monitoring the competitive landscape in order to take advantage of new opportunities in Georgia as they arise.

Prior to the acquisition of Geocell, we had maintained a conservative financial profile and low indebtedness levels. Our low indebtedness levels have enabled us to generate cash flow that we have utilized to maintain our investment strategy, including the Geocell acquisition. We generated net cash from operating activities of GEL 229.4 million in 2021, compared to GEL 226.8 million in 2020. This cash flow generation allowed us to gain a competitive advantage by financing our network modernization program, maintaining a high rate of capital expenditures relative to revenues, and maintaining a net cash position at the end of each of these periods, with GEL 71.5 million and GEL 77.8 million in cash and cash equivalents as of 31 December 2021 and 2020, respectively. We anticipate that cash generation will continue to improve due to enhanced our EBITDA margins. Accordingly, we expect our liquidity profile will continue to improve.

Refer to Financial performance

UNPARALLELED AND RESILIENT INFRASTRUCTURE

We believe that we have unparalleled and resilient infrastructure. We are the pioneer, and only provider, of gigabit-LTE technology in Georgia, having already installed it in 519 sites in major cities (or 39% of our macro sites). We have the largest spectrum portfolio in Georgia, with 173 MHz across multiple bands. We have an extensive optical network in Georgia, which comprises over 4,000 kilometres of fiber. We have developed a backbone network connecting Tbilisi with other major cities and creating an arrangement that has the highest number of cross-border connections in Georgia. This has also allowed the Company to back up and diversify potential suppliers. Moreover, we have been involved in modernizing the fixed IP MPLS network. The investments resulted in our network and mobile broadband user experience being at least on par with, or in some cases superior to, any other mobile network in Georgia. In 2021, the GNCC recognized Silknet's mobile service as the fastest in Tbilisi and most of the other regions of Georgia.

Refer to network and infrastructure

EXPERIENCED MANAGEMENT

We believe that we have a strong and stable Supervisory Board and an executive team with a strong track record in Georgia. All of the senior members of the Company's Supervisory Board and executive team have extensive knowledge of the telecommunications sector in Georgia and bring with them significant experience in leading telecommunications institutions. We believe that the composition of our management team puts us in a very good position to successfully implement our growth strategy and to focus on improving our operating performance, as the Company encounters opportunities to generate benefits from its significant investments in infrastructure to date. Senior executives of the Company have an average of approximately eight years' experience in the telecommunications industry. The Company's management continuously looks to strengthen its management bench, and attract managers with diversified expertise, particularly in technology and innovation.

Refer to Supervisory Board and management biographies

MARKET OVERVIEW

GEORGIA AT A GLANCE

We operate primarily in Georgia and therefore the results of our operations, growth and development are, and will continue to be, significantly affected by Georgian economic factors, including those in the table below.

KEY DATA

Area
69,700 sq. km

Population (million, as of 01.01.2022)
3.7

Nominal GDP[1] (GEL billion)
60.2

Nominal GDP[1] (USD billion)
18.7

Nominal GDP growth[1]
22.3%

Real GDP growth[1]
10.4%

Inflation (2021 average)
9.6%

FDI as % of GDP[1]
6.2%

Unemployment rate (2021)
20.6%

Public debt as % of GDP[1]
75.1%

Country rating
(S&P Feb 2022/Moody's Sep 2021/Fitch Feb 2022)

BB/Ba2/BB

Sources: GeoStat, MOF

Economically, Georgia has been outperforming its regional peers for the last decade. After a decline in real GDP in 2020 of 6.8% due to the global economic recession caused by COVID-19 pandemic, economic activity accelerated in 2021 alongside the gradual reopening of the economy from February 2021 and a partial recovery in tourism (tourism revenues in 2021 comprised 38% of tourism revenues in 2019), resulting in 10.4% estimated real GDP growth in 2021, despite an annual inflation rate of 9.6%.

Georgia has an attractive environment for doing business, as evidenced by high rankings in recognised indicators.

Significant changes in the country's demographic structure have occurred over the past two decades. According to GeoStat, the rural population decreased by 19% from 2000 to 2021. By the end of 2021, approximately 59% of the total population of Georgia lived in urban areas, while 32% of the total population of Georgia lived in Tbilisi. The urbanisation rate in Georgia is still lower than in the EU, but the gap is expected to reduce further.

The urbanisation trend has contributed to an increase in the number of households in urban areas, especially in Tbilisi and Batumi. At the same time, the average household size has been shrinking over the years.

Furthermore, approximately 38% of the Georgian population is below the age of 30. A high proportion of young people, coupled with rapid generational shifts, should enhance the demand for telecoms products, especially mobile data, and strengthen future opportunities for the sector.

Our strategic response to these trends is to focus on network development in urban areas, whilst being selective in low-density rural areas. We have invested and expect to continue to invest in network rollout, especially in urban areas, to meet the growing demand for our services, especially fixed broadband, mobile data, and pay television.

[1] 2021 preliminary data

ATTRACTIVE ENVIRONMENT FOR DOING BUSINESS

FIGURE 1 EASE OF DOING BUSINESS
2020 ranking

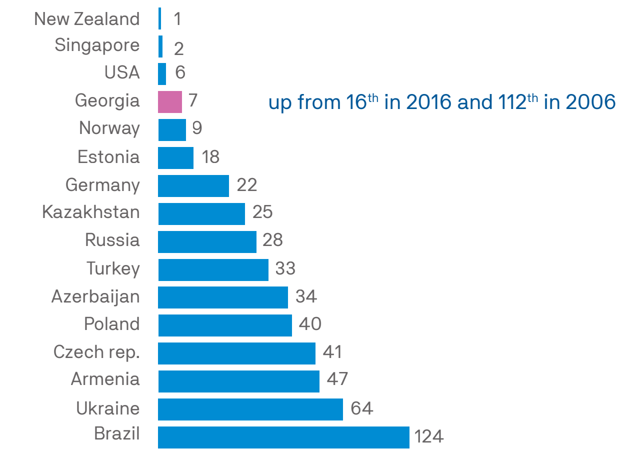


FIGURE 2 ECONOMIC FREEDOM INDEX
2022 ranking

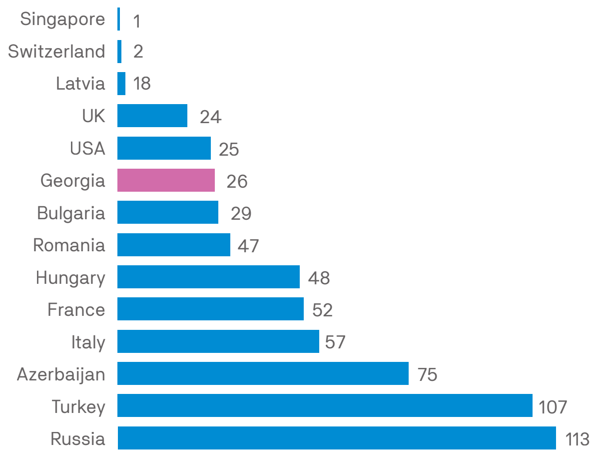


FIGURE 3 GLOBAL CORRUPTION BAROMETER
% admitting having paid
a bribe last year (2016)

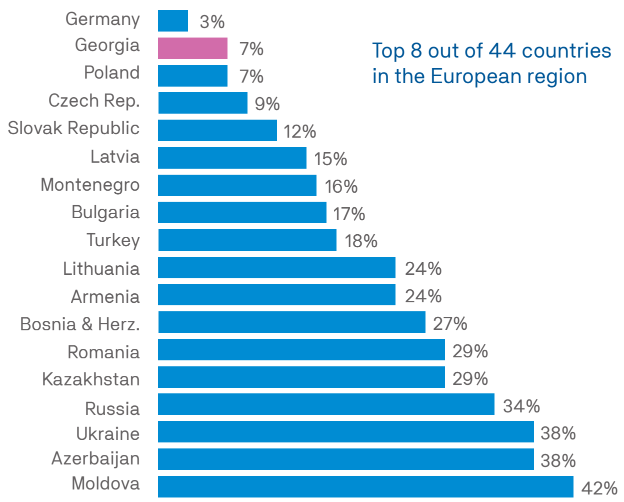
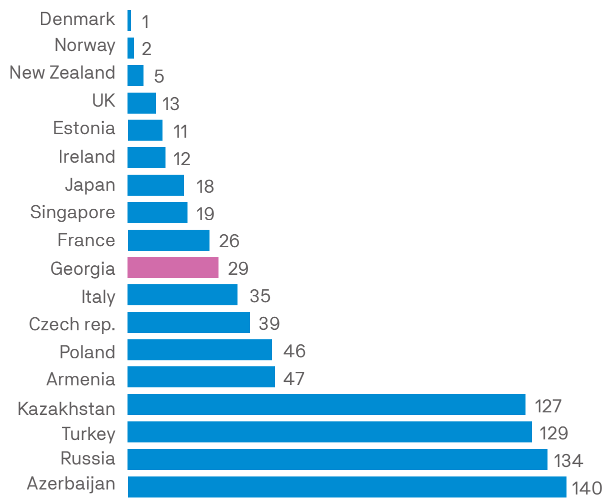


FIGURE 4 BUSINESS BRIBERY RISK
2021 ranking

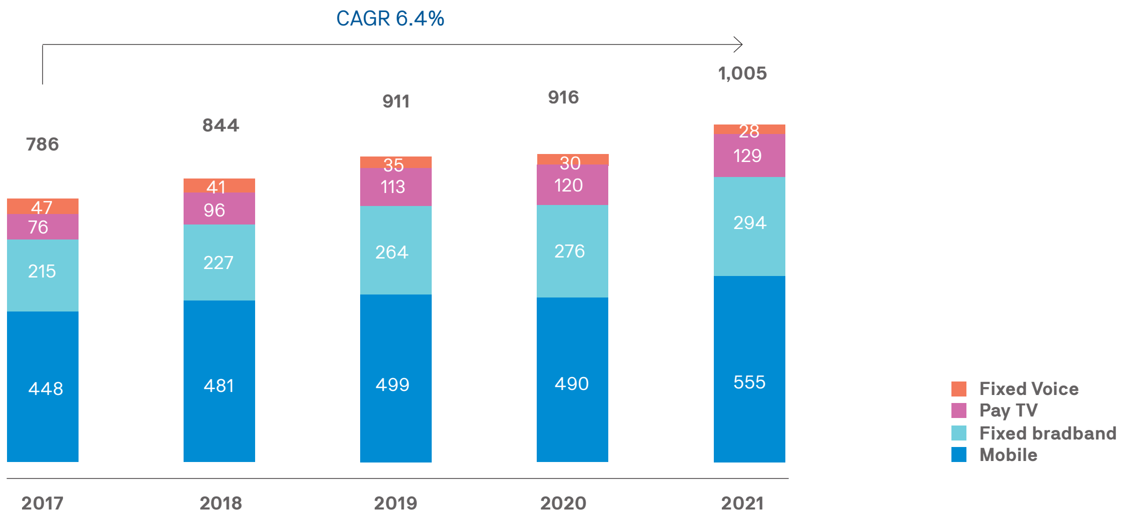


Sources: Transparency International, Heritage Foundation, World Bank, Trace International

TELECOMMUNICATIONS SECTOR OVERVIEW

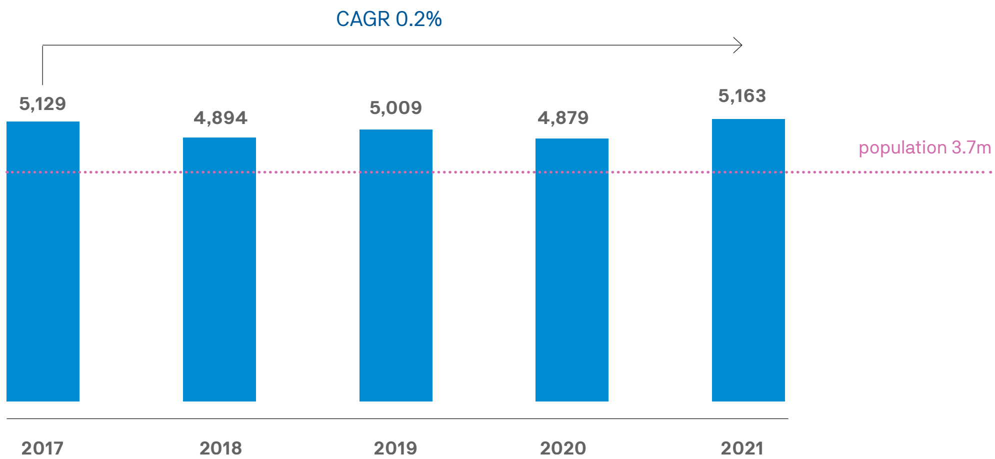
Telecommunications revenues increased by 10% in 2021, which was fueled by the reopening of the economy from Q2 2021 and partial recovery of tourism. In 2020, despite the economic downturns, telecommunications revenues increased by 1%.

FIGURE 5 TELECOMMUNICATIONS REVENUES, GEL millions



Source: GNCC

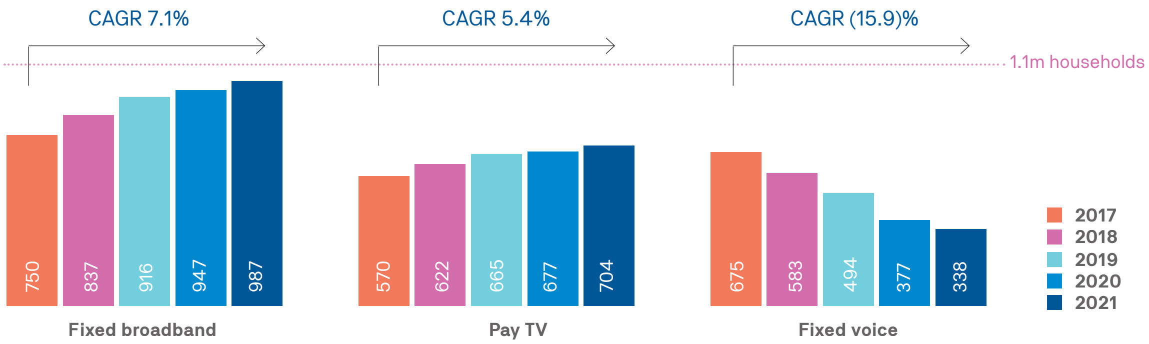
FIGURE 6 NUMBER OF MOBILE SUBSCRIBERS[1], '000



Source: GNCC, GeoStat

[1] eop

FIGURE 7 NUMBER OF FIXED SERVICE SUBSCRIBERS[1], '000



Source: GNCC, GeoStat

Georgia's telecommunications sector subscriber base grew in the period 2017-2021. Fixed broadband and pay TV subscribers grew fastest, up 1.3x and 1.2x, respectively, while the number of fixed voice subscribers halved during the same period, in line with a global decrease in the use of fixed voice services.

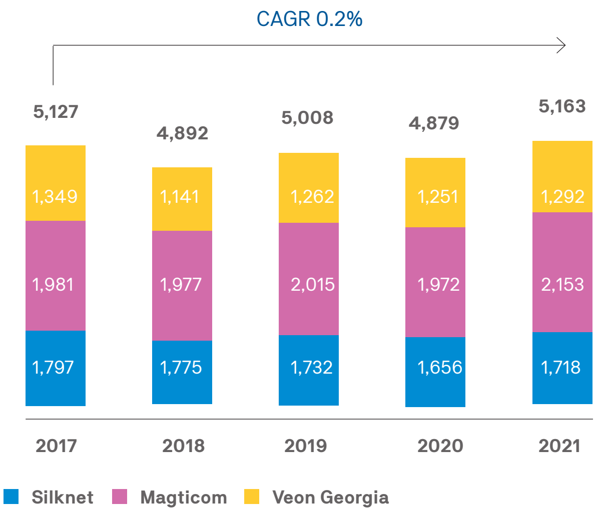
Driven by increased mobile, fixed broadband, and pay TV revenues, the telecommunications sector generated GEL 1,005 million in retail revenues in 2021, which is 1.7% of Georgia's GDP, compared to GEL 786 million in 2017.

Mobile revenues remain the most significant revenue stream, accounting for 55% of total telecommunications revenues in 2021. Silknet and Magticom are the only convergent operators in Georgia's three-carrier mobile segment. Veon Georgia has hitherto focused solely on mobile[2].

MOBILE

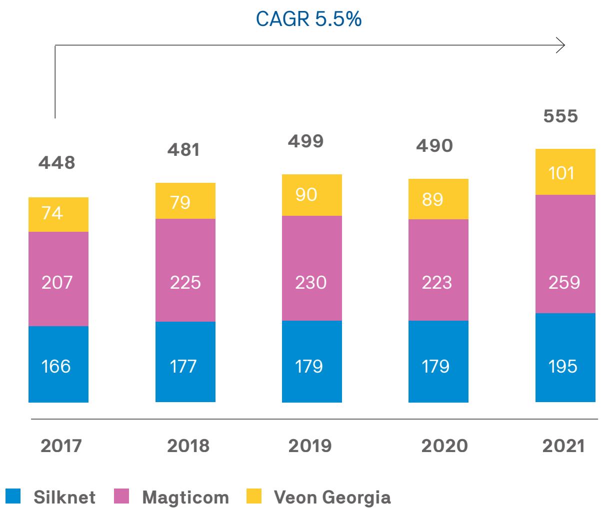
SIM card penetration in Georgia is high compared to population size: around 138%, substantially higher than in most European countries. This is mainly due to the high penetration of B2B SIM cards and the practice of multi-SIM ownership.

FIGURE 8 MOBILE SUBSCRIBER EVOLUTION[1], '000



Source: GNCC

FIGURE 9 MOBILE REVENUE EVOLUTION, GEL millions



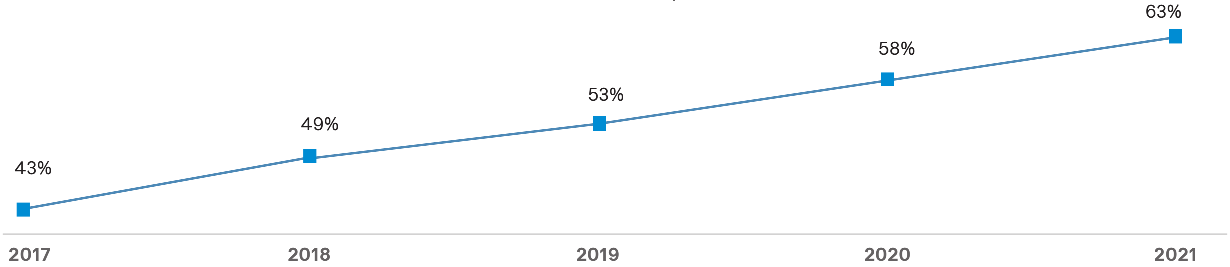
Source: GNCC

The number of mobile subscribers have been relatively flat during the past five years and the growth in mobile revenues come from the increased consumption, mainly in mobile data.

[1]eop

[2] The GNCC has granted Khvicha Makatsaria preliminary permission to acquire a 100% indirect equity interest in Veon Georgia. Mr. Makatsaria controls certain smaller fixed broadband operators in Georgia.

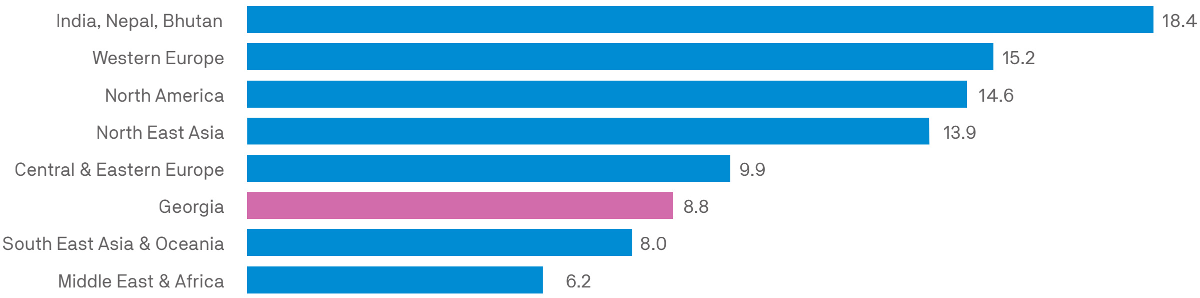
FIGURE 10 MOBILE DATA PENETRATION IN GEORGIA[1], %



Source: GNCC

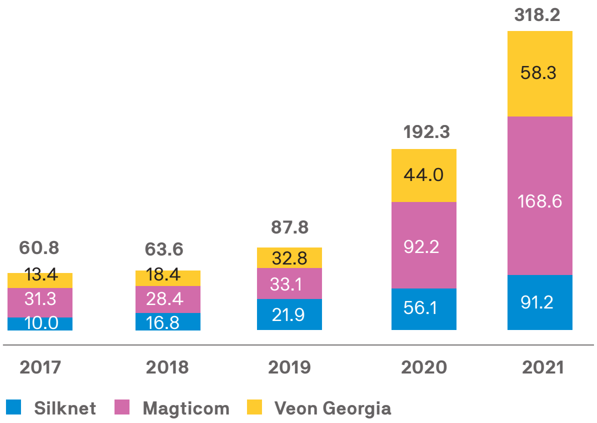
The increase in mobile data subscribers has been significant over the last five years. Mobile data penetration has increased from 43% in 2017 to 63% in 2021, but is still low compared to Europe. Given the generation shift, the number of data users is expected to further increase substantially.

FIGURE 11 AVERAGE MOBILE DATA TRAFFIC PER USER, GB per month



Source: GNCC, Ericsson mobility visualizer

FIGURE 12 MOBILE DATA TRAFFIC, '000 TB

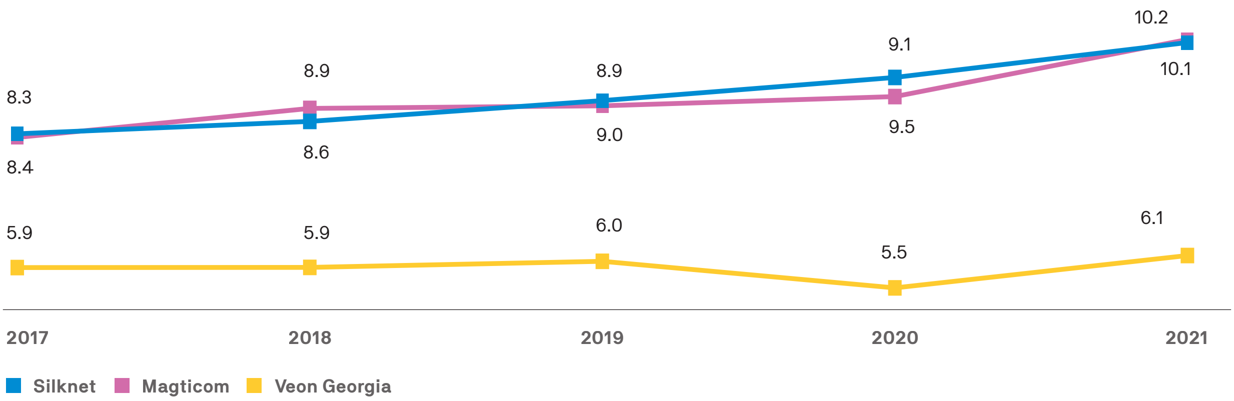


Source: GNCC

Despite the surge in mobile data traffic in recent years, average mobile internet consumption in Georgia, which stands at 8.8 GB/month per user in 2021, is low compared to Europe and North America. There is significant potential for growth in this area due to the rise of smartphones and social media.

[1]eop

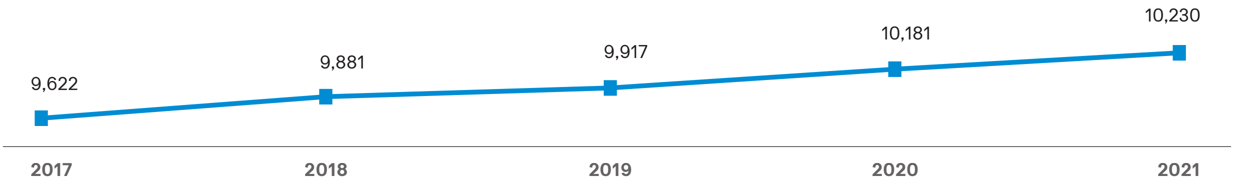
FIGURE 13 **EVOLUTION OF MOBILE B2C ARPU,** GEL



Source: GNCC

Silknet and Magticom have more or less similar B2C ARPUs, significantly higher than Veon Georgia. After the GNCC repealed the partial retail price regulation in 2021, all three operators introduced a range of changes and adjustments to the tariff plans and packages in 2022.

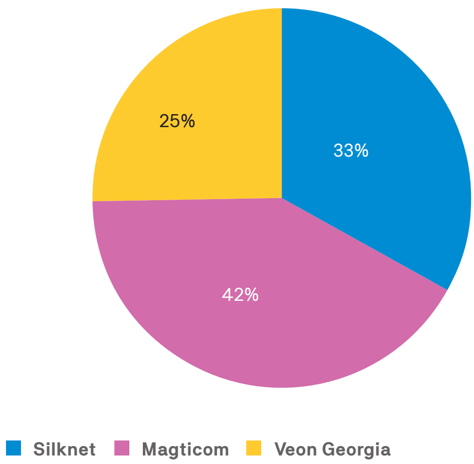
FIGURE 14 **TOTAL MOBILE VOICE TRAFFIC,** million min



Source: GNCC

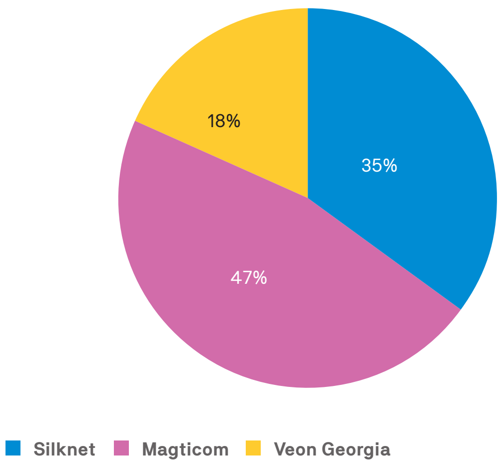
Mobile voice traffic has been growing mildly in the recent years.

FIGURE 15 **MOBILE MARKET SHARE BY NUMBER OF SUBSCRIBERS IN DECEMBER 2021**



Source: GNCC

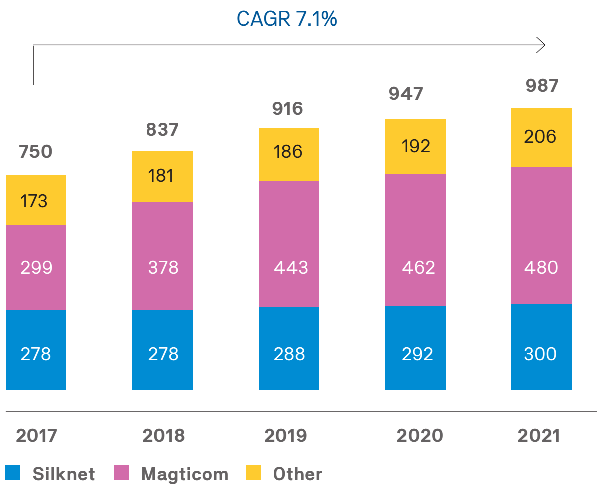
FIGURE 16 **MOBILE MARKET SHARE BY REVENUE IN 2021**



Source: GNCC

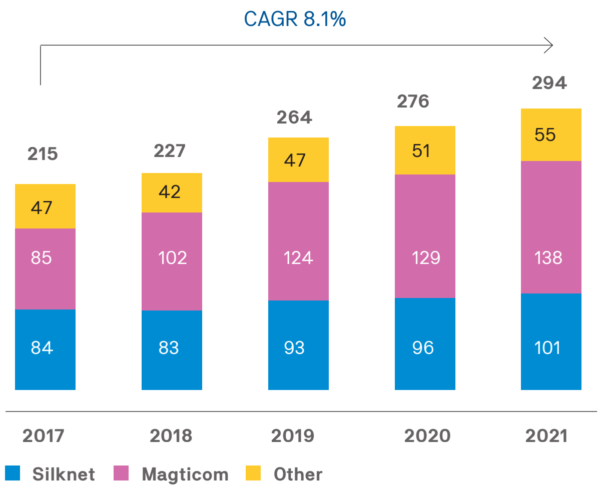
FIXED BROADBAND (FBB)

FIGURE 17 FBB SUBSCRIBER EVOLUTION[1], '000



Source: GNCC

FIGURE 18 FBB REVENUE EVOLUTION, GEL millions

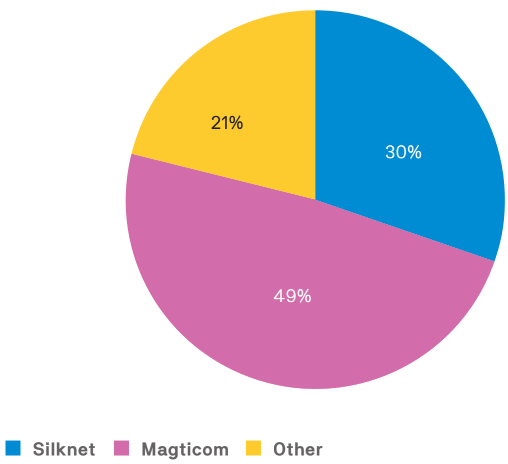


Source: GNCC

The number of fixed broadband subscribers has seen solid growth over the last five years, reaching 85% household penetration in 2021. While the headline penetration looks high, we expect further growth in the number of subscribers as a result of urbanisation and decreasing average household size.

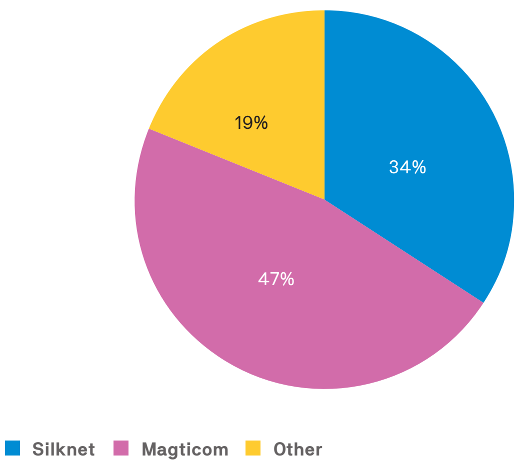
Silknet and Magticom combined hold circa 79% of the fixed broadband market share by number of subscribers, as of December 2021.

FIGURE 19 FBB MARKET SHARE BY NUMBER OF SUBSCRIBERS IN DECEMBER 2021



Source: GNCC

FIGURE 20 FBB MARKET SHARE BY REVENUE IN 2021



Source: GNCC

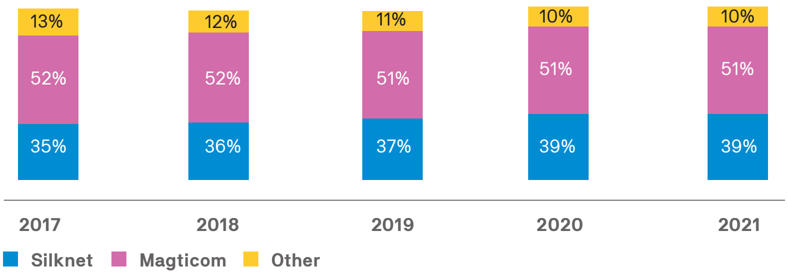
[1] eop

In areas where Silknet and Magticom are both present, Silknet enjoyed higher growth in 2021 in FTTH compared to Magticom and other players. In the biggest ten cities of Georgia[1], Silknet's subscriber market share in B2C FTTH has been growing over the past five years.

Our approach to network deployment remains selective: we do not target less densely populated areas and we are not chasing headline market share.

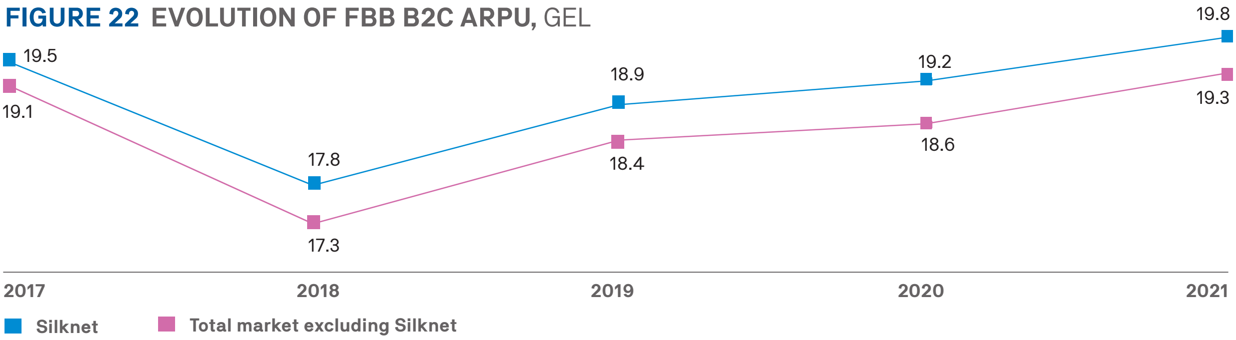
We are the market leader in the B2B segment by both revenue and number of subscribers.

FIGURE 21 B2C FTTH MARKET SHARE IN THE 10 BIGGEST CITIES BY NUMBER OF SUBSCRIBERS[1, 2]



Source: GNCC

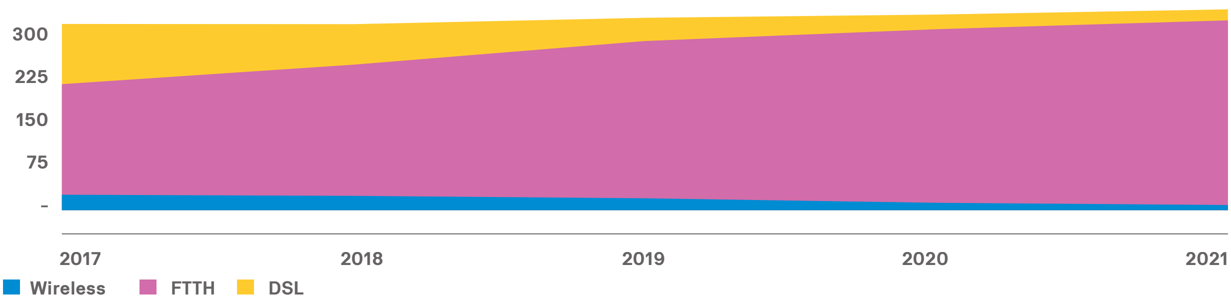
FIGURE 22 EVOLUTION OF FBB B2C ARPU, GEL



Source: GNCC

Although it mostly stayed above the market average, our ARPU decreased in 2018 due to introductory offers to subscribers outside Tbilisi. As these offers gradually phased out, our ARPU experienced an uptick in the period 2019-2021. However, there continues to be a significant pricing difference between Tbilisi and other areas. Further expansion in small towns and rural areas may lead to an overall decline in ARPU.

FIGURE 23 SILKNET'S FBB SUBSCRIBERS BY TECHNOLOGY[2], '000



Source: GNCC

We have maintained growth in the overall number of fixed broadband subscribers. The number of FTTH customers has skyrocketed over the last five years.

We accelerated our project to replace DSL with FTTH technology in 2019 (see Our network and infrastructure section). As of 31 December 2021, there were only 16 thousand DSL subscribers left in Silknet's subscriber base. From 2019, we gained access to the nationwide electricity grid for fibre deployment, levelling the playing field with our key competition. We gained further network deployment headway through a backbone contract with the Ministry of Internal Affairs ("MIA").

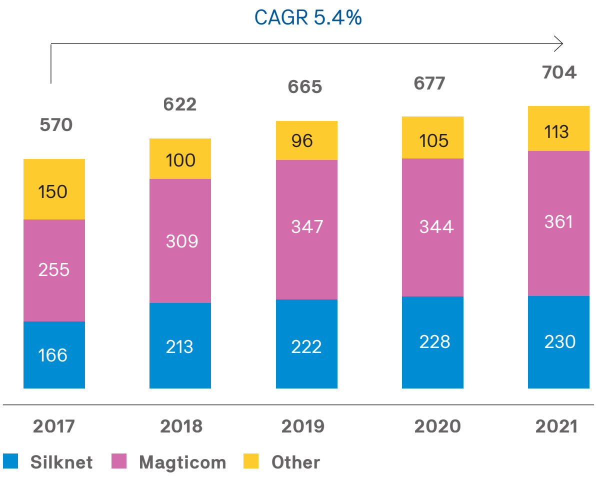
Most of our FTTH subscribers used 2-play offers, mainly IPTV. We discuss bundling further in Our customers section.

[1] Tbilisi, Batumi, Kutaisi, Rustavi, Gori, Telavi, Poti, Khashuri, Kobuleti and Zugdidi
[2] eop

PAY TV

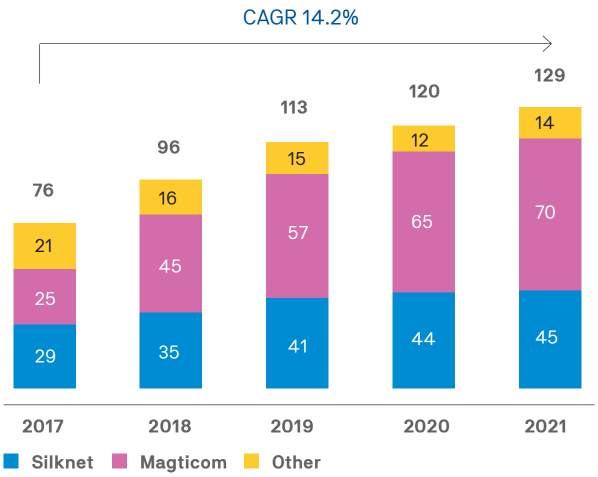
Still underpenetrated, pay TV is the fastest growing sector in Georgia. Penetration by total number of households reached 64% at the end of 2021 and is expected to grow further.

FIGURE 24 PAY TV SUBSCRIBER EVOLUTION[1], '000



Source: GNCC

FIGURE 25 PAY TV REVENUE EVOLUTION, GEL millions

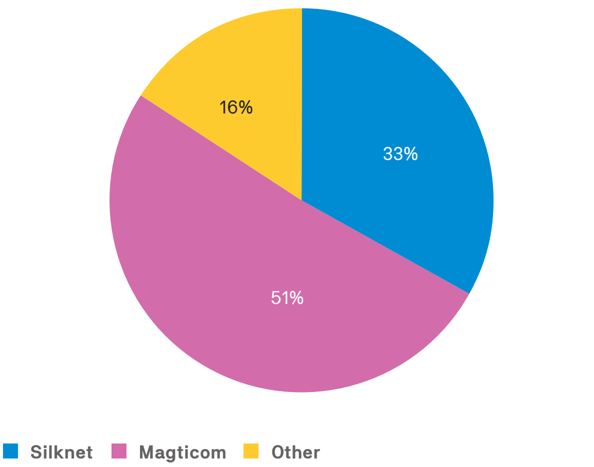


Source: GNCC

IPTV use has been increasing and remains the most popular technology in Georgia. The direct to home ("DTH") subscriber growth has stalled and the RF technology market share has declined, partially due to the launch of a Digital Terrestrial Television ("DTT") platform with a high-quality, free-to-air ("FTA") offering.

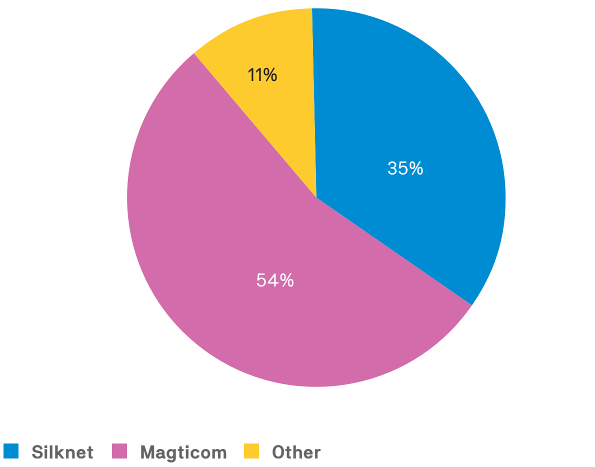
We held 33% subscriber market share at the end of 2021.

FIGURE 26 PAY TV MARKET SHARE BY NUMBER OF SUBSCRIBERS IN DECEMBER 2021



Source: GNCC

FIGURE 27 PAY TV MARKET SHARE BY REVENUE IN 2021



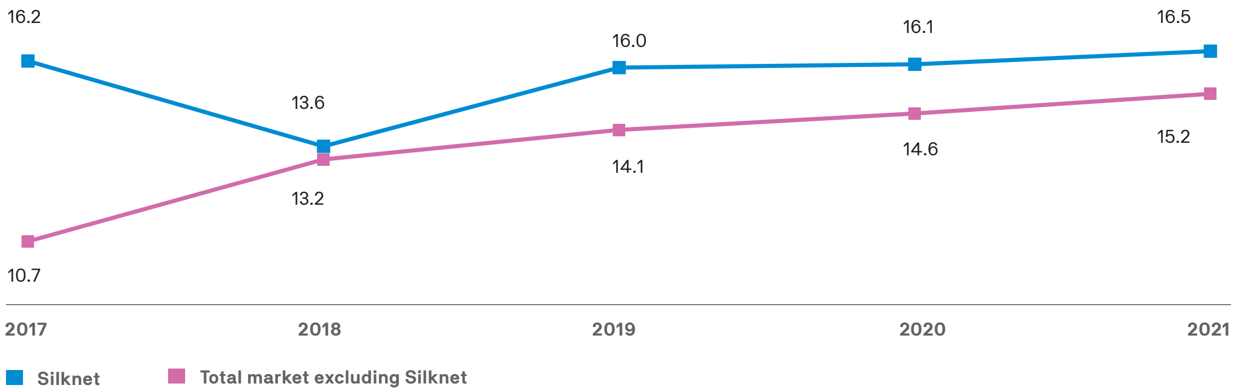
Source: GNCC

[1] eop

We offer video-on-demand (VOD) and streaming services along with linear channels. Our all-in-one bundles have enabled a wider audience to gain access to our superior content (see the Content portfolio section for further information on our content).

However, our operating environment remains challenging with respect to the availability of illegal content through Georgian or international sources. We see some encouraging developments on the market in this regard, as we have joined forces with various rights holders, industry associations, the regulator, and other actors to improve enforcement. As a result, access to certain foreign websites has been blocked and most of the content we offer through our VOD and streaming services has been removed from certain popular Georgian websites. Future regulatory changes in line with the EU-Georgia Association Agreement (see the Regulatory developments section) may further facilitate this.

FIGURE 28 PAY TV ARPU EVOLUTION, GEL



Source: GNCC

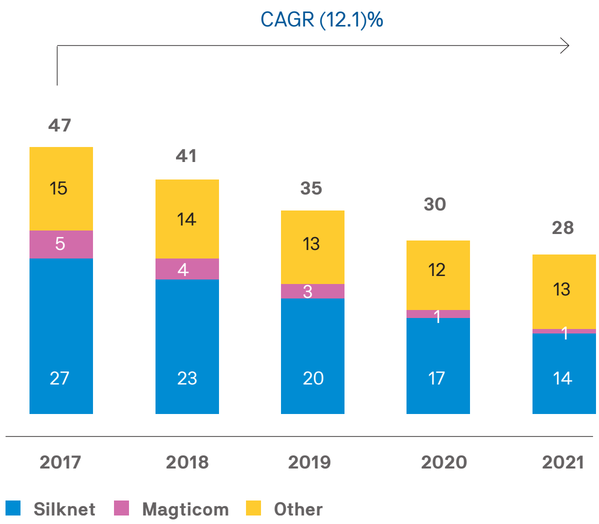
Our ARPU has remained above the market average. As with fixed broadband ARPU, our pay TV ARPU decreased in 2018 due to introductory offers to subscribers outside Tbilisi. This declining trend was stemmed by the phasing out of these offers, resulting in an uptick in 2019.

FIXED LINE

The fixed voice segment has experienced 12.1% negative CAGR over the last five years because of substitution by mobile services. Voice-over-Internet-Protocol (VoIP) technology is the only one that has seen growth. Our growth in fixed broadband, pay TV and mobile segments more than offsets this decline.

We are the market leader in both subscriber base and market share. The total number of fixed line subscribers in Georgia was approximately 0.3 million at the end of 2021.

FIGURE 29 FIXED LINE REVENUE, GEL millions



Source: GNCC

REGULATORY DEVELOPMENTS

The Georgian telecommunications sector is subject to multiple laws and regulations, which are imposed by the Georgian National Communications Commission ("GNCC"). The GNCC is an independent state authority, regulating both electronic communications and the broadcasting sectors. The regulatory environment in Georgia is advanced, resulting in less volatile market conditions. The latest regulatory developments are discussed below.

MOBILE VIRTUAL NETWORK OPERATOR (MVNO) REGULATION AND RETAIL PRICE REGULATION

The GNCC repealed the retail price regulation in the retail mobile market, whereby the MNOs were obliged to seek the GNCC's approval for changes or cancellation of existing tariffs/packages. The regulation was in force from 2020.

The GNCC has delayed the ex ante MVNO access regulation until 31 December 2022.

Following the changes above, the telecommunications sector in Georgia is likely to revert to the path towards alignment with EU regulations.

GAMBLING ADVERTISEMENT RESTRICTIONS

In December 2021, the Georgian Parliament passed changes in broadcasting and advertising laws to restrict gambling advertisements. The changes are effective from March 2022 and restrict advertisement, sponsorship, and product placement related to gambling.

This may result in a reduction of advertising revenues. However, given that they comprised approximately 1% of our total revenue in 2021, the impact is not expected to be significant.

EXPECTED DEVELOPMENTS IN ELECTRONIC COMMUNICATIONS AND BROADCASTING REGULATIONS

THE EU-GEORGIA ASSOCIATION AGREEMENT

Currently, there is ongoing work on legislative and normative acts in the field of electronic communications and broadcasting in order to ensure the harmonisation of existing regulations with EU directives, as defined under the EU-Georgia Association Agreement.

Changes are underway which entail the following: the regulation of access to passive physical infrastructure; refining the existing legislative framework regarding the licensing, authorisation, and management of radio frequencies; the protection of personal information and ex ante competition regulation; the regulation of new types of audio-visual contents; and the protection of consumer rights in the new media environment.

The government is also starting to take steps towards addressing content piracy in the country.

GDPR

As part of the harmonisation process, the Georgian Parliament has initiated a new law on Personal Data Protection that was drafted largely in accordance with the GDPR regulation.

According to the new law, penalties for a breach of the Personal Data Protection legislation have increased four times and, in some cases, more. New offences are also introduced. The conditions for consent have been strengthened and changes in subscriber agreements and other legal documents will be required. Data subjects are entitled to obtain confirmation from the data controller as to whether their personal data is being processed, where and for what purpose. The right to be forgotten entitles the data subject to require the data controller erase his/her personal data, cease further dissemination of that data, and potentially have third parties halt the processing of that data. The new law also introduces data portability – the right for a data subject to receive personal data that concerns them. The appointment of a Data Protection Officer is mandatory for some categories of controllers, including electronic communications companies. In cases where data processing carries a high risk of human rights violations, the data processor is obliged to carry out an assessment of the impact of data processing in advance.

Refer to Risk management

FINANCIAL PERFORMANCE

FINANCIAL HIGHLIGHTS

GEL millions	2019	2020	2021	y/y 21-20
Revenue	**387.2**	**382.2**	**413.4**	**8%**
Commercial revenue	346.2	347.6	369.7	6%
Carrier services	41.0	34.6	43.7	26%
EBITDA	**215.9**	**211.5**	**227.6**	**8%**
EBITDA margin %	56%	55%	55%	
EBITDAaL	**200.4**	**196.1**	**213.7**	**9%**
EBITDAaL margin %	52%	51%	52%	
Capex[1]	**99.7**	**112.6**	**83.1**	
Capex/revenue %	26%	29%	20%	
Operating free cash flow	**100.8**	**83.5**	**130.6**	**56%**
Operating free cash flow margin %	26%	22%	32%	

The Georgian economy resumed growth from Q2 2021 and our revenue followed suit, increasing by 8% year-on-year. Commercial revenue grew by 6% in 2021, mainly driven by increased mobile data consumption against the backdrop of flat pricing. The 26% increase in carrier services is due to several factors, mainly: 1) an increase in bulk SMS interconnect revenue; 2) higher channel rent fees; and 3) a partial recovery in incoming visitor roaming.

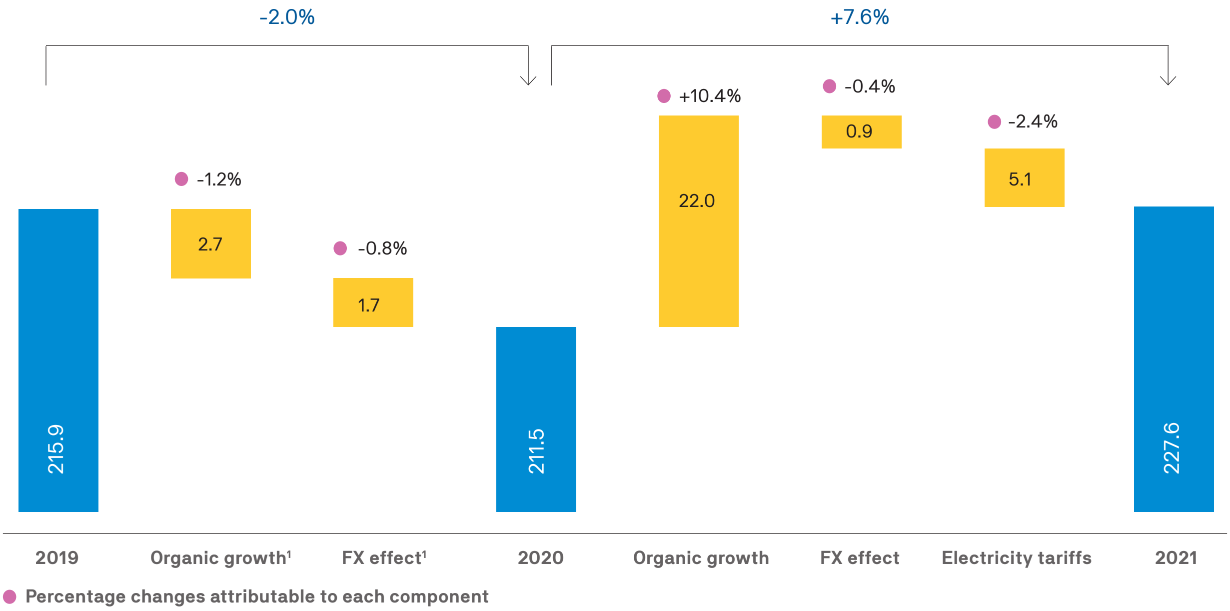
The increase in revenues translated into 8% and 9% growth in EBITDA and EBITDAaL, respectively, in 2021. This increase in the top line was partially offset by inorganic growth in some of the operating expenses (see figure 30).

Capital expenditures in 2021 included certain projects initiated in 2020 and accounted for as PP&E additions in 2021. Some new development projects that the Company initiated in 2H 2021 were only partially completed in 2021 and will be finalized in the course of 2022. Although the Capex to revenue ratio was higher in previous years due to our investment in the infrastructure, it normalized in 2021 (see further details in Capital expenditures later in this section).

The increased EBITDAaL, combined with lower capital expenditures, resulted in significantly higher operating free cash flow in 2021. The drivers of our financial performance are further discussed in the subsequent subsections (see further details in Cash flow and liquidity management later in this section).

[1]The capex figures we refer to in this section are the sum of Property and Equipment and Intangible Asset additions and exclude non-recurring projects and investment property acquisition, as follows: 1) IT transformation of GEL 8 million, GEL 2 million and GEL 24 million in 2019, 2020 and 2021, respectively; 2) telecom operating licenses of GEL 1 million, GEL 1 million and GEL 1 million in 2019, 2020 and 2021, respectively; 3) land plot acquisition for HQ purposes of GEL 30 million and GEL 29 million in 2019 and 2020, respectively; 4) Euronews operating license of GEL 2 million and GEL 5 million in 2019 and 2020, respectively; and 5) the acquisition of subscriber contracts from the local operator in the amount of GEL 5 million in 2020.

FIGURE 30 EBITDA EVOLUTION



Certain inorganic factors have affected the evolution of EBITDA:

- Increased electricity tariffs by >50% from January 2021.
- Currency movements: the GEL depreciated by 10% against the USD in 2020 and by 4% in 2021 (calculated on annual average exchange rates). The Group's exposure to foreign currency is further discussed in this section. The impact of COVID-19 on EBITDA is not calculated separately and is combined with organic growth.

CREDIT RATINGS

Building on our track record of local capital market transactions (discussed under Leverage, later in this section), we issued our debut USD 200 million Eurobonds in April 2019, the first pure corporate (non-financial-institution- and non-sovereign-related) issuance from the country, followed by an additional USD 300 million in Eurobonds issued in January 2022, out of which USD 50 million was repurchased substantially upon issuance. With the proceeds, we refinanced the existing USD 200 million Eurobonds and 34 million GEL bonds.

We have been rated since 2016. The most recent updates by credit rating agencies are presented in the table below:

	Moody's	Fitch
Last update	January 2022	January 2022
Long-term credit rating	B1	B
Outlook	Stable	Stable

[1] The organic growth and FX effect for 2020 was erroneously reported as GEL 0.0 million and GEL 4.4 million, respectively, in annual report 2020 and was amended in this report.

PROFIT OR LOSS STATEMENT (RECLASSIFIED)

GEL millions	2019	2020	2021	y/y 21-20
Revenue:	**387.2**	**382.2**	**413.4**	**8%**
Commercial revenue	346.2	347.6	369.7	6%
Carrier services	41.0	34.6	43.7	26%
Costs and expenses:	**(171.3)**	**(170.7)**	**(185.8)**	**9%**
Salaries and benefits	(56.2)	(57.1)	(63.6)	11%
Other expenses	(22.0)	(19.0)	(20.4)	8%
Purchased services	(28.3)	(34.9)	(41.3)	18%
Rent expenses under operating leases	(9.2)	(7.0)	(6.2)	-12%
Interconnect fees and roaming expense	(17.8)	(16.2)	(18.5)	14%
Network management and maintenance costs IPTV content cost	(15.7)	(16.4)	(16.9)	3%
Advertising and marketing	(11.2)	(12.9)	(11.4)	-12%
Costs of SIM cards, scratch cards and other cost of sales	(8.0)	(6.2)	(6.6)	7%
	(2.8)	(0.9)	(0.9)	-1%
EBITDA	**215.8**	**211.5**	**227.6**	**8%**
Depreciation and amortisation	(111.7)	(117.4)	(117.0)	0%
Bargaining gain from acquisition	-	-	-	0%
Change in fair value of investment property	-	(3.3)	2.2	-166%
Specific items[1]	(14.9)	(10.3)	(5.5)	-46%
Finance income	4.3	4.4	4.1	-6%
Finance costs	(101.2)	(90.5)	(89.6)	-1%
Net change in fair value of financial instrument at FVTPL	(1.4)	5.8	(16.7)	
Net foreign exchange (loss)/gain	(35.8)	(88.1)	36.8	
Profit/(loss) before income tax	**(44.9)**	**(87.9)**	**41.8**	
Income tax expense	(1.2)	0.7	(0.3)	
Total profit/(loss) for the period	**(46.1)**	**(87.2)**	**41.5**	

[1]For details of specific items, please refer to Consolidated Financial Statements

REVENUE

We have two main revenue streams: commercial revenue, comprising 89% of total revenue, and wholesale (carrier) revenue, comprising 11% of total revenue. Commercial revenue is generated directly from B2B and B2C subscribers, while wholesale revenue is received from other local and international telecoms. The breakdown of total revenue is presented below:

FIGURE 31 2021 REVENUE BREAKDOWN

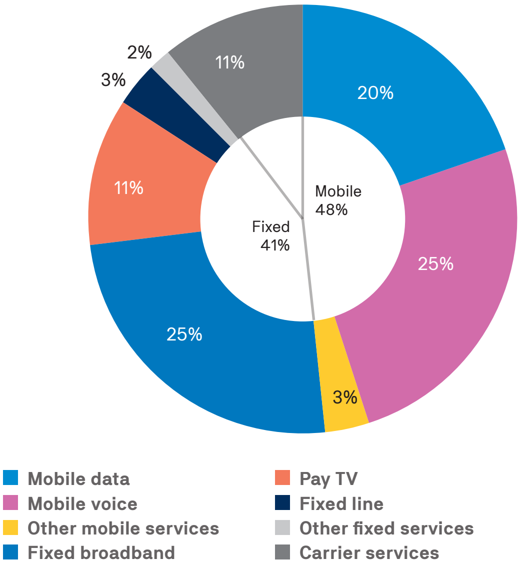
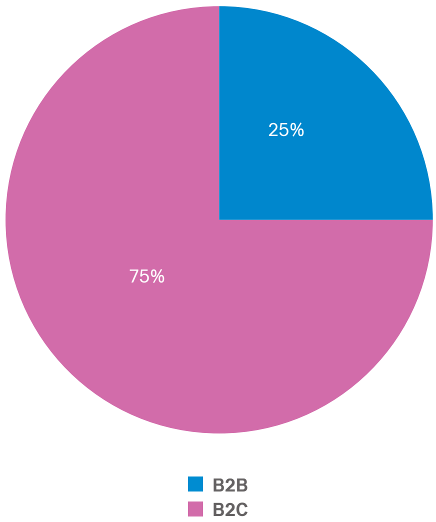


FIGURE 32 2021 COMMERCIAL REVENUE SPLIT



GEL millions	2019	2020	2021	y/y 21-20
Commercial revenue	**346.2**	**347.6**	**369.7**	**6%**
Mobile voice	105.8	103.2	103.4	0%
Mobile data	57.9	66.3	82.7	25%
Fixed broadband	94.3	98.2	102.0	4%
Pay TV	43.0	45.5	46.2	2%
Fixed telephone	20.7	16.4	14.2	-14%
Revenue from other services	24.4	18.0	21.3	18%
Carrier services	**41.0**	**34.6**	**43.7**	**26%**
Interconnect service	24.3	22.6	26.2	16%
Infrastructure capacity rental service	7.8	7.8	10.0	29%
Roaming revenue	6.8	2.0	5.0	146%
Internet wholesale	2.1	2.2	2.5	15%
Total revenue	**387.2**	**382.2**	**413.4**	**8%**

The information in the above table is based on IFRS financial statements. In some cases, there may be minor differences between IFRS figures and the amounts reported to GNCC due to differences in accounting and reporting requirements

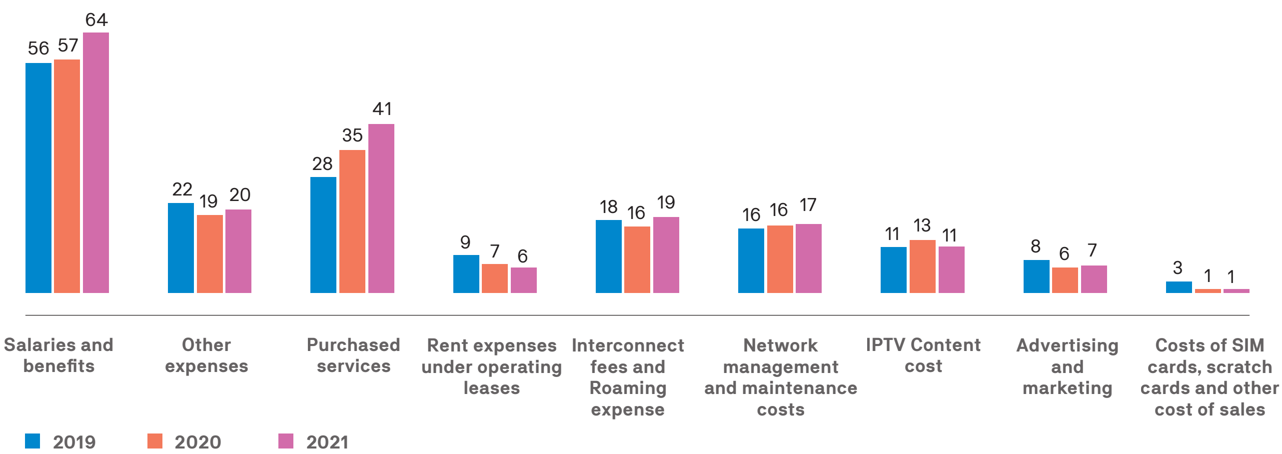
Commercial revenue increased by 6% year-on-year in 2021. On an organic basis, this growth has been predominantly driven by increased mobile data consumption, as well as the gradual expansion of our fixed subscriber base:

- The significant increase in mobile data revenue stems from consumption growth which, in turn, is driven by global and local trends on the demand side, as well as by the substantially improved mobile network on the supply side, with 4G population coverage reaching 98% in 2021 compared to 57% in 2017 and the deployment of gigabit-LTE technology in urban areas. With the improved coverage and network capacity, per user monthly mobile data consumption increased from 1.9 GB in 2019 to 7.0 GB in 2021, calculated on an average basis. Unlimited data campaigns introduced by the Group in 2020 have also contributed to consumption growth. However, mobile data penetration is still relatively low at 69%. With the generational shift and extended mobile data usage, the gap with regional peers is narrowing. See the Telecommunications sector overview section for further information about the market.
- While the conventional fixed line (fixed telephone service) segment has gradually been declining over the last few years, mobile voice (mobile callout service) revenue has remained relatively flat. The population in Georgia still heavily relies on mobile voice services. See the Telecommunications sector overview for further information about the market.
- Increased B2C subscriber base, higher B2C ARPU, and higher B2B revenues led to the 4% increase in total fixed broadband revenue.
- Increased subscriber base and higher ARPU led to the 2% increase in pay TV revenue.
- Higher advertising revenues led to the increase of other services, which also comprise the sale of phones and accessories, SMS and other mobile value-added services. Please note that advertising revenue is likely to be affected by the ban on gambling advertisements (see the Regulatory developments).

The increase in carrier services in 2021 was supported by higher bulk SMS interconnect revenue, which resulted from the introduction of a wholesale regulation by the regulator establishing a non-discriminatory rule for setting prices of non-standard types of bulk SMSs in August 2020, the increase in foreign visitor roaming, and higher channel rent volume.

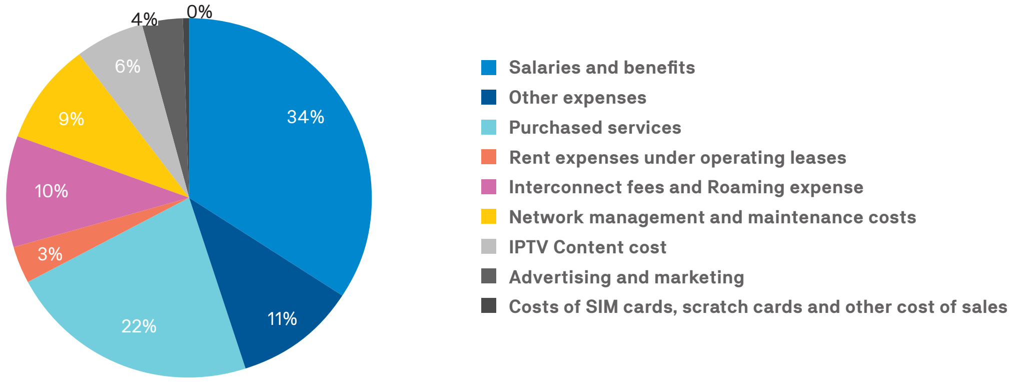
OPERATING EXPENSES

FIGURE 33 OPEX[1] DYNAMICS 2019-2021, GEL millions



[1]excludes non-recurring items; reconciliation to the audited figures is provided at the end of this section.

FIGURE 34 OPEX[1] BREAKDOWN 2021



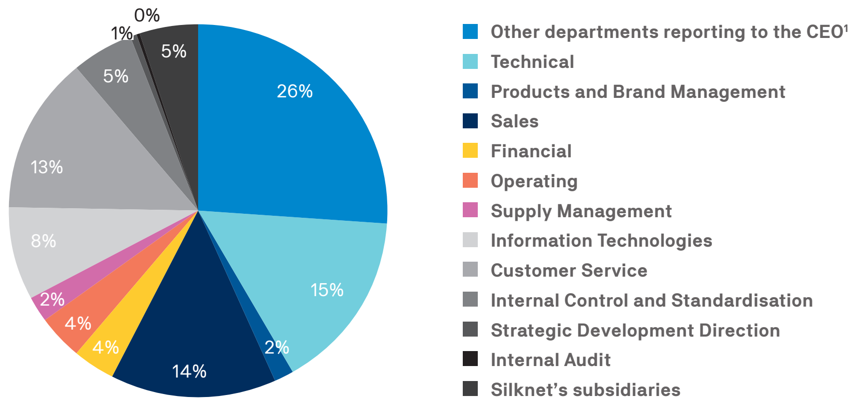
Most of the Group's operating expenses are fixed in the short run and are not directly exposed to subscriber base changes. Some of our operating expenses are subject to foreign exchange fluctuation, as discussed further under foreign currency exposure later in this section. Key changes to certain operating expense groups are as follows:

SALARIES AND BENEFITS

Increased salaries and benefits in 2021 were mainly due to higher employee wages and the increase in incentive-based direct sales remuneration following the easing of COVID-19 restrictions. By the end of 2021, we employed 1,988 people, making us one of the top 20 employers in the country.

The breakdown of 2021 salaries and benefits by division is presented on the chart below:

FIGURE 35 SALARIES AND BENEFITS BY DIVISION[1]



INTERCONNECT FEES AND ROAMING EXPENSES

The increase in this segment, including interconnect revenues and expenses, is largely explained by the introduction of a wholesale regulation by the regulator establishing a non-discriminatory rule for setting the prices of non-standard types of bulk SMSs in August 2020. Bulk SMS interconnect revenues and expenses increased by GEL 4.0 million and GEL 1.7 million, respectively. The evolution of revenues and expenses from interconnect is presented in the table below:

GEL millions	2019	2020	2021	y/y 21-20
Revenue from interconnect service	24.3	22.6	26.2	16%
Interconnect fees	16.5	15.8	17.8	12%
Net interconnect	**7.8**	**6.8**	**8.4**	**24%**

[1]excludes non-recurring items; reconciliation to the audited figures is provided at the end of this section.

PAY TV CONTENT COST

In order to provide a wide spectrum of content to our customers, we invest heavily in our pay TV content. Approximately 60% of our content licenses, which are long-term and grant rights to Silknet, are capitalised as intangible assets. The rest are charged to the P&L.

The breakdown of 2021 pay TV content cost (capex + opex) is presented in the charts below:

FIGURE 36 BREAKDOWN BY TYPE OF CONTENT

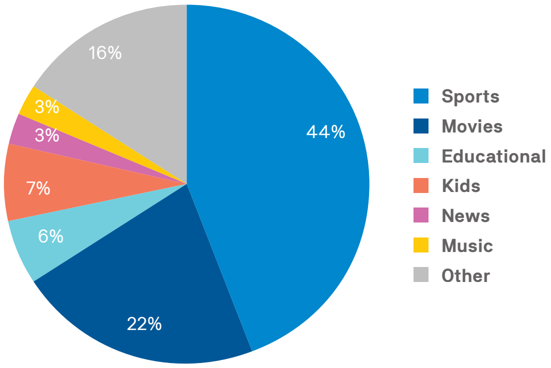
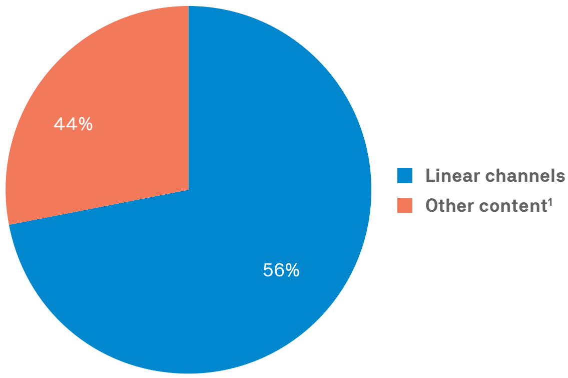


FIGURE 37 BREAKDOWN BY CATEGORY



[1] aggregated and broadcast on Silknet channels

FOREIGN EXCHANGE EXPOSURE

Our financial performance is subject to foreign currency exposure. In order to mitigate currency risk, we maintain a strong position in hard currency. We also engage in hedging relationships with local banks, if it is cost-efficient.

As of 31 December 2021, 95% of Silknet's gross debt was denominated in USD, out of which 17% was hedged with a cross-currency swap instrument and 8% with a hard currency cash balance. As of 31 March 2022, after the issuance of USD 300 million Eurobonds on 31 January 2022 and the refinancing of all outstanding debt instruments, 100% of the gross debt was denominated in USD, out of which 15% was hedged with a hard currency cash balance.

In March 2022, we cancelled the bespoke cross-currency hedge that we had arranged with TBC Bank whereby we deposited USD and drew a corresponding GEL loan. In the absence of liquid, long-term FX hedging instruments in Georgia, our hedge was structured in a way that, in hindsight, penalized us with higher costs as the interest rate differential between GEL and USD grew, since this growth had been specifically designed by the NBG to stem GEL depreciation. Therefore, the instrument we had did not effectively serve its purpose.

As and when opportunities arise, Silknet may revert to deploying cost-effective hedging instruments sourced on local or international financial markets.

FIGURE 38 GROSS DEBT AS OF 31 DECEMBER 2021

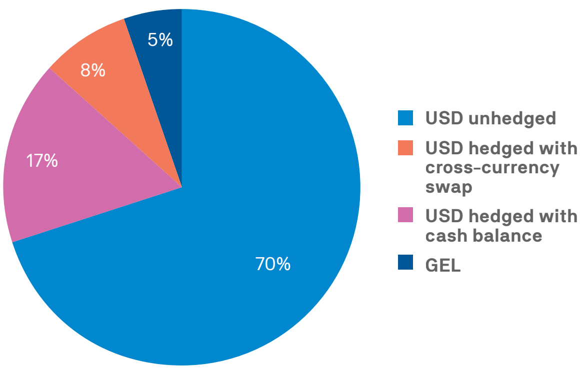


FIGURE 39 GROSS DEBT AS OF 31 MARCH 2022

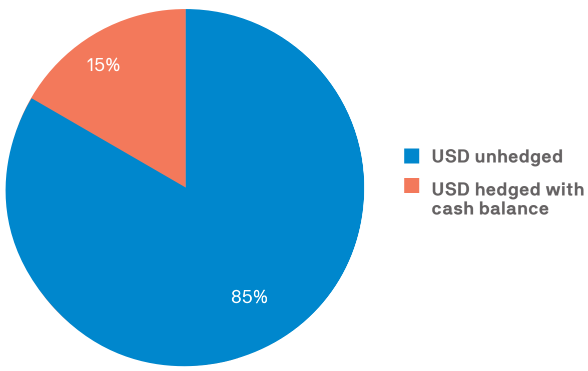
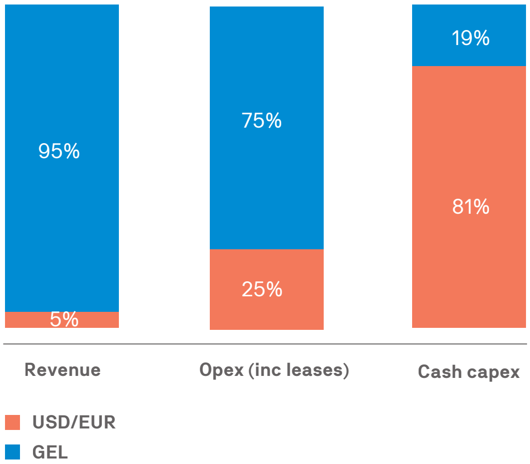


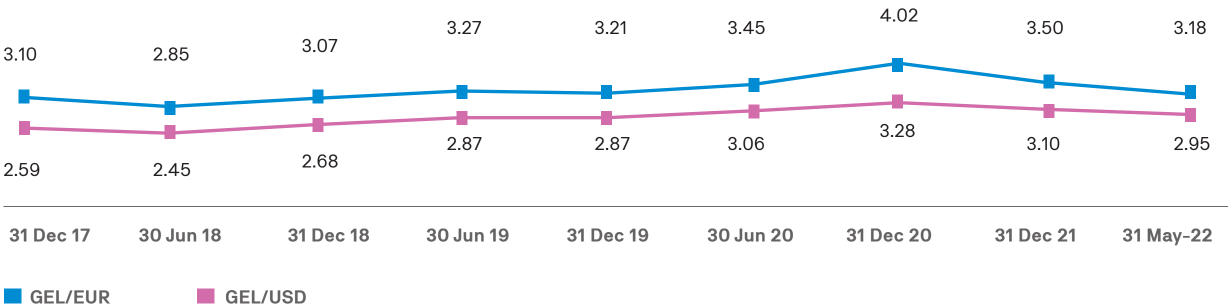
FIGURE 40 FX BREAKDOWN



Foreign currency denominated capex mostly consists of equipment purchased from international vendors such as Ericsson, Huawei, Juniper, Whale Cloud, etc. In terms of operating expenses, the main items denominated in foreign currency are technical support and pay TV content costs. Most foreign currency revenue is generated from wholesale carrier services.

The evolution of the GEL exchange rate against foreign currencies is presented in the chart below:

FIGURE 41 GEL EXCHANGE RATE AGAINST FOREIGN CURRENCIES



Source: National Bank of Georgia

The National Bank of Georgia (NBG) has a floating exchange rate regime for the Georgian Lari. Under this regime, the NBG only intervenes on the interbank currency market when there is a temporary inflow of excess capital that would result in sharp short-term currency fluctuations. There are several geopolitical and economic reasons behind the GEL's volatility. The NBG uses different mechanisms to maintain the value of the GEL at a sustainable level. Mechanisms used by the NBG include various monetary policy tools, such as changing policy rates (the GEL depreciated in Q1 2021, reaching 3.41 GEL/USD at the end of the quarter and 3.45 at the peak in early May 2021. As the currency depreciation affected inflation, the NBG increased the refinancing rate to 9.5% by 100 bps in April 2021. As a result, the exchange rate has stabilized in the range of 3.10-3.15 GEL/USD. Because of high inflation in 2021, the NBG decided to further increase the refinancing rate to 10.5% in December 2021). The NBG also aims to maintain its international reserves at an adequate level.

The GEL has been stable over 2H 2021 in the range of 3.10-3.15 GEL/USD prior to the conflict in Ukraine. Immediately after the start of the conflict, the overshooting effect caused the GEL to be volatile, reaching 3.40 GEL/USD on 10 March 2022, but since then it started to stabilize. On 30 March 2022, the NBG increased the refinancing rate by 50 bps to 11.00%. The GEL continued to normalize and came down back to approximately the pre-conflict level in the range of 2.87-3.10 GEL/USD in April and May.

CORPORATE INCOME TAX

Currently, there is virtually no corporate income tax in Georgia. In May 2016, the Parliament of Georgia passed a bill on corporate income tax reform (also known as the Estonian model of corporate taxation), according to which profits are taxed only if they are distributed to either an individual or a non-resident of the country. The law became effective for tax periods starting after 1 January 2017. Since 19 April 2019, Silknet's direct parent company has been a local entity, Silknet Holding LLC.

CONDENSED STATEMENT OF FINANCIAL POSITION

GEL millions	31 Dec 19	31 Dec 20	31 Dec 21
Total assets	837.4	881.8	847.5
Total liabilities	809.5	941.1	896.3
Total equity	27.8	(59.3)	(48.8)
Fixed assets	607.0	653.2	646.7
Gross debt	634.8	709.1	656.2
Cash	74.9	77.8	71.5
Net debt	559.9	631.3	584.7

CAPITAL EXPENDITURES

We constantly invest to expand and improve our network in line with global technological trends and our customers' usage habits.

MOBILE

Our investments in the mobile segment over the last three years have mainly comprised the development capex related to the mobile network modernization program. Following the Geocell acquisition, we decided to heavily invest in the mobile network to catch up with and leapfrog the competition. Mobile capex in 2021 includes certain projects that were initiated in 2020 and accounted for as PP&E additions in 2021. Some new development projects that the Company has initiated in 2H 2021 were only partially completed in 2021 and will be finalized in the course of 2022. Mobile capex had been higher in previous years, which resulted in an elevated capex to revenue rate in 2019-2020. As a result of these investments, we increased our 4G population coverage from 57% in 2018 to 98% at the end of 2021. We also pioneered the so-called gigabit-LTE technology, which we have installed on 519 mobile sites, or 39% of total macro sites, in major cities in Georgia. Moreover, we have started re-farming the remaining 2x10 MHz in the 1800 MHz band 2G to LTE, thus increasing totally available bandwidth in this band to 2x30MHz, which continues on a larger scale in 2022. Although we intend to constantly develop our mobile network and aspire to be market leaders in terms of network quality through these investments, most of the capex-intensive 4G-related mobile network modernization program is complete. We intend to shift our focus to the development of digital products, which is less capex-intensive.

FIXED

Capital expenditures in the fixed segment mainly comprise customer-related capex, including investments in customer premise equipment, which is in line with fixed broadband and TV customer acquisition and installation costs (we own the CPE equipment and do not charge subscribers for their use), and the renewal of pay TV rights & licenses, which are capitalised rather than expensed and development projects related to the FTTH footprint expansion. Our FTTH network covers 64% of households in Georgia. We focus on FTTH network expansion in urban areas to meet growing demand for our services and are selective in low-density rural areas.

CAPEX EVOLUTION

GEL millions	2019	2020	2021
Capex[1]	**99.7**	**112.6**	**83.1**
Mobile	34.5	42.2	29.5
Fixed	51.8	45.8	31.2
Broadcasting rights & licenses	10.8	14.2	17.7
Other	2.6	10.4	4.7
Capex/revenue %	**26%**	**29%**	**20%**

FIGURE 42 FIXED CAPEX BREAKDOWN

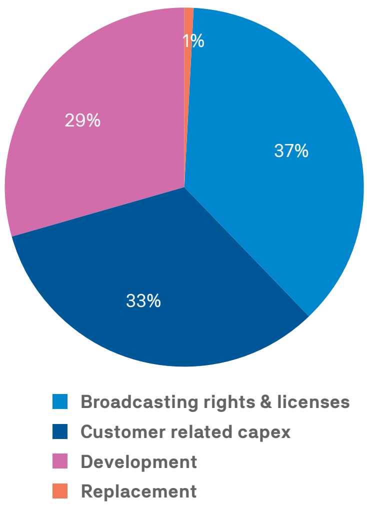
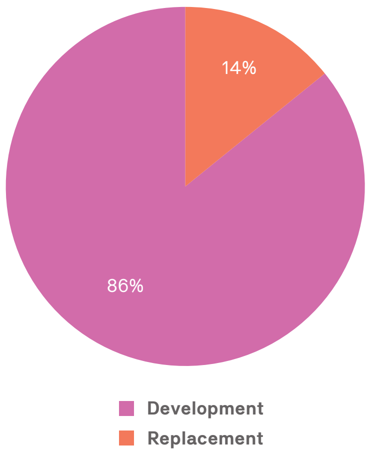


FIGURE 43 MOBILE CAPEX BREAKDOWN



LEVERAGE

As of 31 December 2021, we had two debt instruments outstanding: USD 200 million Eurobonds issued in 2019 and GEL 34 million local bonds. A USD 10 million private placement bond was repaid upon maturity at 31 March 2021.

On 31 January 2022 we issued USD 300 million 8.375% Eurobonds due 2027, out of which USD 50 million was repurchased substantially upon issuance. With the proceeds we refinanced the existing USD 200 million 11.000% Eurobonds and GEL 34 million local bonds.

In April-June 2022 we repurchased additional USD 17 million Eurobonds on the open market.

[1]The capex figures we refer to in this section are the sum of Property and Equipment and Intangible Asset additions and exclude non-recurring projects and investment property acquisition, as follows: 1) IT transformation of GEL 8 million, GEL 2 million and GEL 24 million in 2019, 2020 and 2021, respectively; 2) telecom operating licenses of GEL 1 million, GEL 1 million and GEL 1 million in 2019, 2020 and 2021, respectively; 3) land plot acquisition for HQ purposes of GEL 30 million and GEL 29 million in 2019 and 2020, respectively; 4) Euronews operating license of GEL 2 million and GEL 5 million in 2019 and 2020, respectively; and 5) the acquisition of subscriber contracts from the local operator in the amount of GEL 5 million in 2020.

EVOLUTION OF GROSS DEBT

Facility, GEL millions	31 Dec 19	31 Dec 20	31 Dec 21	31 Mar 22
Eurobond 2019	571.6	641.8	621.7	-
Eurobond 2022	-	-	-	772.8
Silknet 2017 Bond	34.5	34.5	34.6	-
Silknet Private Placement Bond	28.7	32.8	-	-
Gross debt	**634.8**	**709.1**	**656.2**	**772.8**
Cash and cash equivalents	(74.9)	(77.8)	(71.5)	(131.9)
Net debt	**559.9**	**631.3**	**684.7**	**640.8**
Leverage (Net Debt/TTM EBITDA)	**2.59**	**2.98**	**2.57**	**2.70**

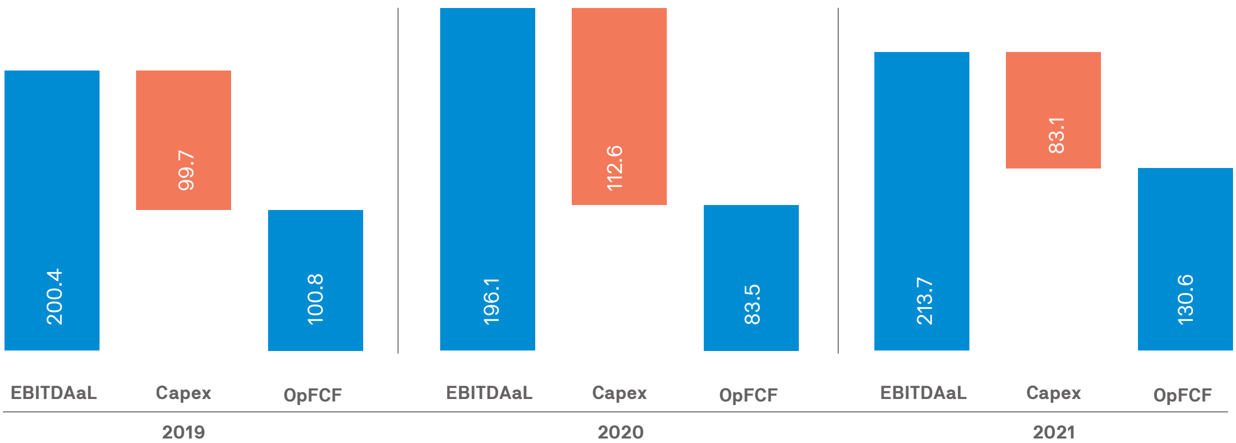
Under the newly issued Eurobonds, Silknet is subject to several covenants. The principal covenants include: a Consolidated Leverage Ratio below 3.5 to 1 (on an incurrence basis) and restricted payments up to 50% of cumulative net income (with certain carve-outs). In addition, Silknet will maintain a cash cushion in an amount of at least USD 20 million or USD 24 million equivalent amount in GEL to secure the coupon payments.

CASH FLOW AND LIQUIDITY MANAGEMENT

Our focus on revenue growth, cost savings, and the efficient use of the balance sheet supports our free cash flow generation.

Since the Geocell acquisition in 2018, our strong top line has enabled us to fund our capital expenditures mostly by internally generated cash. Our free cash flow generation in 2021 was supported by the growth in revenues, which translated into increased EBITDAaL and lower capital expenditures, following the more capex-intensive 2019 and 2020. The evolution of our operating free cash flow ("OpFCF"), which is calculated as EBITDAaL less capex, is presented on the chart below:

FIGURE 44 OPFCF EVOLUTION, GEL millions



Strong cash flow generation in the last couple of years has also enabled us to repay USD 10 million private placement bond upon maturity at 31 March 2021 with internally generated cash.

Our financial performance and cash generation is also subject to Georgian Lari exchange rate fluctuations as part of our operating expenses and capex since our debt is denominated in foreign currencies, mainly USD and EUR. In order to manage our foreign currency exposure, we maintain most of our cash position in hard currencies, which also serves as a buffer for liquidity.

For further details, please refer to the Consolidated Statement of Cash Flows in the 2021 Consolidated Financial Statements.

RECONCILIATION OF RECLASSIFIED PROFIT OR LOSS STATEMENT WITH THE AUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2019			2020			2021		
GEL millions	IFRS P&L	Specific items	Reclassified P&L	IFRS P&L	Specific items	Reclassified P&L	IFRS P&L	Specific items	Reclassified P&L
Revenues:	**387.2**	**-**	**387.2**	**382.2**	**-**	**382.2**	**413.4**	**-**	**413.4**
Commercial revenue	346.2	-	346.2	347.6	-	347.6	369.7	-	369.7
Carrier services	41.0	-	41.0	34.6	-	34.6	43.7	-	43.7
Costs and expenses:	**(186.2)**	**14.9**	**(171.3)**	**(180.9)**	**10.3**	**(170.7)**	**(191.3)**	**5.5**	**(185.8)**
Salaries and benefits	(58.1)	1.9	(56.2)	(57.1)	-	(57.1)	(64.2)	0.5	(63.6)
Other expenses	(31.9)	9.9	(22.0)	(25.4)	6.4	(19.0)	(23.6)	3.2	(20.4)
Purchased services	(31.4)	3.1	(28.3)	(38.7)	3.8	(34.9)	(43.1)	1.8	(41.3)
Rent expenses under operating leases	(9.2)	-	(9.2)	(7.0)	-	(7.0)	(6.2)	-	(6.2)
Interconnect fees and roaming expense	(17.8)	-	(17.8)	(16.2)	-	(16.2)	(18.5)	-	(18.5)
Network management and maintenance costs	(15.7)	-	(15.7)	(16.4)	-	(16.4)	(16.9)	-	(16.9)
IPTV content cost	(11.2)	-	(11.2)	(12.9)	-	(12.9)	(11.4)	-	(11.4)
Advertising and marketing	(8.0)	-	(8.0)	(6.2)	-	(6.2)	(6.6)	-	(6.6)
Costs of SIM cards, scratch cards and other cost of sales	(2.8)	-	(2.8)	(0.9)	-	(0.9)	(0.9)	-	(0.9)
EBITDA	**200.9**	**14.9**	**215.8**	**201.2**	**10.3**	**211.5**	**222.1**	**5.5**	**227.6**
Depreciation and amortisation	(111.7)	-	(111.7)	(117.4)	-	(117.4)	(117.0)	-	(117.0)
Bargaining gain from acquisition	-	-	-	-	-	-	-	-	-
Change in fair value of investment property	-	-	-	(3.3)	-	(3.3)	2.2	-	2.2
Specific items[1]	-	(14.9)	(14.9)	-	(10.3)	(10.3)	-	(5.5)	(5.5)
Finance income	4.3	-	4.3	4.4	-	4.4	4.1	-	4.1
Finance costs	(101.2)	-	(101.2)	(90.5)	-	(90.5)	(89.6)	-	(89.6)
Net change in fair value of financial instrument at FVTPL	(1.4)	-	(1.4)	5.8	-	5.8	(16.7)	-	(16.7)
Net foreign exchange (loss)/gain	(35.8)	-	(35.8)	(88.1)	-	(88.1)	36.8	-	36.8
Net finance costs	**(134.1)**	**-**	**(134.1)**	**(168.4)**	**-**	**(168.4)**	**(65.4)**	**-**	**(65.4)**
Profit/(loss) before income tax	**(44.9)**	**-**	**(44.9)**	**(87.9)**	**-**	**(87.9)**	**41.8**	**-**	**41.8**
Income tax expense	(1.2)	-	(1.2)	0.7	-	0.7	(0.3)	-	(0.3)
Total profit/(loss)for the period	**(46.1)**	**-**	**(46.1)**	**(87.2)**	**-**	**(87.2)**	**41.5**	**-**	**41.5**

[1] For details of specific items, please refer to Consolidated Financial Statements

DEFINITIONS AND SOURCES OF FINANCIAL INFORMATION

The 2019, 2020 and 2021 figures are based on audited Consolidated Financial Statements, unless otherwise noted.

The Reclassified Profit or Loss Statement is prepared by the Company based on audited Consolidated Financial Statements and takes specific items into account. The reconciliation of the reclassified Profit or Loss statement with the audited Consolidated Statement of Profit or Loss is presented above.

EBITDA in this Annual Report means adjusted EBITDA as per the audited Consolidated Financial Statements, calculated by adjusting profit from continuing operations to exclude the following items:

- Finance costs and finance income;
- Corporate income tax and any other taxes related to the distribution of dividends;
- Depreciation, amortization, revaluation, and impairment (losses / reversals) of non-current assets;
- Net foreign exchange gain/(loss), including gain/(loss) on hedging instruments, currency forward contracts and any other gain/(loss) attributable to changes in foreign currency exchange rates; and
- Specific items.

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

EBITDAaL is calculated as EBITDA less interest expense accrued on lease liabilities and less depreciation of right-of-use assets.

Certain figures included in this Annual Report have been subject to rounding adjustments; accordingly, the figures shown for the same category presented in different tables may vary slightly, and figures shown as total in certain tables may not be an arithmetic aggregation of the figures that precede them.

OUR NETWORK AND INFRASTRUCTURE

We have developed integrated network infrastructure providing extensive coverage throughout Georgia. As of 31 December 2021, the Company's 4G/LTE mobile network covered 98% of the country's population while the FTTH network covered 64% of Georgia's households. Our international services network includes at least one border crossing with each of Georgia's neighboring countries. Our network infrastructure is fundamental to our ability to provide high-quality services to our customers.

BACKBONE INFRASTRUCTURE

Our current fixed backbone infrastructure is the result of extensive investment. Our backbone provides sufficient capacity, coverage, and resilience for fixed as well as mobile services. An optical backbone infrastructure development project is underway across the country. Major cities and towns are connected through fibre optics while microwave connections are used for some smaller settlements.

TRANSPORT NETWORK

DWDM NETWORK

Silknet owns two extensive DWDM (dense wavelength division multiplexing) networks - one for fixed and one for mobile services - connecting Tbilisi with major cities. Silknet's DWDM network is also used for the cross-border connection with neighbouring countries and for international traffic transmission.

We are planning the convergence and modernization of the DWDM networks in order to further increase throughput and operating efficiency.

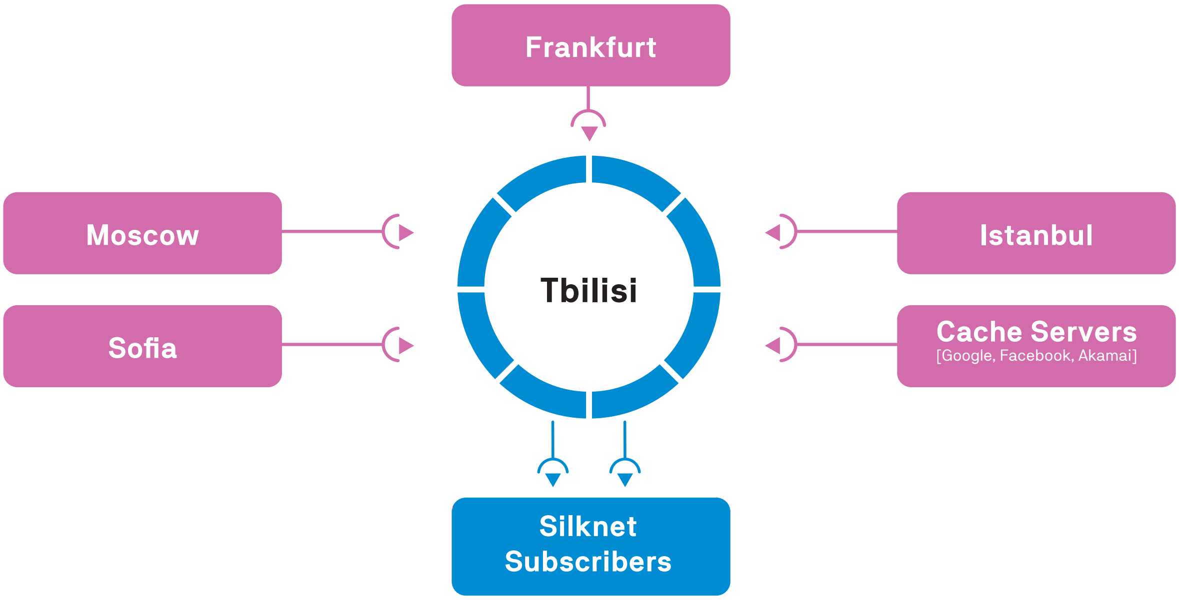
IP MPLS TRANSPORT NETWORK

The Silknet Fixed Internet Protocol / Multiprotocol Label Switching ("IP MPLS") transport network is currently built on the base of Cisco and Juniper routers and switches. The IP MPLS network is used for fibre broadband (FBB), IPTV VoIP and mobile services for B2C and B2B subscribers. Similar to other networks, the IP MPLS network uses ring topology for increased resilience. As a result of the modernization of the IP MPLS network in 2020, each node of the Group's data transmission network is renewed by modern technology. The total capacity of the modernized network has increased approximately 2.5 times to 1.4 TB per second.

The table below summarises the current type, number, and location of various nodes in our fixed and mobile IP MPLS network:

Node type	Vendor	Locations
Fixed IP MPLS core	Juniper	Tbilisi, Kutaisi, and Batumi
Distribution IP MPLS PE routers	Juniper	Tbilisi, Kutaisi, Batumi, Khashuri, and Rustavi
Fixed IP MPLS aggregation sites	Juniper, Cisco	All major sites (68 sites in regions and 37 sites in Tbilisi)
Fixed IPTV headend	Juniper	Tbilisi
Border routers	Juniper/Cisco	Tbilisi, Sofia, Frankfurt
Mobile IP MPLS core	Cisco	Tbilisi, Kutaisi, Batumi
Mobile IP MPLS aggregation	Cisco	Located at main mobile sites where optical infrastructure is terminated
Mobile IP MPLS site routers	Cisco	Located at all mobile network sites where optical infrastructure is available

The diagram below summarises these international connections:



We use Google, Facebook, Akamai, and Netflix cache servers in several locations in order to provide a better and faster user experience for popular internet services. This also decreases international traffic expenses.

MICROWAVE BACKHAUL NETWORK

In recent years, our fixed services have increasingly been provided through our fibre backbone. However, in some small settlements where geographical constraints or economic viability do not allow for fibre connections, we still use microwave ("MW") backhaul.

Mobile sites and related nodes have predominantly been connected through MW backhaul. However, in recent years, fibre connections were introduced for mobile sites to allow for higher bandwidth demands. Currently, approximately 47% of the sites (including micro sites) are connected by fibre connections and we rely on MW backhaul for the rest. In 2021, MW equipment was modernized in Western Georgia, which increased the bandwidth tenfold. An MW development project is underway across the country, which is expected to double the network capacity.

FIXED (VOICE) CORE NETWORK

Our fixed voice access network consists of two main soft switches operating in a load-balancing mode. Most of our voice subscribers are served with the next generation network ("NGN"), while others are being migrated to the same technology. Both soft switches are used for national and international calls.

FIXED ACCESS NETWORK (DSL, FTTH)

We deliver FBB and IPTV services to our subscribers through the following technologies: fibre-to-the-home ("FTTH"), the gigabit passive optical network ("GPON") technology, point-to-point ("P2P") links and the digital subscriber line ("DSL"). In addition, we provide fixed wireless broadband using the LTE technology in certain areas that are not served with either fibre or copper access networks. As of December 2021, our network serves approximately 16 thousand DSL, 276 thousand FTTH, 8 thousand fixed LTE, 211 thousand IPTV, and 32 thousand VoIP subscribers. Our DSL service on legacy copper lines is constrained by their quality, which means that we can only provide limited bandwidth to our DSL subscribers, while our IPTV service, if available, is limited to one set-top-box per line and we do not provide HD channels. On the other hand, our FTTH subscribers can receive up to 100 Mbps, depending on their tariff plan, and have multiple set-top-boxes per single line.

The map below provides the total number of users of FTTH services for the top ten cities in our network

WIRELESS MOBILE NETWORK

We maintain an extensive range of mobile wireless services in Georgia in terms of both telephony and broadband services.

The principal domains of our mobile network are as follows:

- The Radio Access Network ("RAN"), comprising:
  - Base transceiver stations (2G) / Node Bs (3G) / eNode Bs (4G); and
  - Base station controllers (2G) / Radio network controllers (3G).
- The core network, comprising:
  - CS core / mobile switching centres (including our CS core media gateways and mobile soft switch equipment);
  - PS core / evolved packet core (we started implementation of the new virtual EPG platform in order to support increased mobile data traffic); and
  - HLR / HSS (HLR and HSS nodes haves been modernized to a unified, resilient, and geographically redundant UDC platform).

Ericsson is the vendor for the RAN infrastructure in Tbilisi and eastern Georgia, as well as the core network; Huawei is the RAN vendor in western Georgia.

MOBILE RADIO ACCESS NETWORK

As of December 2021, we provided mobile coverage through 1,626 physical locations, including 1,333 macro sites and 293 micro sites.

Following the Geocell acquisition in March 2018, we embarked on a massive mobile network modernisation programme. Silknet acquired an 800 MHz license and re-farmed 900 MHz in Tbilisi and Batumi to launch low-band LTE to bridge the coverage gap with our competitors, who were already using 800 MHz.

Key highlights of our modernisation programme are:

- Spectrum:
  - We acquired a 2x5 MHz radio spectrum licence in the 800 MHz band;
  - We re-farmed the existing 2x5 MHz in the 900 MHz band from 2G to 4G/LTE in Tbilisi and Batumi, without the loss of 2G voice quality;
  - We started to use the 2300 MHz spectrum, which we had previously used for fixed-wireless LTE broadband, for mobile services in the high-traffic areas;
  - We started re-farming the remaining 2x10 MHz in the 1800

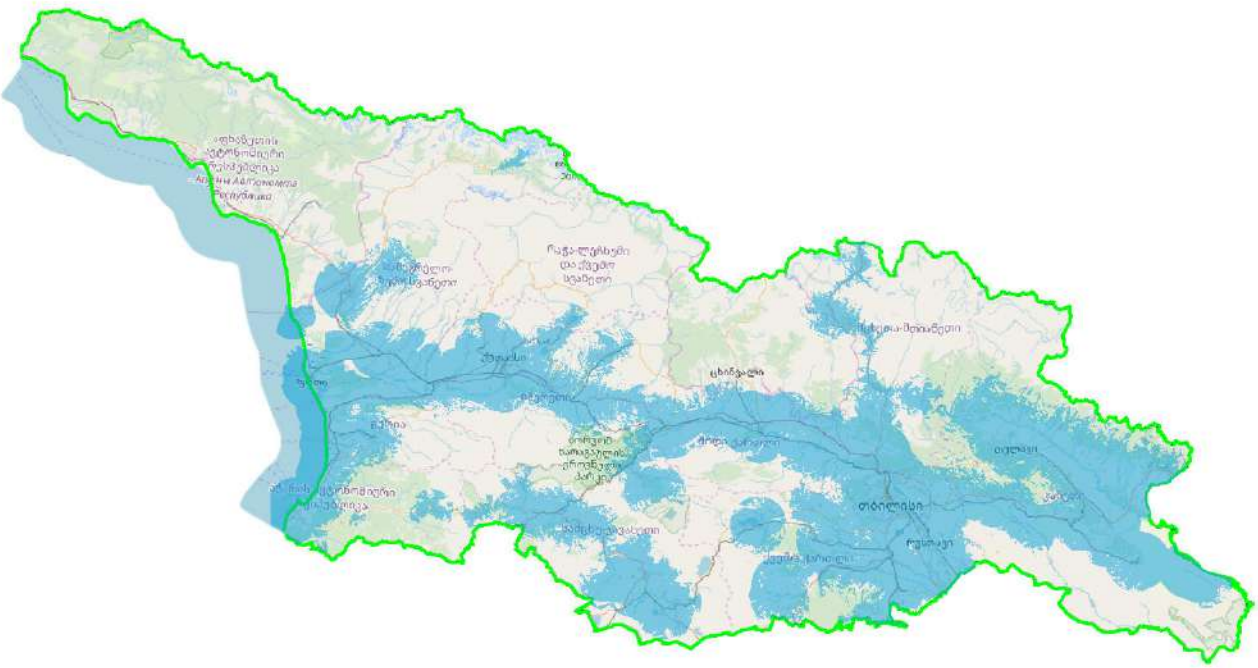
MHz band 2G to LTE, thus increasing totally available bandwidth in this band to 30MHz. This project is continuing on a larger scale in 2022.

- Equipment:
  - We upgraded most of the existing macro sites to 3G/HSPA (where necessary) and 4G/LTE technology;
  - We introduced carrier aggregation (the so-called 4.5G);
  - We built a limited number of new macro sites to improve coverage, where necessary;
  - We pioneered the so-called gigabit-LTE in Georgia, using three-carrier-aggregation (20 MHz in 1800MHz + 2 x 20MHz in 2300 MHz) with 4x4 and 8x8 MIMO and 256 QAM technology. 519 mobile sites have been upgraded to gigabit-LTE to date, covering most of the major cities of Georgia;
  - We built 259 new micro sites, mostly in Tbilisi, to improve in-building user experience and to better serve dense urban locations. Notably, we were able to cover Tbilisi Metro halls with the micro sites.

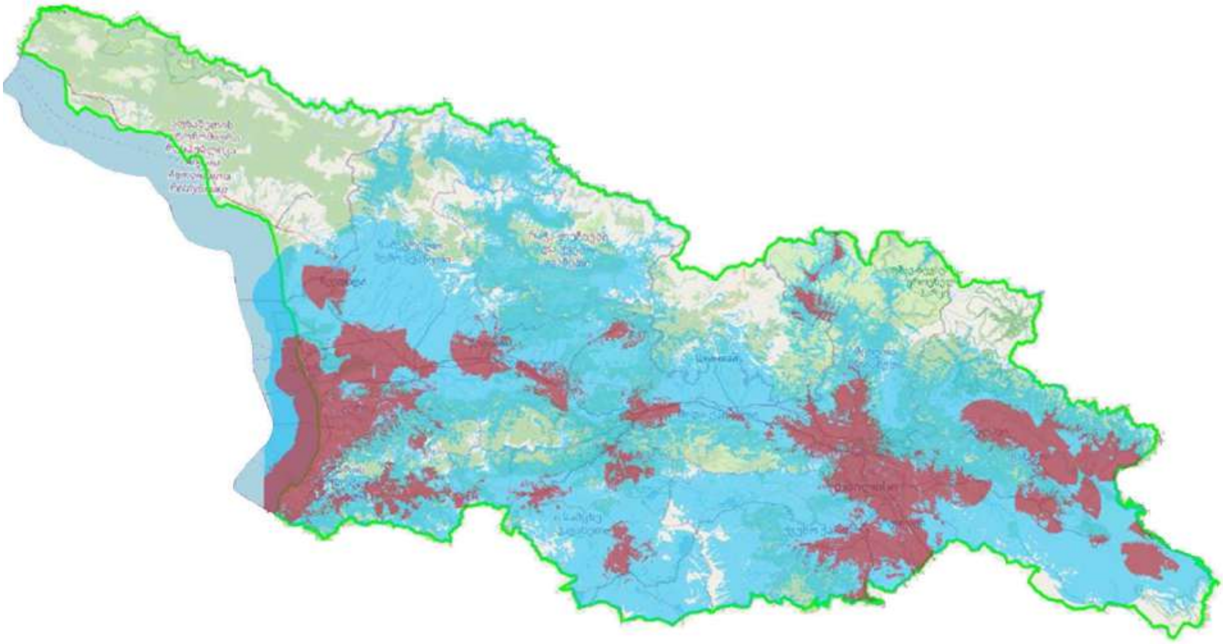
The investments above resulted in our network and mobile broadband user experience being at least on par with, or in some cases superior to, any other mobile network in Georgia. In 2021, the GNCC recognized Silknet's mobile service as the fastest in Tbilisi and most of the other areas of Georgia.

4G/LTE coverage increased from 17% of Georgia's total geographic area and 57% of its population at the end of 2017 to 69% of total area and 98% of the population at the end of 2021. Moreover, at the end of 2021 gigabit-LTE Technology covered 19% of territory and 66% of the population of Georgia.

4G/LTE COVERAGE MAP AT YEAR-END 2018



4G/LTE AND GIGABIT-LTE COVERAGE MAP AT YEAR-END 2021 (BLUE - 4G/LTE; RED – GIGABIT LTE)



MOBILE CORE NETWORK

Our mobile core consists of a Circuit Switched (CS) core and a Packet Switched (PS) core.

The CS core network serves voice and SMS services, and consists of the network elements responsible for serving voice communication and signalling management, as summarised in the table below:

Network Node	Short Name	Functionality
MSC server	MSC	MSC is responsible for signalling information control for voice and SMS services, routing calls and periodic location updates of subscribers.
Media gateway	MGW	MGW provides transformation and interworking between media streams that use different network standards, communication protocols, codecs, and physical connections so that phone calls work properly between networks using different technologies.
Home location register	HLR	HLR is a database in which information from all mobile subscribers is stored. HLR contains information about the subscriber's identity, phone number, associated services, and general information about the subscriber's location.

The PS core network allows 2G/3G/4G network subscribers to transmit IP packets to external networks such as the internet, using (E)GPRS, HSPA and LTE(A) services. Using the mentioned services, subscribers can download/upload files or use mobile applications such as WhatsApp, Viber, Skype, Facebook, etc.

Our PS core network consists of the elements summarised in the table below:

Network Node	Short Name	Functionality
Serving GPRS support node	SGSN/MME	SGSN is the main component of the GPRS network, which handles all packet switched data within the network, e.g. mobility management and user authentication. The SGSN performs the same functions as MSC for voice traffic.
Gateway GPRS support node	GGSN/PGW	GGSN keeps a record of active mobile users and the SGSN to which the mobile users are attached. It allocates IP addresses to mobile users and communicates with the billing system.
Home subscriber server	HSS	The home subscriber server is a database that stores information from all 4G mobile subscribers. The HSS contains information about the subscriber's identity, his/her telephone number, associated services, and general information about the location of the subscriber within the 4G network.
Mobile Packet Backbone Network	MPBN	Interconnect geographically distributed Core Network elements and RAN nodes, Mobile Network Firewall function.

SPECTRUM

In the next three to five years, before 5G is standardised and the spectrum is made available, Silknet does not expect to require more spectrum. We use our spectrum as follows:

- 800: 2x5 MHz;
- 900: 2x11.8 MHz, of which 2x5 MHz is currently used for 3G outside Tbilisi and Batumi; 4G/LTE was launched in Batumi and Tbilisi; and the remainder is used for 2G;
- 1800: 2x30 MHz, of which 2x20 MHz is used for 4G/LTE and 2x10 MHz for 2G (we started re-farming 2x10 MHz from 2G to LTE, as discussed in the Mobile radio access network subsection earlier in this section);
- 2100: 2x15 MHz is currently used for 3G;
- 2300: 50 MHz is currently used for mobile 4G and fixed wireless broadband.

Band	Silket	Magticom	Veon Georgia
	MHz	**MHz**	**MHz**
800 MHz	2x5.0	2x5.0	2x10.0
900 MHz	2x11.8	2x13.2	2x5.5
1800 MHz	2x29.9	2x29.9	2x10.0
2100 MHz	2x15.0	2x15.0	2x10.0
2300 MHz	50.0		
Total 800/900/1800/2100/2300	**173.4**	**126.2**	**81.0**

Source: GNCC

INFORMATION TECHNOLOGY (IT)

Our IT portfolio consists of numerous software applications, modules and platforms designed to support functions such as customer relations management ("CRM"), billing, service and resource management, product, service, supply and partner management, and strategic management.

IT TRANSFORMATION

In the first half of 2021, we completed a substantial part of the IT transformation programme that was developed to introduce improved and standardised processes across the Group.

We have three broad IT areas: business support services ("BSS"), which covers billing, CRM, and related services such as reporting; enterprise resource planning (''ERP''); and operational support services (''OSS'').

The main part of our IT transformation programme relates to changing BSS modules, including mediation and provisioning. There were also changes to certain OSS modules, including fault management, workforce management, and network services inventory modules. There have been no changes to ERP modules.

Whale Cloud, an Ali Baba affiliate, was our principal vendor on this project.

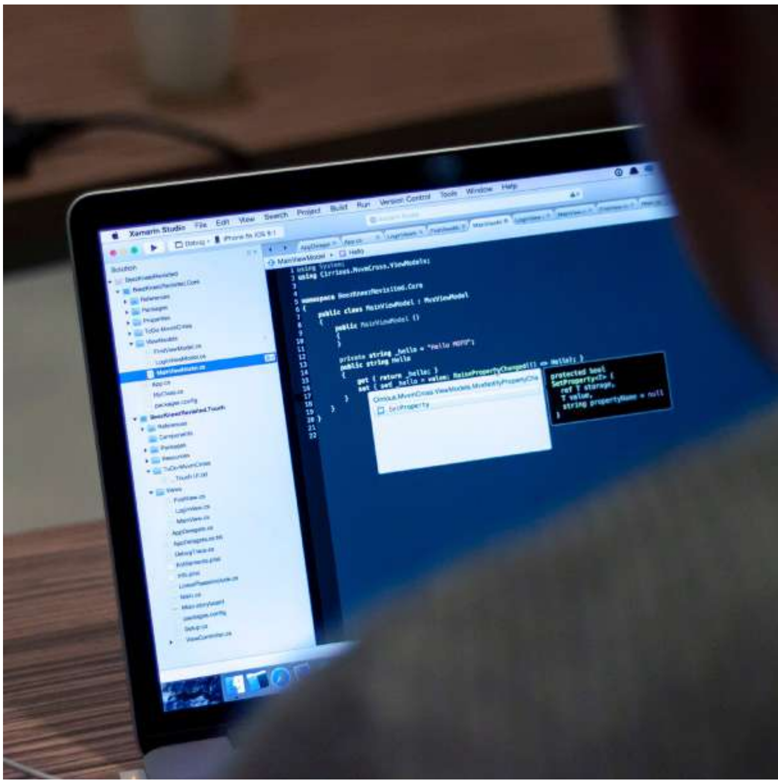
OBJECTIVES

We expect that our new IT systems will increase customer satisfaction, decrease delivery times, significantly reduce time to market for launching new products and services and improve customer segmentation and real-time analysis of customer data.

The new system will improve customer experience by introducing a new CRM module that will provide comprehensive data on each customer's profile.

The new system will also improve time to market of new product and service launches by implementing advanced business process tools according to BPMN 2.0 standards, which will allow the implementation of new processes or the updating of existing processes without the new coding required by developers.

Customer segmentation and real-time analysis of data will be improved by utilising a unified reporting module enabling in-depth analysis of customer behaviour, which will be able to provide real-time analysis of promotions and services.



OTHER

We collect and maintain significant amounts of data on our customers, which we are required to maintain and use in accordance with applicable regulations. As the telecommunications sector has become increasingly digitalised, automated and online-based in recent years, we have also had to increase safety measures, minimising the risk of unauthorised or unintended data release through hacking and general information technology system failures.

Currently, we do not maintain an offsite data recovery centre. We plan to address this in the short to medium term.

OPERATIONS AND KEY VENDOR RELATIONSHIPS

CUSTOMER PREMISES EQUIPMENT ("CPE") POLICY

We own the CPE equipment, such as modems, set top boxes, routers, etc., and do not charge subscribers for their use. This approach is in line with other players on the market and is necessary to keep customer acquisition barriers low. The approach also affects customer churn.

The costs related to the provision and installation of CPE equipment form part of our capital expenditure (18.5% in 2021). Given that this is a regular expense, we continuously work to optimise prices and enhance the supply chain.

LEASES

We have over 1,000 lease agreements relating to the placement of our telecommunication infrastructure, mostly mobile radio network stations and related equipment.

Although the network equipment and passive infrastructure (such as towers, poles, etc.) are mostly under our ownership, the underlying placement areas in most cases fall under operating leases. The contractual lease terms currently vary from 1-15 years, with over 70% falling in the range of 1-6 years.

Since there is no effective infrastructure-sharing model in Georgia, all three mobile operators run their own infrastructure. As a result, we have three-layer overlaps in passive physical infrastructure in most cases. The regulator and the government are working on a project that will give telecoms companies the opportunity to optimise their passive physical infrastructure costs and operations.

We have made changes to our lease accounting policy in accordance with IFRS 16, starting from 2019. For details of related judgments and estimates, please refer to the leases section in the Consolidated Financial Statements.

KEY VENDORS

Our key vendors are Ericsson, Cisco, Juniper, Huawei, Whalecloud, and other major suppliers of technical equipment, software and services.

SERVICENET LLC

We outsource cable network maintenance, subscriber acquisition, technical maintenance and mobile network field maintenance to Servicenet LLC.

For network maintenance costs, please see note 8 of the Consolidated Financial Statements.

QARVA

Qarva provides software, operations, and maintenance support for the Group's IPTV service. In addition, Qarva develops software, adding new features as requested by the Group. The Group either owns any new product developed by Qarva or has indefinite rights of usage.

Qarva provides exclusive services to the Group on Georgian territory and, during the term of the agreement, is not allowed to provide a similar service (including consulting) to third parties on Georgian territory without the Group's prior written consent.

The Group owns a 51% equity interest in Qarva, while Qarva's management owns the remaining 49%.

CONTENT PORTFOLIO

Our unique content portfolio has played an important part in pay TV subscriber acquisition. We offer:

- Exclusive sports content in three proprietary sports channels:
    - Spanish La Liga football with full exclusivity;
    - Liga Portugal football, Dutch Eredivisie football, NBA basketball, Euroleague basketball and Spanish Liga ACB basketball with Georgian language exclusivity;
- Other proprietary channels: two movie channels, one documentary channel and one children's channel;
- Free-to-air proprietary channel Silk Universal;
- Free-to-air news channel Euronews Georgia, with exclusive franchise rights granted by Euronews;
- Content sharing for UEFA football competitions (Champions League, Europa League, Conference League and Youth Champions League) with Adjarasport;
- Revenue sharing for English Premier League football with Adjarasport;
- Other sports content in third-party linear channels, including German Bundesliga football, Formula 1, Ultimate Fighting Championship, NHL hockey etc.;
- Exclusive rights to 25 Russian-language entertainment channels.

We are a digital pioneer on the Georgian market, continuously developing streaming applications for Android, iOS and PC.

The main challenge stifling demand for VOD services is content piracy. However, there are some positive trends in this regard, as discussed in the Regulatory developments section.

OUR CUSTOMERS

ATTRACTIVE CUSTOMER BASE

The Georgian market has low entry and exit barriers for subscribers due to the absence of long-term contracts, which makes bundling a key indicator of customer base quality. High bundling rates are indicative of quality customer base and lead to lower churn rate.

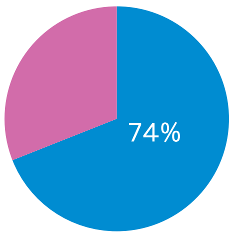
OUR FIXED SERVICES ARE HIGHLY BUNDLED

- 81% of B2C FTTH subscribers subscribe to IPTV;
- Most of our fixed broadband subscribers have voice service.

OUR MOBILE SUBSCRIBERS ARE INCREASINGLY USING PACKAGES

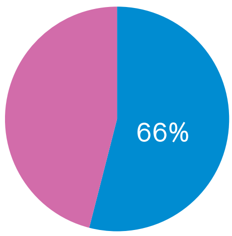
- Approximately 28% of B2C subscribers purchase 'Meti' packages (voice/data/SMS);
- 66% data penetration without M2M subscribers.

FIGURE 45 SMARTPHONE PENETRATION



Source: Internal data

FIGURE 46 DATA PENETRATION W/O M2M



Source: Internal data

Our customers are taking advantage of our high-quality streaming services, which, in turn, drives mobile data consumption. Our strategy of content-based convergence also supports the trend in customer demand for data-related services.

CONVERGENCE

Broadband and IPTV bundled subscribers, who are also likely to use our fixed line service, constitute the main target for cross-selling of mobile services, as the barriers of entry into households are substantially higher than the barriers to switching mobile subscription.

We launched our essentially inaugural fixed-mobile convergent offers in Georgia in Q4 2018. As of 31 December 2021, there were around 15 thousand Silk+ subscribers (with over 33 thousand SIM cards), or 5.7% of the FTTH B2C subscribers.

CUSTOMER TOUCHPOINTS

THE MAIN CHANNELS WE USE SERVE THE FOLLOWING KEY FUNCTIONS:

	Mobile sales	Fixed sales	Marketing	Customer service	Fixed service	installation	Content
Shops	✓	✓	✓	✓			
Inbound call centre	✓	✓		✓			
Outbound call centre	✓	✓					
silknet.com			✓	✓			
mysilknet.com		✓	✓	✓			
My Silknet app	✓		✓	✓			
Sales Agents		✓					
Third-party installers					✓		
Third-party dealers	✓						
Facebook			✓	✓			
Instagram			✓				
Viber community			✓	✓			
YouTube channel			✓				
USSD service	✓						
SMS service			✓	✓			
Silktv.ge			✓				✓
Silk Go app & silkgo.ge			✓				✓
silksport.ge			✓				✓

43 SECONDS

is the average call waiting time at our call centres

416 THOUSAND

is the approximate number of calls answered by our call centres each month

We had over

500 THOUSAND

likes on Facebook by the end of 2021. Our average daily organic reach exceeded

40 THOUSAND

1.6 MILLION

users visited our website in 2021

SilkTV Go app accumulated downloads exceeded

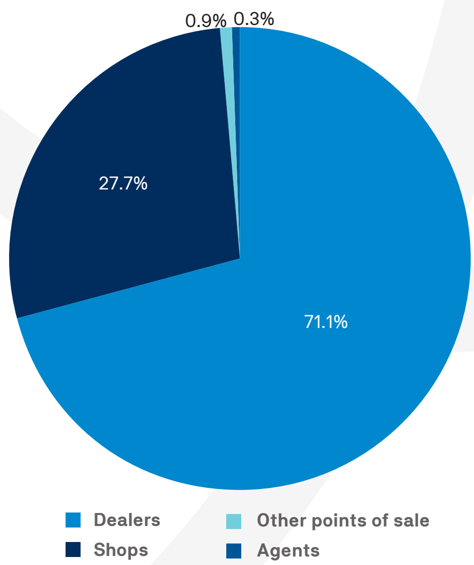
750 THOUSAND

at the end of December 2021

SILKNET	51 Shops 3 Retail booths
DISTRIBUTORS	Mobile: 468 external retail points through third party dealers
SALES AGENTS	48 Silknet agents in Tbilisi and the regions
OUTBOUND CALL CENTER	16 operators

As of 31 December 2021

FIGURE 47 B2C SIM CARD SALES



RISK MANAGEMENT

The management team (see the Governance structure section for further detail), together with the Supervisory Board, oversees our risk management.

Our Internal Audit Division monitors our business processes. Any issues are flagged to management.

In addition, each Silknet division is responsible for managing risks in their own areas, for example, Treasury, Customer Service, etc.

PRINCIPAL RISKS AND UNCERTAINTIES

We face several principal risks and uncertainties that could have an impact on our operations, performance and financial position. We continuously improve our processes to prevent risks from materialising or, where they cannot be prevented, take steps to minimise their impact.

STRATEGIC

Macroeconomic	
Description	**How we manage / mitigate the risk**
• Our operations are primarily located in Georgia, and as a result, we are significantly affected by the political, financial, and economic developments in or affecting Georgia. Difficult global economic conditions, regional tensions and disruptions in neighbouring markets could have a negative effect on Georgia's economy. They include the COVID-19 pandemic and, potentially, the war in Ukraine, which began in February 2022. • Factors such as gross domestic product ("GDP"), inflation, interest rates, currency exchange rates, levels of unemployment, personal income, tourism activity and the financial position of corporates can have a material impact on customer demand for our products and services. Our revenue and profit could be adversely affected if economic growth in Georgia slows. • High inflation rates may translate into increased costs and have a negative impact on our financial results. In 2021, inflation was high both globally and in Georgia, where the consumer price index increased by 9.6%. This impacted some of the Company's expenses, especially electricity costs, which had a negative effect on our EBITDA. Inflation has also translated into higher market wage rates, which also affects Silknet.	• The Georgian economy showed resilience towards several external shocks over the past decade, including the COVID-19 pandemic and the war in Ukraine. We carefully follow the macroeconomic trends in Georgia and continuously assess their potential impact on our operations. Silknet adapts its activities on the market to account for the changing economic conditions. See the Market overview section for further analysis. • We try to mitigate the impact of inflation by increasing our revenues, adjusting packaging and pricing and growing usage volume. For example, we introduced new packaging and pricing, mainly in the mobile segment, on 28 February 2022. In addition, we continuously monitor and rationalize our operating expenses, such as content costs, internet traffic costs, and optimize our staffing.

Demand

Description	How we manage/mitigate the risk
• Market-wide movements towards data-based communications continue to impact traditional telecommunications revenue streams, such as fixed and mobile voice services. We may be exposed to significant disruption as the telecommunications market continues to shift away from fixed and mobile voice services. • Our revenue and the number of subscribers partly depend on our IPTV offering, the demand for which may decline in case of a reduction in the number of TV viewers. Such trends have been observed in some developed countries, as the video content consumption habits of some customers, mainly of young people, is changing. They are more likely to access content on other devices such as mobile phones and laptops, including on-demand content, short-format content and user-generated content. Such video content is supplied to customers mainly by social networks and so-called OTT (Over-The-Top) services (for example, YouTube, Facebook, Netflix and Amazon Prime). • Although the Georgian telecommunications market has traditionally been characterized by mostly single-product offerings, in recent years the offering of multi-product packages has become increasingly popular amongst consumers, influenced by providers offering customers products and services bundles such as multi-play packages. We believe that our ability to offer new converged and bundled products, either by enhancing existing products or by developing new products, will continue to be an important factor in our business. However, offering bundled products can be complex due to the technological, logistical and pricing challenges of combining two or more services in a competitively priced single offering. Furthermore, we may face limitations in our ability to offer bundled products, or the price at which such products can be offered, under applicable competition law and consumer protection regulation. A failure to offer attractive new bundled products in the future or to successfully market such offerings to customers, or regulatory challenges or objections to creating such bundles, could adversely affect our ability to leverage our multi-play platform to attract and retain customers. Any failure to attract and retain customers may materially and adversely affect the Company's business, financial position, results of operations or prospects.	• We are constantly developing our technological platforms in order to offer customers the opportunity to access content on home devices as well as through our digital channels, mobile applications and web sites. • We focus on providing an improved mobile data experience, better digital platforms and superior content to facilitate growth in this segment and compensate for the shift in content consumption patterns. For more information, see Our strategy and the Telecommunications sector overview sections. • Building a digital ecosystem and becoming more customer-centric by offering tailored products and services to our customers is part of our strategy. In 2021, we completed an IT transformation program and now have a convergent billing system that will allow us to launch better convergent fixed-mobile offers. New systems allow us to better understand our subscriber needs and decrease time-to-market. In 2021, we acquired a campaign management solution from SAS Institute, a world leader in customer data analytics, that will help us further develop our analytical expertise.

Competition	
Description	**How we manage / mitigate the risk**
• Intensified competition may adversely affect us through the actions of competitors in a number of ways, including: (i) lower prices or higher quality services, features or content; (ii) more rapid development and deployment of new or improved products and services; (iii) more rapid enhancement of their networks; or (iv) MVNOs successfully bundling their services with non-telco services (see the Regulatory developments section for details of regulatory changes in relation to MVNOs).	• We strive to provide the highest quality in all our interactions/touchpoints with our subscribers, including, but not limited to the following: • We aim to provide products and services that are valuable and attractive to customers. • Our strategy is focused on improving our network, offerings and developing technology for better product development and reduced time to market. • We intend to further focus on the development of digital products and customer service platforms. • We intend to closely monitor potential MVNO activity and prepare value-accretive wholesale offers. • We are also considering creating a loyalty program for the Company's subscribers. • We continuously improve our country-wide sales channels, which as of 31 December 2021 included 51 shops and three booths. • Our call centers answered approximately 416 thousand calls each month in 2021, with an average call waiting time of 43 seconds. • 1.6 million users visited our website in 2021. We were also actively engaged in social media.

Regulation

Description	How we manage / mitigate the risk
• Changes in electronic communications laws and policies may have a negative impact on our business. Challenges may arise in relation to obligations to harmonise Georgian legislation with EU legislation as a part of the Association Agreement with the EU and the establishment of the Deep and Comprehensive Free Trade Area (the "DCFTA"). As part of the harmonization process, the Georgian Parliament approved a new Law on Entrepreneurs, which has been effective since 1 January 2022. We are updating our policies and procedures in order to comply with the applicable legislation, incurring relevant expenses in the process. In addition, monitoring updated procedures may incur additional expenses, which could adversely affect our profitability. • Regulatory policies in Georgia may increase competition, reduce barriers to entry, impose restrictions, limit our growth, and subject the Company to antitrust and other investigations or legal proceedings. • In 2019, the GNCC conducted a review of the retail mobile and fixed service markets and designated Silknet and MagtiCom as holders of SMP on the markets for mobile retail voice, mobile internet and fixed retail internet services. The GNCC imposed an accounting separation obligation and a prohibition of cross-subsidies on Silknet and MagtiCom. In 2020, the GNCC conducted a new market review on the retail mobile market and imposed a price control obligation on Silknet, MagtiCom and Veon Georgia, as holders of SMP. In addition, these MNOs were obliged to provide services with cost-oriented tariffs and to agree changes/cancellations to tariff plans/packages in advance with the GNCC. Even though the GNCC removed such a price control obligation in July 2021, there is a possibility that the GNCC may reintroduce such a regulation, which could result in a decrease in revenue for the Company. In addition, there is uncertainty as to whether the Company would agree to any new price control regulation or if it would result in a dispute between the GNCC and the Company. A decrease in revenue or a dispute with the GNCC could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.	• We actively monitor potential changes in regulation and take measures to manage the potential impact on our business. In 2021, we were actively engaged with the regulator and other stakeholders regarding market regulation. After constructive discussions, the GNCC decided to repeal the (partial) retail price regulation and delay the ex ante MVNO regulation until 31 December 2022. Following the above changes, the telecommunications sector in Georgia is likely to revert to the path towards alignment with the EU regulations. See the Regulatory developments section for further information.

• In December 2021 the Georgian Parliament passed changes in broadcasting and advertising laws in order to restrict gambling advertisements. The changes have been effective since March 2021 and restrict advertisement, sponsorship and product placement related to gambling. This may result in a reduction of advertising revenues, which comprised approximately 1% of our total revenue in 2021.	

FINANCIAL

Availability of funding for capital investments	
Description	**How we manage / mitigate the risk**
• Our business requires substantial capital investment for continued enhancement of our network and the introduction of new technologies. While we expect to utilise internally generated cash flows to finance our capital expenditure projects, additional funding may be required in the future, especially if a transformative acquisition is contemplated, similar to the Geocell acquisition in 2018. In addition, it is highly likely that we may need to refinance our existing debt instruments at maturity. • However, such sources of capital may not be available to us on commercially reasonable terms, if at all. Our ability to attract external financing, and the cost of such financing, depends on numerous factors including our future financial condition, general economic and capital markets conditions, interest rates, credit availability from banks or other lenders, investor confidence, relevant tax and securities laws, and the political and economic conditions in Georgia. • The Company's credit ratings are an important factor in determining our cost of borrowing funds. We have a credit rating of "B/ Stable" by Fitch and "B1/Stable" by Moody's. On 17 December 2020, Fitch downgraded our credit rating from 'B+' to 'B' while on 30 March 2021, Moody's changed the outlook from "Stable" to "Negative". On 6 January 2022, Moody's changed the outlook from "Negative" to "Stable". A further downgrade of our credit ratings or being placed on an additional "negative ratings" watch may	• Our prudent financial risk management policies and focus on accessing diverse sources of funding seek to mitigate this. Since the Geocell acquisition, we have carried out a capex-intensive mobile network modernization program, the IT Transformation and incurred other capital expenditures, all of which drove our capex to revenue ratio up to 26% and 29% in 2019 and 2020, respectively, before it normalized at 20% in 2021. All of these investments were financed by the internally generated cash flows. • Our long-term relationships with our principal vendors allow us to negotiate favourable payment terms, as we did during the COVID-19 pandemic. • We actively engage with international debt capital markets and, from time to time, evaluate the opportunities to utilise various options at our disposal to improve the sources of our funding. In January 2022, we successfully issued USD 300 million 8.375% Eurobonds and refinanced all outstanding loans, including the USD 200 million Eurobonds and GEL 34 million Georgian bonds.

increase the cost of borrowing, limit our ability to raise capital or materially adversely affect our ability to implement our capital expenditure programs or fund operations, which in turn could have a material adverse effect on our business, financial condition, results of operations or prospects.	

Foreign exchange	
Description	**How we manage / mitigate the risk**
• Our revenues are primarily denominated in GEL, whereas our debt is denominated in USD. Furthermore, we incur a significant portion of our capital and operating expenditures in USD and EUR, respectively. Foreign exchange rate fluctuations could significantly affect the results of our operations and our financial position in the future, as the availability of hedging tools in Georgia is limited.	In the absence of effective hedging instruments, we use or may opportunistically use a combination the following tools to mitigate the foreign exchange risk: • We maintain most of our cash and cash equivalents in hard currency. As of 31 March 2022, out of GEL 132 million in total cash and cash equivalents, GEL 118 million equivalent was held in USD. • We adjust pricing and packaging (see the discussion in the Macroeconomic risks above). • We may spread out the discretionary development capex over years. • We may engage in ad hoc, mostly short-term, hedging. • We may consider longer-term hedging instruments, as and when they become available on the market on cost-effective terms.

OPERATIONAL

Service interruption and supply chain	
Desription	**How we manage / mitigate the risk**
• Our services depend on the performance of our networks, technical equipment, and suppliers. In addition, our technical infrastructure is vulnerable to damage or interruption from acts of war, terrorism, intentional wrongdoing, human error or similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. • We rely heavily on the proper operation of a limited amount of technical equipment and service providers (see the Operations and key vendor relationships section for detail). Any deterioration of commercial conditions or failure by suppliers to provide adequate equipment or services to us in a timely manner may result in service interruptions. • Silknet does not maintain an offsite data recovery centre. In the event of an interruption or loss of our computer and information systems, this could interrupt normal business operations and lead to a loss of revenue, loss of subscribers and damage to our brands.	• Our continued investment in our network and IT infrastructure also improves its resilience. • We attempt to maintain viable alternatives in network scheduling and equipment acquisition in order to reduce commercial and technical risks. By adapting our processes and maintaining good relationships with our vendors, we have so far managed to limit the impact of the global supply chain crisis on our operations.

Product development	
Desription	**How we manage / mitigate the risk**
• Multi-product packages have become increasingly popular among consumers in Georgia in recent years. Offering bundled products can be complex due to the technological, logistical, and pricing challenges of combining two or more services in a competitively priced single offering. The failure to offer attractive new bundled products in the future or to successfully market such offerings to customers could adversely affect our ability to leverage our multi-play platform to attract and retain customers. • We are continuously developing new products and services. Many of our products	• Our strategy focuses on developing new and improved product offerings while constantly monitoring what our subscribers want. • Our investments in the IT infrastructure and tools should help us better analyse our subscribers and shorten the time-to-market (see the discussion on the Demand risks above).

and services are technologically intensive and, as a result, may require investment in new infrastructure and technologies to remain competitive. If we fail to develop and introduce new products and services on a timely basis and at an attractive price, we could lose existing customers, fail to attract new customers, or incur substantial costs.	

Spectrum limitations

Desription	How we manage / mitigate the risk
• The number of customers that can be accommodated on a mobile network is constrained by the amount of spectrum allocated to the operator of the network and is also affected by customer usage patterns and network infrastructure. As the Company's customer base grows, new technologies are introduced and a broader range of services is offered, which may require additional capacity for mobile data. However, the currently available spectrum may be limited by competition, regulation or financial constraints, and the Company may face a bottleneck, especially in metropolitan areas. Furthermore, the GNCC may increase, reduce, or change the frequency bands allocated to operators. If 5G spectrum licenses were to be auctioned in Georgia, we would consider submitting a bid in such auctions. If we were not successful in the pursuit of such licenses for any reason, such as prohibitive cost or the limited number of available licenses, we could find ourselves at a competitive disadvantage in the Georgian mobile market. In December 2020, the GNCC published a consultation paper presenting its vision and plans with respect to 5G network auction (prospective frequency spectrum allocation, auction lots, reserve price allocated for 5G spectrum license) and potential license conditions (including coverage obligations and technical terms/specifications for the use of 5G frequency spectrum). There are no firm dates for any upcoming 5G network auctions, which will be held depending on the demand for the network. Failure to obtain these licenses could have a material adverse effect on our business, financial condition, results of operations or prospects.	• We have the largest spectrum portfolio in Georgia with 173 MHz across multiple bands. Immediately following the Geocell acquisition, we began investing in the modernization of the mobile network and acquired a 2x5 MHz spectrum license in the 800 MHz band, which was used as a base layer for 4G coverage and was also used by the two other mobile operators in the market. We have pioneered the implementation of gigabit-LTE technology in Georgia, which gives us a technological advantage in the Georgian mobile market, as competitors have yet to implement such technology and lack the spectrum resources to do so. We started re-farming the remaining 2x10MHz in the 1800MHz band from 2G to 4G across the country, which is expected to be finalized in the course of 2022. See Our network and infrastructure for more detail. • As and when we observe sufficient demand on the market for 5G development, we may apply for licenses for additional spectrum, which the GNCC is likely to make available in the short term.

Intellectual property rights	
Description	**How we manage / mitigate the risk**
• We rely on third party licenses and other intellectual property arrangements to conduct our business. Intellectual property rights owned by the Company or its subsidiaries or licensed to any of them may be challenged or circumvented by competitors or other third parties. In addition, the relevant intellectual property rights may be, or may become, invalid, unenforceable or insufficiently broad to protect the interests of the Company or provide it with any competitive advantage. For example, our rights to broadcast exclusive content may be subject to infringement. Any loss or withdrawal of those intellectual property rights could adversely affect our ability to provide services and could adversely affect our business, financial condition, results of operations or prospects. • In addition, we may be subject to claims for copyright or trademark infringement in connection with content that we distribute through our broadband, mobile data, pay TV and other services such as its internet portals, VOD and digital archiving services and broadcasting services. Any such claims or lawsuits could be time consuming, result in costly litigation and the diversion of technical and management personnel, require payment of royalties or license fees in respect of future periods. For past violations, they could also potentially require the Company to develop non-infringing technology, cease broadcasting or distribution of the infringing content or services, and/or enter into royalty or licensing agreements.	• We take the utmost care to provide for the protection of intellectual property rights in all our relevant agreements. • We are ready to take swift action in case of any changes or potential changes in the status of the intellectual property we are using.

Customer and employee information	
Description	**How we manage / mitigate the risk**
• We process the personal data (including names, addresses, age and, through third parties, bank details) of our customers, business contacts and employees as part of our business and therefore must comply with applicable personal data protection regulations. The personal data protection laws and standards in Georgia impose certain requirements on the Company in respect of data processing, which includes the collection, use, modification, distribution, depersonalization, blocking, destruction, and storage of personal data. Failure to operate effective data protection controls in respect of the processing of personal data, as prescribed by applicable law, could potentially lead to administrative fines. • Certain amendments to the personal data protection framework have been introduced to the Parliament aiming at bringing Georgian personal data protection standards in line with the standards of the EU General Data Protection Regulation (Regulation (EU) 2-16/67). The Law of Georgia on Personal Data Protection dated 28 December 2011 could be amended further or superseded by a new law, the manner in which the data protection and privacy laws and regulations are enforced or interpreted could change, and new laws or regulations on personal data protection could be adopted, including in order to further regulate or restrict the processing of personal data. If the existing interpretation of the laws and regulations changes or future regulations are imposed, it could have an adverse effect on our business. • Moreover, these new laws may increase the Company's administrative costs, while failure to comply with such laws may result in penalties. These laws could also limit our ability to promote our convergent model, cross-sell products to our customers, and develop certain types of offers with third parties. These factors may, in turn, have a material adverse effect on our business, financial condition, results of operations or prospects.	• We have developed several policies on processing customer personal data. We also have an Information Security Department that develops information security policies and control mechanisms for the prevention and detection of information security and fraud management risks. For more information, see Customer privacy and data security.

Talent acquisition and retention	
Description	**How we manage / mitigate the risk**
• Experienced and capable personnel in the telecommunications industry remain in high demand, resulting in increased competition for talent on the job market. Any failure to retain and attract qualified and experienced management, engineers, IT and other qualified personnel could have a material adverse effect on our business.	• We continue to evolve our people processes, including the ways we recruit, develop and retain talent. We practice transparent hiring and aim to promote people from within the company: our job opportunities are usually first announced internally to all employees before they are announced externally. We attach special importance to protecting the rights of employees, increasing their motivation, and providing them with an equal, safe, and healthy working environment. We monitor salary trends through labour market surveys and ensure our salaries remain competitive. We had high retention and low turnover rates of 88% and 10%, respectively, in 2021. For more information, see Empowering our people.

SUSTAINABILITY REPORT

ENVIRONMENTAL CARE

Georgia is actively developing its environmental framework, including within the requirements of the EU-Georgia Association Agreement, and we are making the necessary changes to adapt to the new rules. We realize that our policies and actions are a work in progress.

While Silknet is a relatively heavy user of electricity, we are happy to report that in 2021, 81% of electricity generated in Georgia came from renewable sources (mostly hydropower). When we acquired Geocell in 2018, 77 mobile sites were not connected to the electricity grid and relied solely on diesel generators for their operation. Since then, we have connected 32 mobile sites to the grid, thereby reducing the usage of diesel generators. 45 sites in remote areas where connection to the grid is impractical have yet to be connected. In 2021, we installed solar panels on 12 of these sites on a trial basis and we are now monitoring and evaluating the results. If successful, we may consider expanding the solar panel installation to similar sites, as well as using solar power as a backup on other sites connected to the grid.

In line with the new regulations, we have also approved a waste management plan, which covers the management of the waste generated during the Company's activity; the accounting and reporting of generated waste; the collection, disposal, and marking of generated waste; methods and conditions for temporary storage of waste; waste transfer and transportation; and monitoring of the plan. Silknet's environment policy also includes general regulations and principles. The waste management documentation approved by the company complies with the requirements of current Georgian legislation.

EMPOWERING OUR PEOPLE

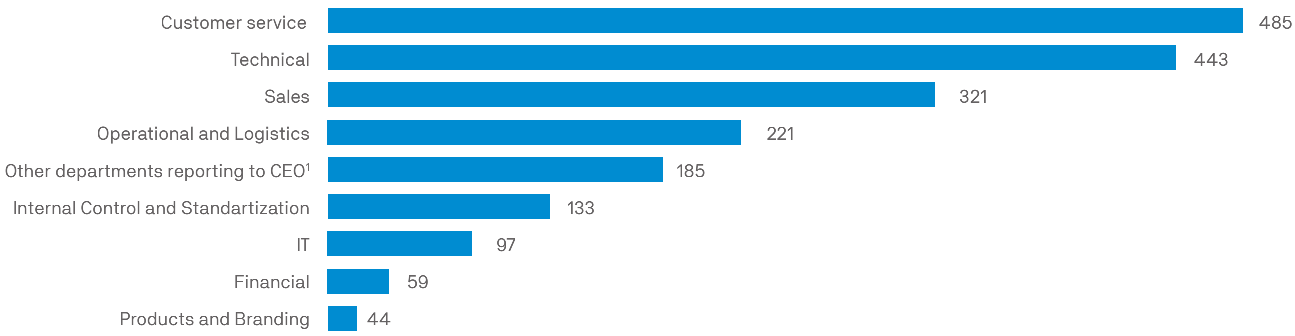
Our people are integral to our business. We create job opportunities for people from diverse backgrounds and aim to create a safe environment in which they feel engaged and supported. Our people processes are continuously evolving to support this goal.

As described in the Ownership and governance section, we follow a Code of Conduct and have a clear process of escalation for violations. We practice transparent hiring and aim to promote people from within the company: our job opportunities are usually first announced internally to all employees before they are announced externally. In 2021, 73 employees were promoted and 9 out of 59 vacancies were filled internally.

We plan to further improve our recruitment and remuneration policies as well as other practices to increase engagement and better align with our goals and our strategy.

With 1,988 employees as of 31 December 2021, we are one of the top 20 employers in the country.

FIGURE 48 NUMBER OF EMPLOYEES BY DIVISION



Out of 1,988 employees, 402 have been with us since the beginning (March 2010).

We attach special importance to protecting the rights of employees, increasing their motivation, providing them with an equal, safe, and healthy working environment. For this purpose, we have developed a number of policies, instructions and regulations to provide a sustainable working environment with fair terms of employment for all our employees. Along with other issues, we focus on components such as human rights, non-discrimination, equal opportunities, occupational health and safety, remuneration, and the promotion of employees.

The Company's core principles and approaches to employees, employee rights and guarantees are covered by a number of regulations that provide benefits and opportunities to employees, regulate recruitment, occupational health and safety, etc. These regulations ensure compliance with the standards established by current Georgian legislation, including the Labor Code, which have been guided by the ILO's standards, requirements and recommendations.

Our regulations strive to enable employees to develop at Silknet. The right competences, diversity and equal opportunities are all important factors when we recruit and communicate, both internally and externally.

We monitor salary trends through labour market surveys and ensure that our salaries remain competitive. Our philosophy of "Meti" ("More") also guides our approach to providing benefits to our people, which is why we provide benefits over and above what is required by legislation. Our female employees receive six months of fully paid maternity leave, far beyond the Georgian legislative requirement. Other benefits include an allowance for health insurance and additional financial aid for special circumstances, including for the birth of a child / death of a family member.

In addition, we have established a healthcare emergency support fund for our employees, which covers healthcare costs over and above insurance payments and provides support for exceptional cases that are not covered by insurance. This includes treatments can only be accessed abroad.

245 of our employees are unionized.

Note: The number of employees in this section includes only full-time employees and does not include people employed in Silknet's subsidiaries.

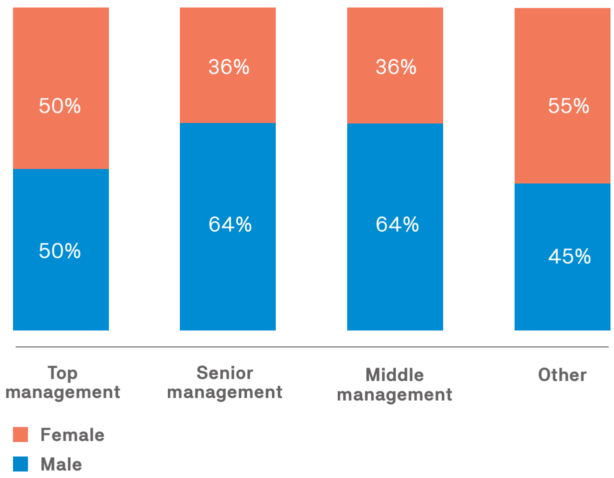
CULTURE OF EQUITY AND INCLUSION

The foundation of our corporate culture is equity and inclusion. We stand for creating equal opportunities and practicing inclusion and non-discrimination. All our policies and processes aim to protect human rights.

In order to create and maintain an equity-oriented environment, we actively cooperate with UN Women and the UN Global Compact Office in Georgia. With the help of their partnership initiative – The Women's Empowerment Principles (WEP) – we regularly consider our existing practices promoting gender equity in the workplace and seek improvements in this regard. Our openness to such cooperation has led to an initiative with UN Women's WEP programme, providing a "gender lens" that helps us survey and analyse our current practices, benchmarks and reporting.

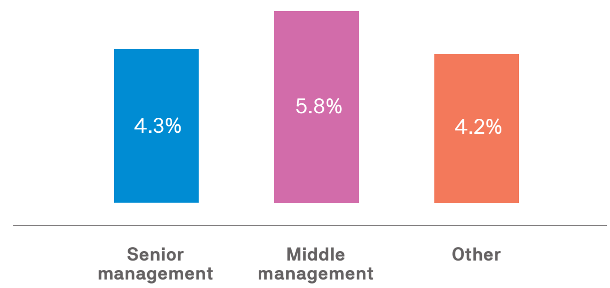
We provide an environment in which all our employees can flourish. Our current regulations explicitly prohibit any form of discrimination and treat all the employees equally, regardless of gender, age, sexual orientation, race, ethnicity, religious and political beliefs, material or social status, disability or any other ground of classification. We aim to ensure that all employees have equal opportunities based on competence, experience and performance. As part of our commitment to having a diverse and inclusive workplace, we have zero tolerance towards discrimination, harassment, and bullying. Victimization at work, such as recurring negative actions directed against individual employees, is not permitted.

FIGURE 49 GENDER DIVERSITY



Our management is well diversified, with women making up 50% of the top management.

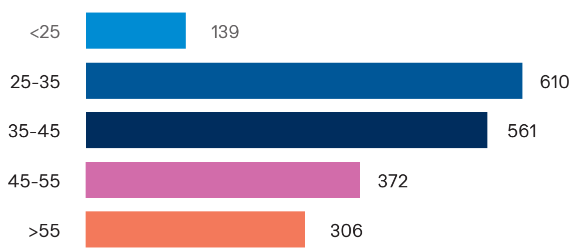
We promote and recognise women by providing equal pay, including benefits, for equal work, as evidenced by our salary gender pay gap, which is quite low. The median salary of female employees stood at GEL 1,200 GEL as of 31 December 2021, compared to GEL 1,280 for male. The median salary gender pay gap in 2021 (in favour of male) was as follows:



Out of 73 promoted employees, 33, or 45%, were women.

The average age of our employees as of 31 December 2021 was 41.

FIGURE 50 AGE DIVERSITY



Employee retention and turnover in 2021 was 88% and 10%, compared to 89% and 8% in 2020, respectively. The lower retention and higher turnover rates in 2021 were due to the lower mobility of employees in 2020 due to the COVID-19 pandemic, which is in line with international experience.

Note: The number of employees in this section includes only full-time employees and does not include people employed in Silknet's subsidiaries.

OCCUPATIONAL HEALTH AND SAFETY

A guiding principle in all our operations is to protect the health and safety of everyone who works for or with us: accidents, incidents, injuries, work-related illnesses, and unsafe acts and conditions are preventable and unnecessary.

We aim to provide a safe and healthy workplace and regularly improve it by ensuring our work environment and processes prevent and react to conditions causing ill health appropriately. Our occupational health and safety, labour safety and fire safety framework is guided by the relevant Georgian regulation.

Over the last three years, only one case of injury was recorded in the Company in 2019, with the loss of working ability of up to 40 days. We conducted an investigation into the case in accordance with Georgian legislation and reported to the Labor Inspection Office. The Labor Inspection Office also investigated the case, concluding that avoiding the accident was out of the Company's control, with no sanction being levied against the Company.

CUSTOMER PRIVACY AND DATA SECURITY

As a telecommunications company, it is essential to strictly protect the confidentiality and integrity of the personal data of our customers, employees, business partners and other third parties. We process the personal data of our customers, employees, or any other parties for specific business purposes in a lawful, proportionate and legitimate manner.

Georgian regulation and the implementation practice with respect to customer privacy and data security is evolving. The Company aims to keep up with the changes and modify its internal regulations and business conduct accordingly.

Our Information Security Department reports directly to the CEO. The department consists of nine employees and develops information security policies and control mechanisms for the prevention and detection of information security and fraud management risks.

SOCIAL RESPONSIBILITY

SUPPORTING OUR COMMUNITIES

In addition to providing an integral service to the country through our operations, we acknowledge our responsibility towards the wider community we operate in and take active steps to support its development.

The main strategic directions of our efforts in this regard include education, culture, and sports. Some of our projects in this regard are described below.

NATIONAL GEOGRAPHIC GEORGIA (EDUCATION, CULTURE)

We established National Geographic Georgia ("NGG") in 2012, a non-entrepreneurial and non-commercial entity aimed at increasing awareness of the Georgian community of the natural, historical, and socio-economical sciences as well as technology.

Sponsored by us since its establishment, the NGG publishes a Georgian-language version of National Geographic Magazine and preparing Georgia-related materials for global use. With our support, it also runs numerous activities such as exhibitions, presentations, lectures, and regional educational initiatives.

A new initiative from Silknet is arranging periodic events where readers of the magazine meet with authors, photographers, and storytellers of the new issue of the magazine. These activities aim to promote popularization of the themes covered.

TSINANDALI FESTIVAL PRESENTED BY SILKNET (CULTURE)

We are the main sponsor of the Tsinandali Festival, Georgia's biggest classical music event, which attracts the world's top performers, conductors, composers and musicians, helping to establish Georgia as a global centre of classical music. The main goal of the festival is to promote the language of music in our region.

The first Tsinandali Festival took place in 2019 and proved a great success. The festival attracted attention from local as well as foreign media and, following the highly successful inauguration, was turned into an annual event. Maestro Gianandrea Noseda is the musical director of the festival.

In 2021, the Tsinandali Festival hosted a number of renowned classical music performers, including Lahav Shani, Christoph Eschenbach, Lisa Batiashvili, Yefim Bronfman, Mischa Maisky, Mikhail Pletnev, Vadim Repin, Fazil Say and Thomas Quasthoff.

The establishment of the Pan-Caucasian Youth Orchestra adds a very important educational dimension to the festival. Young musicians from six countries in the region participate in master classes and perform on stage alongside renowned musicians.

SILKNET SUPPORTING SPORTS

Skiing is a very popular sport in Georgia. Thanks to continuous government efforts, coupled with consistent support from Silknet, the country is becoming an increasingly attractive ski destination for international tourists.

Georgia also hosted several international ski tournaments in the last couple of years. In 2020-2021, Bakuriani hosted the Ski Cross World Cup stage, while Gudauri hosted the European Snowboard Championship. In 2021-2022, Bakuriani also hosted the Europa Cup stage of the snowboard parallel and giant slalom and the FIS World Cup stage of freeski. These tournaments are sponsored by Silknet.

We have also been the general sponsor of the Georgian Ski Federation for 12 years. Our support for skiing extends beyond financial contributions: for many years our Chairman, George Ramishvili, actively worked with the Georgian government to popularise this sport in Georgia and promote it around in the world. As a result of these efforts, Georgia was selected as the host country for the 2023 FIS Freestyle and Snowboarding World Championship.

With Silknet's sponsorship, the Georgian national team has a unique opportunity every year to train at some of the world's best slopes. As a result, we now have a number of success stories of Georgian skiers competing in international competitions.

WOUNDED WARRIOR SUPPORT FOUNDATION (OTHER)

By creating the Wounded Warrior Support Foundation ("WWSF"), we became the first private enterprise in Georgia to focus on facilitating the integration of wounded veterans back into society and giving them the respect and recognition they deserve.

Funded by Silknet and public donations, the WWSF targets soldiers who participated in the wars for Georgia's territorial unity as well as those who served in international peace missions. It supports the health, higher education and professional re-qualification of wounded warriors and provides assistance to their underage children.

Forbes Georgia named Silknet as the winner of the 2018 "Forbes Social Impact" award for establishing the Wounded Warrior Support Foundation.

SAN DIEGO STATE UNIVERSITY SCHOLARSHIPS (EDUCATION)

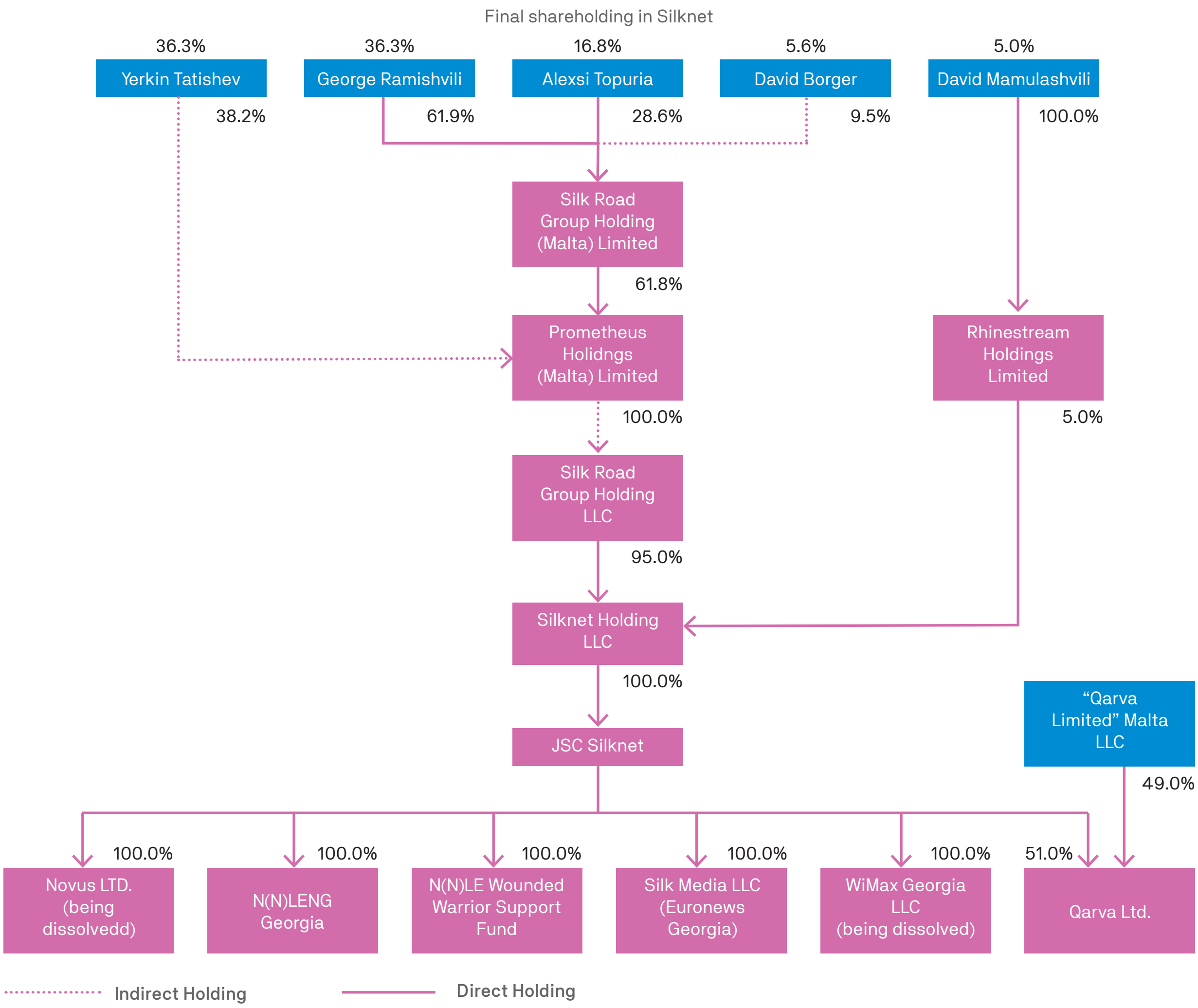
In 2018, we signed an agreement with San Diego State University to award scholarships to the best Georgian students in the electrical engineering, computer engineering and computer science bachelor's degree programmes. Through this programme, we provide needs-based, partial or full funding to between three and six students selected by the university.

HOME SCHOOL (EDUCATION)

We offer a Home School VOD service, a community project that creates a variety of recorded classes for school students of all ages. This has become especially relevant during the COVID-19 outbreak. Lessons are available free of charge on our IPTV platform as well as online.

OWNERSHIP AND GOVERNANCE

OUR CORPORATE STRUCTURE



Note: the corporate structure above does not include all intermediate holding entities

SOLID AND SUPPORTIVE SHAREHOLDER

We are part of the Silk Road Group ("SRG"), one of the leading private investment groups in the Caucasus region, with interests in different sectors of the Georgian economy and assets worth over GEL 2.1 billion as of 31 December 2021. SRG's activities span across four main sectors:

- **Transportation:** connecting Georgia with Central Asia through access to infrastructure, terminals, rail tank cars and containers;
- **Telecommunications:** Silknet;
- **Financial services:** the Silk Road Bank, which may offer joint financial services to Silknet's subscribers in the future;
- **Real Estate, Hospitality & Entertainment:** a real estate portfolio (of developed and undeveloped properties and lands) with more than USD 360 million total assets and 10 years of experience in hospitality and entertainment (hotels, restaurants, casinos, clubs, sport centres, etc.); and
- **Energy:** operating a run-of-river hydropower plant with an installed capacity of 9.8MW.

OUR PATH TO TRANSPARENCY AND THE EVOLUTION OF OUR CORPORATE GOVERNANCE

Robust corporate governance is one of the building blocks of our business model and strategy. We have grown and developed significantly in recent years, and our approach to corporate governance has evolved alongside these developments.

We continuously seek to enhance the effectiveness of our management and governance systems in line with best practices. We have adopted a range of internal regulations to support this, facilitating transparency and accountability and regulating the relations between shareholders, the Supervisory Board, the management, and other stakeholders, as described below:

- 2016: Obtained our first rating from Fitch.
- 2017: Issued our first bond in Georgia.
- 2017: Appointed Theodore Charles Jonas, an experienced lawyer with the international law firm Dentons, as an Independent Member of our Supervisory Board.
- 2019: Issued Eurobonds and obtained our first rating from Moody's.
- 2019: Adopted our Corporate Governance guidelines ("Governance Guidelines"), aimed at providing a framework on company governance matters, and set up an Audit Committee and a Compliance Committee as sub-bodies of Silknet's Supervisory Board.
- 2020: Issued our first annual report.
- 2021: Obtained our first ESG rating from Sustainalytics.
- 2022: Conducted our second international capital markets transaction by issuing new Eurobonds and refinancing all outstanding debt instruments.
- 2022: Appointed Stella Handler, a seasoned telecoms executive with experience in managing public companies in Israel, as the new independent member of the Supervisory Board.

Our Charter and Georgian law address certain matters related to the composition and responsibilities of the Supervisory Board. Our Governance Guidelines seek to supplement the Charter and Georgian legislative requirements to bring Silknet's corporate governance more in line with international best practices, while not contradicting the provisions of local law.

ETHICS AND COMPLIANCE

The Company is in the process of drafting, refining, and implementing a complete set of E&C policies and instructions. E&C officer coordinates the drafting of the policies and instructions, while the independent chairperson of the Compliance Committee of the Supervisory Board reviews and revises them. These documents are further refined with line managers before final adoption.

CONFLICTS OF INTEREST

Except as disclosed below, there is no conflict of interest or potential conflict of interest between the duties of the Supervisory Board or the executive management and their respective private interests or other duties.

George Ramishvili, who is the Chairman of the Supervisory Board, Alexsi Topuria and David Franz Borger, who are members of the Supervisory Board, are ultimate beneficial owners of Silknet and as such have the power to influence the decisions of the Supervisory Board.

DISCLOSURE AND TRANSPARENCY

We believe that timely and adequate disclosure enhances the transparency of communication with our stakeholders and is an essential aspect of good governance. As a result, we issue regular communications to our investors, along with quarterly updates and presentations.

ANTI-CORRUPTION AND ANTI-BRIBERY

The Company's internal monitoring system is covered by various regulations, which among other issues ensures that customers' expectations and business agreements are met, that their business strategies and objectives are not jeopardized due to security risks, and that the laws and regulatory security related requirements are met.

The Company declares zero tolerance towards any form of corruption, bribery, financing of corruption or facilitation payments. At Silknet, we do not accept, offer, authorize, or pay bribes or anything of value to obtain or retain business, or to encourage or reward a decision. No employee of Silknet shall offer, provide, authorize, request, accept or receive a bribe either directly or indirectly, including through any third party. It is prohibited to contribute financial means to any third party in a way that could constitute negligent financing of corruption.

We do not tolerate criminal activities or fraud - the Company's business should be conducted in an ethical manner, complying with the highest professional standards in business conduct. We strive to promote a culture of transparency and the prevention of any dishonest behavior or fraudulent acts that could affect the Company's interests.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, we have engaged, and continue to engage, in transactions with related parties. Related parties include, among others, the following persons or entities: shareholders/partners, members of management, affiliated companies and certain shareholders of such affiliated companies. Furthermore, parties would be considered related if one party can control the other party or exercise significant influence over the decisions of the other party, or if such parties are under common control.

Our Charter sets forth certain restrictions with respect to transactions with related parties. For example, any related party transaction with a value of over GEL 1 million is subject to the prior approval of the Supervisory Board. If the value of the related party transaction exceeds GEL 5 million, the Supervisory Board has to obtain an opinion from an independent appraiser to the effect that such related party transaction is not harmful to the Group from a financial standpoint.

In addition to the Charter's provisions on related party transactions, the Supervisory Board has adopted a related party policy that aims to ensure that transactions are carried out on an arm's length basis. The policy complies with the requirements of the applicable laws and regulations as well as IFRS.

Related party transactions are detailed in note 25 to the Consolidated Financial Statements for 2021.

Eurobonds and other financial instruments issued by the Company are also subject to covenants regarding transactions with related parties. The company should not engage in related party transactions at terms more favourable than the transaction's fair market value. If the transaction involves payments or value in excess of 5% of total assets, we are required to obtain a written opinion from an independent appraiser that such a transaction is at fair market value and is fair from a financial point of view to the Company.

GOVERNANCE STRUCTURE

Our governance and management system is structured as follows:

Audit Committee

Composed of the members of the Supervisory Board and responsible for overseeing the integrity of our consolidated Group financial statements and our internal control and risk management systems. As required by the Georgian Law on Entrepreneurs, the chairperson of the Audit Committee is an independent member of the Supervisory Board.

Compliance Committee

A committee created by the Supervisory Board, composed of members of the Supervisory Board, which recommends corporate governance policies and instruments to the Supervisory Board for its adoption. It also supervises the adoption and implementation of the Ethics and Compliance policies and instructions mentioned above. The Compliance Committee is chaired by Mr. Jonas as both an independent member and a lawyer with international corporate law experience.

Supervisory Board

(“the Board”) – a non-executive body that supervises our activities, strategy, and plans, and oversees the CEO in line with our Charter.

CEO

Responsible for the company’s management and representation, the CEO leads and directs the execution of the strategy and plan set by the General Meeting of Shareholders of the Company and the Supervisory Board.

Deputy CEOs

Appointed by the CEO to manage specific directions of the Company. They also support the CEO in the day-to-day management of the activities of the Company.

The CEO and Deputy CEOs together form the management.

Management

SUPERVISORY BOARD

Our Supervisory Board currently consists solely of non-executive members.

MEMBERS AS OF 31 DECEMBER 2021

George Ramishvili – Chairman
Vasil Kenkishvili – Deputy Chairman
Alexsi Topuria – Member
David Franz Borger – Member
Mamuka Shurgaia – Member
Theodore Charles Jonas – Independent member

In March 2022, Stella Handler became a new independent member of the Supervisory Board.

RESPONSIBILITIES

The Supervisory Board has the following responsibilities:

- Defining Silknet's strategy and future plans;
- Appointment and supervision of the CEO;
- Checking the Company's quarterly and annual results, the statement on the division of profit and the financial condition of the company, and reporting the results to the General Meeting of Shareholders;
- Reviewing the internal control and management effectiveness of the company and reporting the results to the General Meeting of Shareholders;
- Ensuring the effectiveness of risk management policies and systems;
- Oversight, improvement, and supervision of corporate governance; and
- Other rights and obligations, as defined by the legislation of Georgia and our Charter, which is available on silknet.com.

The Supervisory Board aims to strike a balance between long-term strategic and shorter-term performance issues. The table below provides a high-level summary of the Supervisory Board's activities throughout the year.

Strategy	The Board approved the strategic priorities and budget for the year and received regular reports from the CEO on the execution of these priorities. The main directions included network rollout, investment in 4G/LTE infrastructure and gigabit-LTE technology, DSL migration and IT transformation.
Financial performance	Financial performance and outlook were considered at each meeting. The Board approved the quarterly results, the annual financial statements, and the Annual Report.
Internal controls, management efficiency and risk	Internal controls, management efficiency and risk were considered and addressed, as necessary.
Governance	The Audit Committee, together with the Internal Audit Division, regularly oversees our internal control and risk management systems.
Funding and financial management	The Board made decisions leading to the issuance of Eurobonds.

NOMINATION, OPERATION, AND EVALUATION

Members of the Supervisory Board are elected for a term of five years by vote of more than 50% of the shares present at the General Meeting of Shareholders. Board members should be individuals from diverse business and professional backgrounds with unquestionably high ethical standards, professional achievement, knowledge, and experience.

We do not believe term limits for Board members (except as defined by the Charter) are required or would be in the Company's best interest at this time, as such limits might prevent Board members from developing the knowledge and expertise associated with service tenure. However, the Board and the Compliance Committee will continue to consider this matter periodically.

According to the Law of Georgia on Entrepreneurs, the Supervisory Board of a joint stock company should include at least one independent member if it is a reporting enterprise, as defined by the Georgia Securities Market Law.

The Compliance Committee shall develop a self-evaluation questionnaire for completion by all Supervisory Board Members and shall oversee a Board and committee self-evaluation exercise on an annual basis for the purpose of determining whether the Board and its committees are functioning effectively. The self-evaluation should focus on the contributions that the Board and its committees have made to the Company and specifically any areas that the Board or its committees believes could be improved.

AUDIT COMMITTEE

The Audit Committee is composed of members of the Supervisory Board, of whom at least one is an independent member. The activities of the Audit Committee are regulated by the relevant committee regulations, as approved by the Supervisory Board. Since 2020, the Audit Committee has supervised the Internal Control and Standardisation Division.

MEMBERS

Theodore Charles Jonas - independent member/Chairman

Mamuka Shurgaia - Member

David Franz Borger - Member

Vasil Kenkishvili - Member

RESPONSIBILITIES AND ACTIVITIES

The function and responsibilities of the Audit Committee are defined by the Law on the Securities Market and by the Law on Entrepreneurs.

INTERNAL CONTROLS

The Supervisory Board is responsible for the adequacy of the internal control systems. The Audit Committee ensures the functioning of the Group's internal control system, its objectivity and accuracy.

SIGNIFICANT MATTERS CONSIDERED IN RELATION TO THE FINANCIAL STATEMENTS

- Group accounting policies, key estimates, and judgments, including IFRS 16 transition
- Appropriateness of the going concern assumption as a basis for preparation of the Consolidated Financial Statements
- Regulatory financial statements

EXTERNAL AUDIT

- Independence and objectivity
- Audit and non-audit fees
- Effectiveness
- Key audit matters and identified control deficiencies

COMPLIANCE COMMITTEE

RESPONSIBILITIES AND ACTIVITIES

- To make recommendations on the improvement of the Group's management and submit them to the Supervisory Board and Shareholder(s).
- To prepare recommendations for implementing the Ethics and Compliance Programme at Silknet and monitoring the progress of the programme.

MEMBERS

Theodore Charles Jonas – independent member/Chairman

David Franz Borger - Member

Vasil Kenkishvili - Member

Alexsi Topuria – Member

MANAGEMENT

RESPONSIBILITIES, NOMINATION, AND EVALUATION

CHIEF EXECUTIVE OFFICER (CEO)

The CEO of Silknet is authorised and responsible for the day-to-day management and representation of the Company, leading and directing the execution of the strategy and plan set by the Company's Shareholders General Meeting and the Supervisory Board.

The CEO is appointed and evaluated by the Supervisory Board and manages the Company's affairs in line with the authorities set forth under the employment contract executed with him or her, the Company Charter, and the laws of Georgia.

DEPUTY CEOs

The rights and responsibilities of the Deputy CEOs are defined by the order issued by the CEO of the Company.

Deputy CEOs are appointed by the CEO for the purpose of managing a specific field, in accordance with the order issued by the CEO determining Silknet's Deputy CEOs' competence, responsibility, and scope of activities.

The Deputy CEOs report to, and are evaluated by, the CEO.

MANAGEMENT AS OF 31 DECEMBER 2021

David Mamulaishvili – Chief Executive Officer

Lili Pshavlishvili – Chief Financial Officer

Levan Buchukuri – Chief Sales Officer

Vera Duduchava – Chief Operating Officer

Nino Kankia – Chief Technical Officer

Shota Gvinianidze – Chief Information Officer

Rusudan Svani – Chief Customer Service Officer

David Birman – Chief Product and Brand Management Officer

Ilia Enukashvili (Eli Enoch) – Head of Strategy

SUPERVISORY BOARD AND MANAGEMENT REMUNERATION

The Chairman will annually review and recommend to the Board and Shareholders Meeting of the Company the form and amount of Board Member compensation and benefits.

The Supervisory Board determines the remuneration of the CEO.

The rules and policies of the reimbursement of Deputy CEOs are decided by the CEO, in accordance with the Strategy and Plan of Company as set out by the Shareholders' General Meeting and the Supervisory Board.

As part of the development of our corporate governance structure, we plan to review and improve our remuneration practices to provide better linkage to the short- and long-term goals of the Company.

SUPERVISORY BOARD MEMBER BIOGRAPHIES

GEORGE RAMISHVILI

Chairman

George Ramishvili is the Chairman of the Supervisory Board of Silknet and founder, shareholder, and chairman of the Silk Road Group. George Ramishvili has a degree in Hydro-Technical Engineering at the State Polytechnic Institute of Tbilisi (1984-1985) and a Master's degree in Economics and Construction Management from Tbilisi State University (1987-1992). George Ramishvili has over 25 years of experience in starting up and successfully running new companies, drawing on a wide social network and sound business sense. His industrial skills include transportation, trading, real estate, tourism, and energy. George Ramishvili was President of the Georgian Ski Federation for several years and continues to support the development of winter sports in Georgia. He is also a member of the international boards of several artistic and cultural organisations, including the International Board of the London Philharmonic Orchestra. He is the chairman of the board of National Geographic Georgia and the Tsinandali International Festival of Classical Music.

ALEXSI TOPURIA

Member

Alexsi Topuria is a shareholder and a member of the Supervisory Board of the Silk Road Group, as well as a member of the Supervisory Board of Silknet. Alexsi Topuria has more than 20 years of professional experience in developing new business in the Caucasian, Caspian, and Central Asian region. He is an expert in finance and operational management. His industrial skills include telecommunications, transportation, and trading. Alexsi Topuria established a football school in the suburbs of Tbilisi to support the development of youth football in Georgia. He has a degree in economics and geography from Tbilisi State University, Georgia (1984-1989, interrupted by two years of military service), followed by a degree in German from the Goethe Institute, Iserlohn, Germany (1990-1991) and advanced studies in economics and business management from the Witten/Herdecke University, Germany (1991-1997). Alexsi Topuria is a member of the board of National Geographic Georgia.

DAVID FRANZ BORGER

Member

David Franz Borger joined the Silk Road Group, the shareholder of Silknet, as a partner in 2005. He holds a PhD in accounting and finance from the London School of Economics and has worked in information technology with major IT firms and management consultancy companies. Before joining the Silk Road Group, he was a project leader at Boston Consulting Group. He lives with his family in Munich.

MAMUKA SHURGAIA

Member

Mamuka Shurgaia is a member of Silknet's Supervisory Board and the Chief Financial Officer of SRG Investments, LLC, which is part of the Silk Road Group. Mamuka joined the Silk Road Group in 2011 as Deputy Director of Finance and progressed to the Chief Financial Officer position within a year. He also serves as a director of SRG Real Estate LLC, the company managing the Silk Road Group's real estate activities in Georgia. Prior to joining the Silk Road Group, Mamuka Shurgaia was a senior auditor at Ernst & Young Audit LLC in Tbilisi and worked as a manager at the accounts team at TBC Bank. Mamuka Shurgaia has a degree in finance from the Caucasus School of Business (2006) and a Master's in Business Administration from the Grenoble Ecole De Management (2016).

VASIL KENKISHVILI

Deputy Chairman

Vasil Kenkishvili is a member of Silknet's Supervisory Board and the Chief Executive Officer of SRG Investments LLC, which is part of the Silk Road Group. Vasil Kenkishvili joined the Silk Road Group in 2006 as the general counsel and was promoted to chief executive officer after three years. Prior to joining the Silk Road Group, he served as Head of the Legal Department for restructuring in Georgian Railway LLC between 2004 and 2006. He was the chief lawyer of a parliamentary faction in the Parliament of Georgia from 2001 to 2003 and worked for the Ministry of the State Property Management of Georgia from 1999 to 2001. Vasil Kenkishvili received a legal degree (JD equivalent) from Ivane Javakhishvili Tbilisi State University in 2000 and an LLM degree from The American University, Washington College of Law (Washington DC, USA) in 2004.

THEODORE CHARLES JONAS

Independent member

Theodore Charles ("Ted") Jonas is a Senior Counsel at the Tbilisi office of the international law firm, Dentons. Prior to that, Ted was a partner at DLA Piper for ten years and the managing partner of its Tbilisi office. In addition to holding a position on the Supervisory Board of Silknet, Ted is a non-executive director of the Anaklia (Port) Development Consortium and a member of the Supervisory Board of the Caucasus Nature Fund, a conservation trust fund for the South Caucasus, based in Frankfurt, Germany. In addition to more than 25 years' experience as a lawyer in private practice, Mr. Jonas has served as a legislative aide at the U.S. House of Representatives, as a legal clerk for a U.S. federal appellate judge, and as the Georgia parliamentary programmes manager for the National Democratic Institute for International Affairs. Ted received a B.A. in History from Cornell University in 1984 and a J.D. from Cornell Law School with honours in 1991.

STELLA HANDLER

Independent member

Stella Handler has been Chairman at Itaileya, a family real estate holding company, since 2018. From 2013 to 2018, Stella was CEO of Bezeq, an Israeli Public Telecommunications Company. In 2011-2013 period, she was Chairman of HOT, a cable TV public company. Prior to that, she served as CEO of 012 Smile, a public company traded on the Nasdaq. Stella Handler has a degree in Business and Economics and a Master's degree in Economics from the Hebrew University of Jerusalem.

MANAGEMENT BIOGRAPHIES

DAVID MAMULAISHVILI

Chief Executive Officer

David Mamulaishvili was appointed as CEO of Silknet in 2016. From 2010-16, Mr. Mamulaishvili was the head of the Internal Control and Standardisation Division. Prior to joining Silknet, Mr. Mamulaishvili engaged in entrepreneurial activities and was one of the founders of several large companies (including Lomisi and Interplast). For a certain period of time, Mr. Mamulaishvili served as the Vice-Governor of the Mtskheta-Mtianeti region.

LILI PSHAVLISHVILI

Chief Financial Officer

Lili Pshavlishvili was appointed as CFO of Silknet in 2010. Prior to joining Silknet, Ms. Pshavlishvili held the position of SME Development Director at Bank of Georgia. Prior to that, Ms. Pshavlishvili was the Commercial Director at Silk Road Bank. At the onset of her career, Ms. Pshavlishvili held various management positions at the National Bank of Georgia.

LEVAN BUCHUKURI

Chief Sales Officer

Levan Buchukuri was appointed as Chief Sales Officer of Silknet in 2021. From 2020 to 2021, he served as Chief Strategy Development Officer, while between 2018 and 2020, he worked as Chief Customer Service Officer at Silknet. He served as a member of the Supervisory Board from 2016 to 2018, as the CEO of Silknet from 2011 to 2016, and held a range of different positions before that (Deputy CEO, Chief Commercial Officer, Deputy CEO Chief Technical Officer). Mr. Buchukuri has extensive experience in the telecoms sector. Between 2009 and 2010 he was the CEO of Novus Ltd. Between 2007 and 2009, he was the CEO of Technoservice Ltd, and between 2004 and 2007, he was the CEO of Iberiatel Ltd. For seven years, Levan Buchukuri worked at MagtiCom as Head of the Sales and Marketing department (1997-1999), Head of the Customer Service Department (1999-2000), Deputy CEO (2000-2001) and CEO (2001 – 2004). From 1995 to 1997, Levan Buchukuri also worked for Megacom Ltd as a sales manager. Mr. Buchukuri holds the equivalents of bachelor degrees in electronics (1988-1994 Georgian Technical University) and in foreign economic affairs (1989-1992 Georgian Technical University).

VERA DUDUCHAVA

Chief Operating Officer

Vera Duduchava was appointed as COO of Silknet in August 2019. Ms Duduchava led Silknet's IT Transformation project in 2018. Prior to that, she was a member of the executive management team at Geocell, where she started her career in the customer relations department in 2000. Over the years, she has held different managerial positions in the same department and participated in a number of international projects in the sector. In 2013, Ms Duduchava became the Director of Geocell's Customer Relations Department and continued her career in Silknet thereafter. For a certain period, she also worked at Nexus Enterprises as the head of operations.

NINO KANKIA

Chief Technical Officer

Nino Kankia joined Silknet in 2020 and was appointed as the Chief Technical Officer in 2021. Prior to joining Silknet, she served as the Head of the Marketing and Solution Sales Department at Tbilisi Huawei Technologies Co. From 2011 to 2015, Ms. Kankia served as the Head of the Mobile Core Network Operational and Development Department at Veon Georgia. Ms. Kankia holds a Master's degree in Telecommunications Technology from the Tbilisi Technical University.

SHOTA GVINIANIDZE

Chief Information Officer

Shota Ghvinianidze joined Silknet's team in September 2019. Prior to that he worked at Magticom LTD, where his career path spanned several positions from software developer to the head of information technology (IT). Prior to joining Magticom, Mr. Ghvinianidze worked at the National Bank of Georgia for several years, where he contributed to the implementation of several IT and payment systems projects.

RUSUDAN SVANI

Chief Customer Service Officer

Rusudan Svani was appointed as Chief Customer Service Officer in 2020. From 2010 to 2020, she served as the Head of the Call Centre. Prior to that, she held managerial positions in several different companies.

DAVID BIRMAN

Chief Product and Brand Management Officer

David has over 20 years of experience in marketing, with a strong focus on digital product development, customer experience, and branding. He was until recently working with leading Georgian banks on digital strategy consulting projects. Prior to that, David led digital banking, customer experience, and brand management directions as Chief Experience Officer at Yelo Bank (Azerbaijan), which he joined after leaving Bank of Georgia in 2018. David joined Bank of Georgia in 2010, spending eight years in a range managerial positions in Marketing and Brand Management. In his most recent role as Chief Digital Officer, David led the development of digital banking. David holds BBA degree from the European School of Management and is Master Certified in UX Management and Interaction Design by Nielsen Norman Group.

ILIA ENUKASHVILI (ELI ENOCH)

Head of Strategy

Ilia Enukashvili was appointed as the Head of Strategy in 2012. Between 2019 and 2021, Mr. Enukashvili also served as the Chief Executive Officer of Silk Road Bank. Prior to Joining Silknet, Mr. Enukashvili was the Chief Executive Officer of Liberty Consumer.

SILKNET JSC

CONSOLIDATED FINANCIAL STATEMENTS
FOR 2021

CONTENT

KPMG Georgia LLC
5th Floor GMT Plaza
Mtatsminda District, Liberty Square N4 (plot 66/4)
0105 Tbilisi, Georgia
IN 404437695
Telephone +995 322 93 5713
Internet www.kpmg.ge

Independent Auditors' Report

To the Shareholder of Silknet JSC

Opinion

We have audited the consolidated financial statements of Silknet JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

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

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

Other Information

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

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

Natia Tevzadze

ნათია

KPMG Georgia LLC
3 March 2022

Silknet JSC
Consolidated Statement of Financial Position as at 31 December 2021

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

*Indefeasible Right of Use

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

Silknet JSC
Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2021

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

These consolidated financial statements were approved by management on 3 March 2022 and were signed on its behalf by:

David Mamulaishvili
General Director

Lili Pshavlishvili
Finance Director

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 46.

Silknet JSC
Consolidated Statement of Changes in Equity for 2021

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

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

Silknet JSC
Consolidated Statement of Cash Flows for 2021

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

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

1. Reporting entity

(a) Georgian business environment

The Group's operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The COVID-19 coronavirus pandemic and increased tensions over Ukraine in 2022 have further increased uncertainty in the business environment.

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

(a) Organisation and operations

These consolidated financial statements include the financial statements of Silknet JSC (the Company) with registration number 204566978 and its subsidiaries as detailed in note 26 (together referred to as the Group and individually as the Group entities). The Company and its subsidiaries mainly are limited liability and joint stock companies as defined under the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia. In 2018 the Group acquired a 100% holding in, and was subsequently merged with, Georgia's second-largest mobile operator, Geocell LLC ("Geocell"). The Company's legal address is 95 Tsinamdzgvrishvili Street, Tbilisi, 0112 Georgia.

The principal activity of the Group is provision of telecommunication services to corporate and individual customers in Georgia, including fixed and mobile telephone services, mobile data, fixed broadband, pay TV services, SMS (messaging) and other wholesale services. The Group directs its activities as three operating segments (see note 5): fixed services, mobile services and media services, directed by Silk Media LLC (an entity operating Euronews Georgia - a free-to-air news channel). As at 31 December 2021, the Company was rated by two rating agencies with Long-Term Issuer Default Rating of 'B' with stable outlook and 'b1'with a negative outlook affirmed by Fitch and Moody's respectively. In January, 2022 the negative outlook was changed to stable by Moody's. The Company's immediate parent is Silknet Holding LLC. In 2020 the Company's intermediate parent reorganized, as a result of which the Company has a new beneficial shareholder, Yerkin Tatishev, with indirect minority (36.3%) holding in the Company. The Company's ultimate parent remains Silk Road Group Holding (Malta) Limited – an entity controlled by an individual George Ramishvili.

2. Basis of accounting

Statement of compliance

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

3. Functional and presentation currency

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

4. Use of estimates and judgments

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

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

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

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

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

Measurement of fair values

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

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

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

5. Operating segments

The Group directs its activities as three operating segments: fixed services, mobile services and media services, directed by Silk Media LLC (an entity operating Euronews Georgia - a free-to-air news channel). The majority of the Group's revenue is generated in Georgia, so information regarding geographical areas is not provided. Information related to each reportable segment is set out below.

Management believes that disclosure of revenues, operating profit, assets and liabilities is the most relevant in evaluating the results of each operating segment.

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

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

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

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

Silknet JSC
Notes to the Consolidated Financial Statement for 2021

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

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

6. Net finance costs

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

7. Revenues

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

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

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

8. Purchased services

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

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

Silknet JSC
Notes to the Consolidated Financial Statement for 2021

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

9. Salaries and benefits

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

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

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

10. Other expenses

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

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

11. Taxation

Amounts recognised in profit or loss

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

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

12. Alternative performance measures

(a) Adjusted EBITDA

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

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

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

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

Reconciliation of adjusted EBITDA to profit from continuing operations

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

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

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

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

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

(b) Adjusted EBITDA margin

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

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

13. Property and equipment and other non-current assets

'000 GEL	Land	Buildings and facilities	Machinery and equipment	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost at 1 January 2020	26,224	122,314	406,060	8,093	31,558	6,754	601,003
Accumulated depreciation	-	(34,851)	(166,440)	(5,139)	(16,887)	-	(223,317)
Carrying amount at 1 January 2020	**26,224**	**87,463**	**239,620**	**2,954**	**14,671**	**6,754**	**377,686**
Additions	84	1,526	29,662	3,119	2,949	46,571	83,911
Disposals	(347)	(2,267)	(2,089)	(230)	(692)		-
Transfers, gross	(348)	994	21,081	(231)	92	(31,721)	(5,625)
							(9,554)
Transfers, accumulated depreciation	-	-	8,549	-	-	-	8,549
Depreciation of disposals	-	1,233	1,057	179	713	-	3,182
Depreciation charge	-	(3,087)	(56,659)	(1,019)	(3,497)	-	(64,262)
Carrying amount at 31 December 2020	**25,961**	**85,862**	**241,221**	**5,003**	**14,236**	**21,604**	**393,887**
Cost at 31 December 2020	25,961	122,567	454,714	10,982	33,907	21,604	669,735
Accumulated depreciation	-	(36,705)	(213,493)	(5,979)	(19,671)	-	(275,848)
Carrying amount at 31 December 2020	**25,961**	**85,862**	**241,221**	**5,003**	**14,236**	**21,604**	**393,887**
Additions	122	580	18,301	16	2,084	27,952*	49,055
Disposals	(2,789)	(488)	(4,570)	(48)	(218)	-	(8,113)
Transfers, gross	-	1,206	39,895	(49)	208	(45,777)*	(4,468)
Transfers, accumulated depreciation	-	-	4,468	-	-	-	4,468
Depreciation of disposals	-	271	2,680	28	124	-	3,103
Depreciation charge	-	(3,033)	(55,945)	(1,001)	(3,419)	-	(63,398)
Carrying amount at 31 December 2021	**23,294**	**84,398**	**246,050**	**3,998**	**13,015**	**3,779**	**374,534**
Cost at 31 December 2021	23,294	123,865	508,340	10,950	35,981	3,779	706,209
Accumulated depreciation	-	(39,467)	(262,290)	(6,952)	(22,966)	-	(331,675)
Carrying amount at 31 December 2021	**23,294**	**84,398**	**246,050**	**3,998**	**13,015**	**3,779**	**374,534**

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

(a) Security

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

(b) Other non-current assets

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

(c) Capital commitments

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

14. Intangible assets

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

* CSAC-Capitalized Subscribers Acquisition Cost.

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

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

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

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

15. Investment property

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

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

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

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

16. Inventories

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

17. Trade and other receivables

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

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

18. Cash and cash equivalents

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

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

19. Equity

(a) Share capital

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

(b) Additional paid-in capital

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

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

(c) Dividends

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

(d) Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows and long-term loans and borrowings. With these measures the Group aims for steady profits growth. As at 31 December 2021, despite the negative equity, which is mainly driven by the foreign exchange currency fluctuations related to long-term borrowings, the Group believes that its operational and strategic needs are not impeded (see note 23 (b) (ii)).

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

20. Loans and borrowings

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

'000 GEL	31 December 2021	31 December 2020
Eurobonds - non-current	599,444	634,084
Unsecured local bonds - non-current	-	34,000
	599,444	**668,084**
Eurobonds - current	22,209	21,124
Unsecured local bonds - current	34,581	33,275
	56,790	**54,399**
Total	**656,234**	**722,483**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

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

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

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

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

(b) Eurobonds

On 2 April 2019, the Company successfully completed issuance of USD 200,000 thousand of senior unsecured notes (the "Eurobonds") on the Euronext Dublin Exchange. The net proceeds from issuance of the Eurobonds amounted to GEL 529,489 thousand. The Eurobonds mature in 5 years, April 2024 and bear a fixed coupon rate of 11% per annum. Interest is payable semi-annually on 2 April and 2 October of each year, commencing on 2 October 2019.

The closing market quotation as at 27 December 2021 was 107.59% of par value.

The Eurobonds are accounted for at amortised cost using the effective interest rate method. The Group incurred expenses of GEL 10,411 thousand in connection with the issue of the Eurobonds, including, amongst other, underwriting fees, legal counsel fees, rating agency expenses, listing expenses, etc. These expenses are accounted for as transaction costs. They are included in the calculation of the effective interest rate of the Eurobonds and are deferred over 5 years. The net proceeds from issuance of Eurobonds of GEL 529,489 thousand (transactions costs of GEL 9,050 thousand were netted against the proceeds of Eurobonds) were used by the Company to fully repay its outstanding debt as at 31 December 2018 related to promissory notes and loans to banks. The Company also repaid the subordinated loan to related parties, including accrued interest outstanding at the date of repayment. The remaining part of the proceeds was kept on the Company's current interest-bearing account and used for general corporate purposes.

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

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

(c) Secured bank loan ("RCF")

In March 2019, the Company entered into a five-year agreement with a bank to secure a USD-denominated revolving credit facility ("RCF") with a maximum amount available to the Company of USD 20 million with the sole purpose to secure coupon payments on the Group's USD-denominated Eurobonds. As at 31 December 2020 and 2019, the credit facility was not used.

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

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(d) Changes in liabilities arising from financing activities

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

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

(e) Financial instrument at FVTPL

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

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

21. Leases

The Group's lease contracts largely relate to leases of various sites (i.e. land, rooftop surface areas, space in cellular towers and space for fibre cables, etc.) related to placement of the Group's telecommunication equipment. The Group recognises the right-of-use asset and respective lease liability for the contracts that are long-term either contractually or substantially. Since management applies the judgement in determining the effective lease terms, the lease terms used for IFRS 16 purposes may differ from the contractual minimum lease periods. Summary of differences is as follows:

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

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

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

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

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

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

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

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

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

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

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

23. Fair values and financial risk management

(a) Fair values of financial assets and liabilities

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

The Group has determined fair values of financial assets and liabilities using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of the Group's financial assets and liabilities, except for bonds (see note 20(b)), approximates their carrying amounts.

(b) Financial risk management

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

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

Risk management framework

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

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

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

(i) Credit risk

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

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

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

Trade and other receivables and contracts costs

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

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

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

Impairment losses

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

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

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

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

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

An impairment rate of 100% was applied to gross trade and other receivables from retail customers overdue by more than 150 days, with lower impairment rates applied for risk categories of trade and other receivables that are overdue for shorter periods. The allowance account in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

Bank balances

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

(ii) Liquidity risk

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

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

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

31 December 2021

'000 GEL	Carrying amount	Total	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years
Non-derivative financial liabilities							
Loans and borrowings	656,234	817,200	-	1,220	103,622	712,358	-
Lease liability	43,818	65,473	-	3,349	10,285	50,390	1,450
Trade and other payables	159,286	167,325	18,413	26,295	74,826	45,794	1,997
Total	**859,338**	**1,049,998**	**18,413**	**30,864**	**188,733**	**808,542**	**3,447**

31 December 2020

'000 GEL	Carrying amount	Total	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years
Non-derivative financial liabilities							
Loans and borrowings	722,483	970,148	-	34,479	74,073	861,596	-
Lease liability	52,261	66,887	-	3,262	9,943	51,441	2,241
Trade and other payables	129,414	136,590	17,275	31,319	41,542	46,454	-
Total	**904,158**	**1,173,625**	**17,275**	**69,060**	**125,558**	**959,491**	**2,241**

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

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

As at 31 December 2021, the Group's exposure to currency risk is mainly attributable to capital expenditures and USD-denominated Eurobonds.

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

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

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

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

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

Sensitivity analysis

A reasonably possible strengthening/(weakening) of GEL, as indicated below, against the USD as at 31 December 2021 and 2020 would have affected the measurement of financial instruments denominated in USD and affected equity and profit or loss before taxes by the amounts shown below. The currency movements would have no direct impact on other comprehensive income or equity. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Strengthening		Weakening	
’000 GEL	**Equity**	**Profit or (loss)**	**Equity**	**Profit or (loss)**
31 December 2021				
USD (10% movement)	-	54,280	-	(54,280)
EUR (10% movement)				
31 December 2020	-	1,808	-	(1,808)
USD (10% movement)				
EUR (10% movement)	-	61,384	-	(61,384)
	-	3,456	-	(3,456)

Exposure to interest rate risk

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

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

Fair value sensitivity analysis for fixed rate instruments

Except for the derivative financial instrument (see note 20 (e)), the Group does not account for any fixed-rate financial instruments as fair value through profit or loss or fair value through other comprehensive income. Therefore a change in interest rates at the reporting date would not have a material effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at each reporting date would have affected profit or loss by GEL 346 thousand. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

24. Contingencies and commitments

(a) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred. These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. The Company’s tax position through 1 August 2019 was covered by the tax inspection (see note 11).

(b) Litigation

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

(c) Regulatory environment

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

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

25. Related parties

(a) Parent and ultimate controlling party

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

(b) Remuneration

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

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

(c) Other related party transactions

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

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

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

The outstanding balance as at 31 December 2021 of GEL 1,263 thousand represents a lease liability for the office space rent by Silk Media LLC from a related party (2020: GEL 1,197 thousand) . There was no cash outflow related to the lease liability during the year ended 31 December 2021 (2020: GEL 1,078 thousand) (see note 21). The lease contract expires in 2025. Except for the lease liability, all outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

26. Subsidiaries

Subsidiary	Country of incorporation	31 December 2021 Ownership/voting	31 December 2020 Ownership/voting
Qarva LLC	Georgia	51%	51%
Silk Media LLC	Georgia	100%	100%
Novus LLC	Georgia	100%	100%
WiMax Georgia LLC	Georgia	100%	100%
NG Georgia N(N)LE	Georgia	100%	100%
Wounded Warrior Support Fund N(N)LE	Georgia	100%	100%

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

27. Impact of COVID-19

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

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

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

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

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

28. Subsequent events

After 31 December 2021, the following events took place:

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

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

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

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

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

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

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

29. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for:

- the identifiable net assets of the subsidiaries that are measured at fair value at the acquisition dates;
- investment property is measured at fair value; and
- derivative financial instruments are measured at fair value.

30. Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

(ii) Non-controlling interests

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

(iii) Subsidiaries

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

(iv) Transactions eliminated on consolidation

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

(b) Revenues

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

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

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

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

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

Fixed line and wireless telephones: revenue for airtime usage and connection fees by contract customers are recognized as revenue as services are performed, based upon minutes of use and contracted fees, with unbilled revenue resulting from services already provided accrued at the end of each month and unearned revenue from services to be provided in future periods deferred. Monthly subscription fee is recognised as revenue in the month when service is provided to the subscriber. *Interconnect services:* access charges for interconnect services are earned from other telecommunications operators for traffic terminated on the Group's network under agreements, which also regulate the Group's use of the other operators' networks. Revenue from interconnect fees is recognized at the time the services are performed.

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

Roaming revenues: revenue from other carriers for non-Silknet subscribers utilising Silknet's voice, SMS and data services. The Company recognises such revenues when the services are provided. *Revenues from phone sales and accessories:* revenue is recognized when the equipment passes to the end customer.

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

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

(c) Finance income and costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets, financial liabilities and investment property;
- financial instruments measured at FVTPL.

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

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

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

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.
Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.
Foreign currency differences arising in translation are recognised in profit or loss.

(e) Income tax

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

(i) Current tax

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

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

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

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

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

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

(f) Inventories

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

(g) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Cost of the acquired property and equipment is the present value of the expected cash outflows if the payments are deferred beyond the twelve months ' period.

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

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

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

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

(h) Intangible assets

(i) *Goodwill*

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

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets primarily include telecommunication operating licenses, computer software licences and capitalized broadcasting rights. A broadcasting rights contract is capitalised if the following conditions are met: – it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;

– the cost of the asset can be measured reliably.

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

(iii) Subsequent expenditure

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

(iv) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

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

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

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

(i) Investment property

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

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

(j) Financial instruments

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

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

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

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

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

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

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

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

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

(ii) Impairment of financial assets

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

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

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

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

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

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

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

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

– the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
– the financial asset is more than 90 and 180 days past due according to the type of receivable.
The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

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

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

Presentation of impairment

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

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

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

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

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

(iv) Derivative financial instruments and hedge accounting

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

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

(v) Share capital

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

(k) Impairment

(i) Non-derivative financial assets

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

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

Financial assets measured at amortised cost

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

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

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

(ii) Non-financial assets

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

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

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

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

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

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

(l) Credit related commitments

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

Leases

The Group has adopted IFRS 16 Leases from 1 January 2019. The Group chooses to use a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liabilities.

The lease liability is initially measured at the present value of the future lease payments as at the date of transition, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

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

(m) Segment reporting

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

31. New standards and interpretations not yet adopted

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

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

GLOSSARY AND DEFINITIONS

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The following are selected terms and abbreviations used in this Annual Report:

ADSL	asymmetric digital subscriber line
Affiliate	of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under the direct or indirect common control of, such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise
AGG	aggregate
ARPU	average revenue per user, per month, excluding VAT
BGP	border gateway protocol
Bpmn	business process model and notation
B2B	business to business
B2C	business to consumer
BSC	base station controller
BSS	business support system
Company	JSC Silknet
CAGR	compounded annual growth rate
CDMA	code-division multiple access
Charter	the Company Charter adopted in May 2019 which can be viewed on our website
CPE	customer premises equipment
CRM	customer relations management
CS	circuit switched
DCFTA	Deep and Comprehensive Free Trade Area
DSL	digital subscriber line
DTH	direct-to-home, a satellite-based television service
DTT	digital terrestrial television
DWDM	dense wavelength division multiplexing
E1	a type of carrier system developed for digital transmission of many simultaneous tele phone calls by time-division multiplexing
(E)GPRS	enhanced GRPS
Employee retention	the number of employees during the full period / number of employees at the beginning of period
Employee turnover	the number of terminations / average number of employees during the period
eop	end of the period
ERP	enterprise resource planning
ESG	environmental, social and governance
FBB	fixed broadband
FMS	fixed-mobile substitution
FTA	free-to-air
FTE	full-time equivalent
FTTB	fibre-to-the-building
FTTH	fibre-to-the-home
GDP	gross domestic product

GGSN	gateway GPRS support node
GNCC	Georgian National Communications Commission
GPON	gigabit passive optical network
GPRS	general packet radio service
GSM/UMTS	global system for mobile communications and universal mobile telecommunications system, respectively
Group	JSC Silknet and its subsidiaries
HR Policy	the human resource policy
HLR	home location register
HQ	headquarters
HSPA	high speed packet access
HSS	home subscriber server
ICT	information and communication technology
IMS	IP multimedia subsystem
IP	internet protocol
IPTV	internet protocol television
IRU	indefeasible right to use
ISDN	integrated services digital network
LIBOR	the London inter-bank offered rate
LTE / LTE(A)	long-term evolution / long-term evolution advanced
MGW	media gateway
MME	mobility management entity
MNO	mobile network operator
MOU	minutes of use/usage
MPLS	multiprotocol label switching
MPBN	mobile packet backbone network
MSAN	multi-service access node
MSC	mobile switching centre
MVNO	mobile virtual network operator
MW	microwave
NBG	the National Bank of Georgia
NGG	National Geographic Georgia
NGN	next generation network
NPVR	network personal video recorder
OLT	optical line terminal
OSS	operations support system
OTT	over-the-top
P2P	point-to-point
PE	provider edge
PGW	packet data network gateway
PoPs	points of presence
PRI	primary rate interface
PSTN	public switched telephone network
PS	packet switched
Qarva LLC	the company in which Silknet acquired a 51% equity interest in 2014, which provides software, operational and maintenance support for the Group’s IPTV service

QoS	quality of service
RAN	radio access network
RF technology	radio frequency
RNC	radio network controller
SGSN	serving GPRS support node
Silknet	JSC Silknet and its subsidiaries
SIM	subscriber identity module
SIP	session initiation protocol
SMS	short message service
SRG	Silk Road Group
Subscribers	the total number of subscribers, who, during the correspondingmonth, have used company services at least once or were charged a subscription fee
TDM	time division multiplexing
VAT	value added tax
VLAN	virtual local area network
VOD	video on demand
VOIP	voice-over-internet-protocol
WiFi	wireless fidelity
WiMax	worldwide interoperability for microwave access
WWSF	Wounded Warriors Support Foundation

DISCLAIMER

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