UNITED AIRPORTS OF GEORGIA LLC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the financial statements that present fairly the financial position of United Airports of Georgia LLC (the "Company") as of 31 December 2018, and the results of its operations, changes in equity and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS"). Management is also responsible for the preparation of management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing.

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company's ability to continue as a going concern.
- Disclosing the information in the management report as required by the Law of Georgia on Accounting, Reporting and Auditing;
- Preparation of the management report in consistent with the financial statements.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company;
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2018 were approved by management on 11 October 2019:

On behalf of the Management:

Giorgi Chogovadze
Director

Tbilisi, Georgia
15 October 2019

K.Eloshvili
Ketevan Eloshvili
Finance Manager

Tbilisi, Georgia
15 October 2019

Deloitte.

Report on Other Legal and Regulatory Requirements

Management is responsible for the preparation of the management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the management report that is free from material misstatement, whether due to fraud or error.

We performed procedures with respect to whether the management report is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing and includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Company's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information.

In our opinion:

- The management report for the year ended 31 December 2018 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended 31 December 2018 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the management report for the year ended 31 December 2018 is consistent, in all material respects, with the financial statements for the year ended 31 December 2018.

Stuart Leighton

Stuart Leighton
on behalf of Deloitte and Touche LLC

Deloitte & Touche

15 October 2019
Tbilisi, Georgia

UNITED AIRPORTS OF GEORGIA LLC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(in thousands of Georgian Lari)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	371,713	377,620
Investment property		464	471
Intangible assets		114	143
Other non-current assets	6	3,789	8,426
Total non-current assets		**376,080**	**386,660**
Current assets			
Inventories		1,191	1,198
Trade and other receivables	7	5,282	6,500
Prepayments		1,330	1,633
Prepaid and recoverable taxes		2,203	2,683
Cash and cash equivalents	8	54,607	59,006
Total current assets		**64,613**	**71,020**
TOTAL ASSETS		**440,693**	**457,680**
EQUITY			
Charter capital		394,660	394,816
Accumulated deficit		(100,521)	(100,040)
TOTAL EQUITY		**294,139**	**294,776**
LIABILITIES			
Non-current liabilities			
Non-current payables		198	248
Deferred revenue	9	139,305	156,582
Total non-current liabilities		**139,503**	**156,830**
Current liabilities			
Trade and other payables	10	4,621	3,812
Advances received		2,430	2,262
Total current liabilities		**7,051**	**6,074**
TOTAL LIABILITIES		**146,554**	**162,904**
TOTAL LIABILITIES AND EQUITY		**440,693**	**457,680**

On behalf of the Management:

K. Eloshvili

Giorgi Chogovadze
Director

Tbilisi, Georgia
15 October 2019

Ketevan Eloshvili
Finance Manager

Tbilisi, Georgia
15 October 2019

UNITED AIRPORTS OF GEORGIA LLC

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Georgian Lari)

	Note	2018	2017
Revenue	11	64,159	54,848
Other income	12	1,292	839
Salaries and benefits		(6,518)	(5,753)
Depreciation and amortisation		(12,467)	(11,274)
Security expenses		(9,588)	(8,060)
Route marketing and development expenses	13	(11,145)	(7,187)
Impairment of non-current assets	5	(18,257)	(18,042)
Bad debt expense	6,7	(1,365)	-
Other operating expenses	14	(9,835)	(8,535)
Operating loss		**(3,724)**	**(3,164)**
Finance income		3,734	1,143
Net foreign exchange gain, net		9	971
Profit/(loss) before income tax		**19**	**(1,050)**
Income tax expense		-	-
Profit/(loss) for the year		**19**	**(1,050)**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		**19**	**(1,050)**

On behalf of the Management:

Giorgi Chogovadze
Director

Tbilisi, Georgia
15 October 2019

K.Eloshvili

Ketevan Eloshvili
Finance Manager

Tbilisi, Georgia
15 October 2019

UNITED AIRPORTS OF GEORGIA LLC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Georgian Lari)

	Charter capital	Accumulated deficit	Total equity
Balance at 1 January 2017	**323,035**	**(98,990)**	**224,045**
Capital contributions	71,847	-	71,847
Withdrawals from the capital	(66)	-	(66)
Total comprehensive loss for the year	-	(1,050)	(1,050)
Balance at 31 December 2017	**394,816**	**(100,040)**	**294,776**
Effect of adoption of new accounting standards (see note 2)	-	(500)	(500)
Balance at 1 January 2018 (restated)	**394,816**	**(100,540)**	**294,276**
Capital contributions	58	-	58
Withdrawals from the capital	(214)	-	(214)
Total comprehensive profit for the year	-	19	19
Balance at 31 December 2018	**394,660**	**(100,521)**	**294,139**

On behalf of the Management:

Giorgi Chogovadze
Director

Tbilisi, Georgia
15 October 2019

K. Eloshvili

Ketevan Eloshvili
Finance Manager

Tbilisi, Georgia
15 October 2019

UNITED AIRPORTS OF GEORGIA LLC

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Georgian Lari)

	Note	2018	2017
Cash flows from operating activities			
Profit/(loss) before income tax		19	(1,050)
Adjustments for:			
Depreciation and amortisation	5	12,467	11,274
Impairment of non-current assets	5	18,257	18,042
Impairment loss recognized on trade receivables and non-current assets	6,7	1,365	-
Amortisation of deferred revenue	9	(17,277)	(13,865)
Gain/(loss) from disposal of property, plant and equipment		(10)	107
Write-off of accounts receivables	14	-	3
Finance income		(3,734)	(1,143)
Gain from foreign currency revaluation, net		(9)	(971)
Operating cash flows before working capital changes		**11,078**	**12,397**
Changes in working capital			
Increase in trade and other receivables		(2,298)	(4,311)
Decrease/(increase) in inventories		7	(359)
Decrease/(increase) in prepayments		303	(1,444)
Decrease/(increase) in prepaid and recoverable taxes		480	(624)
Increase/(decrease) in trade and other payables		1,313	(1,247)
Increase in advances received		168	696
Cash generated from operations		**11,051**	**5,108**
Interest income received		3,771	1,143
Net cash from operating activities		**14,822**	**6,251**
Cash flows from investing activities			
Purchase of property, plant and equipment		(19,421)	(26,422)
Proceeds from disposal of property, plant and equipment		21	24
Purchase of intangible assets		(7)	(75)
Net cash used in investing activities		**(19,407)**	**(26,473)**
Cash flows from financing activities			
Capital contributions from owner		-	71,700
Net cash from financing activities		**-**	**71,700**
Effect of exchange rate changes on cash and cash equivalents		186	702
Net Decrease/(increase) in cash and cash equivalents		**(4,399)**	**52,180**
Cash and cash equivalents at the beginning of year	8	**59,006**	**6,826**
Cash and cash equivalents at the end of the year	8	**54,607**	**59,006**

On behalf of the Management:

Giorgi Chogovadze
Director

Tbilisi, Georgia
15 October 2019

K. Eloshvili
Ketevan Eloshvili
Finance Manager

Tbilisi, Georgia
15 October 2019

United Airports of Georgia LLC

Financial Statements, Management Report and Independent Auditor's Report
For the Year Ended 31 December 2018

UNITED AIRPORTS OF GEORGIA LLC

TABLE OF CONTENTS

UNITED AIRPORTS OF GEORGIA LLC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the financial statements that present fairly the financial position of United Airports of Georgia LLC (the "Company") as of 31 December 2018, and the results of its operations, changes in equity and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS"). Management is also responsible for the preparation of management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing.

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company's ability to continue as a going concern.
- Disclosing the information in the management report as required by the Law of Georgia on Accounting, Reporting and Auditing;
- Preparation of the management report in consistent with the financial statements.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company;
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2018 were approved by management on 15 October 2019:

On behalf of the Management:

Giorgi Chogovadze	**Ketevan Eloshvili**
Deputy Director	**Chief Financial Officer**
Tbilisi, Georgia	Tbilisi, Georgia
15 October 2019	15 October 2019

Deloitte.

Deloitte & Touche LLC
King David Business Center
12 Merab Aleksidze Street
Tbilisi, 0171, Georgia

Tel: +995 (32) 224 45 66
Fax: +995 (32) 224 45 69
deloitte.ge

INDEPENDENT AUDITOR'S REPORT

To the Owners and Management of United Airports of Georgia LLC:

Opinion

We have audited the financial statements of United Airports of Georgia (the "Company"), which comprise the statement of financial position as of 31 December 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 Auditor's Responsibilities for the Audit of the financial statement section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the management report prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing. Our opinion on the financial statements does not cover the management report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

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

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

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with ISA’s 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 Company’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 significant doubt on Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the 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 auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Deloitte.

Report on Other Legal and Regulatory Requirements

Management is responsible for the preparation of the management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the management report that is free from material misstatement, whether due to fraud or error.

We performed procedures with respect to whether the management report is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing and includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Company's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information.

In our opinion:

- The management report for the year ended 31 December 2018 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended 31 December 2018 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the management report for the year ended 31 December 2018 is consistent, in all material respects, with the financial statements for the year ended 31 December 2018.

Stuart Leighton
on behalf of Deloitte and Touche LLC

15 October 2019
Tbilisi, Georgia

UNITED AIRPORTS OF GEORGIA LLC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(in thousands of Georgian Lari)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	371,713	377,620
Investment property		464	471
Intangible assets		114	143
Other non-current assets	6	3,789	8,426
Total non-current assets		**376,080**	**386,660**
Current assets			
Inventories		1,191	1,198
Trade and other receivables	7	5,282	6,500
Prepayments		1,330	1,633
Prepaid and recoverable taxes		2,203	2,683
Cash and cash equivalents	8	54,607	59,006
Total current assets		**64,613**	**71,020**
TOTAL ASSETS		**440,693**	**457,680**
EQUITY			
Charter capital		394,660	394,816
Accumulated deficit		(100,521)	(100,040)
TOTAL EQUITY		**294,139**	**294,776**
LIABILITIES			
Non-current liabilities			
Non-current payables		198	248
Deferred revenue	9	139,305	156,582
Total non-current liabilities		**139,503**	**156,830**
Current liabilities			
Trade and other payables	10	4,621	3,812
Advances received		2,430	2,262
Total current liabilities		**7,051**	**6,074**
TOTAL LIABILITIES		**146,554**	**162,904**
TOTAL LIABILITIES AND EQUITY		**440,693**	**457,680**

On behalf of the Management:

Giorgi Chogovadze	**Ketevan Eloshvili**
Director	**Chief Financial Officer**
Tbilisi, Georgia	Tbilisi, Georgia
15 October 2019	15 October 2019

UNITED AIRPORTS OF GEORGIA LLC

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Georgian Lari)

	Note	2018	2017
Revenue	11	64,159	54,848
Other income	12	1,292	839
Salaries and benefits		(6,518)	(5,753)
Depreciation and amortisation		(12,467)	(11,274)
Security expenses		(9,588)	(8,060)
Route marketing and development expenses	13	(11,145)	(7,187)
Impairment of non-current assets	5	(18,257)	(18,042)
Bad debt expense	6,7	(1,365)	-
Other operating expenses	14	(9,835)	(8,535)
Operating loss		**(3,724)**	**(3,164)**
Finance income		3,734	1,143
Net foreign exchange gain		9	971
Profit/(loss) before income tax		**19**	**(1,050)**
Income tax expense		-	-
Profit/(loss) for the year		**19**	**(1,050)**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		**19**	**(1,050)**

On behalf of the Management:

______________________________	______________________________
Giorgi Chogovadze	**Ketevan Eloshvili**
Director	**Chief Financial Officer**
Tbilisi, Georgia	Tbilisi, Georgia
15 October 2019	15 October 2019

UNITED AIRPORTS OF GEORGIA LLC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Georgian Lari)

	Charter capital	Accumulated deficit	Total equity
Balance at 1 January 2017	**323,035**	**(98,990)**	**224,045**
Capital contributions	71,847	-	71,847
Withdrawals from the capital	(66)	-	(66)
Total comprehensive loss for the year	-	(1,050)	(1,050)
Balance at 31 December 2017	**394,816**	**(100,040)**	**294,776**
Effect of adoption of new accounting standards (see note 2)	-	(500)	(500)
Balance at 1 January 2018 (restated)	**394,816**	**(100,540)**	**294,276**
Capital contributions	58	-	58
Withdrawals from the capital	(214)	-	(214)
Total comprehensive profit for the year	-	19	19
Balance at 31 December 2018	**394,660**	**(100,521)**	**294,139**

On behalf of the Management:

Giorgi Chogovadze
Director

Tbilisi, Georgia
15 October 2019

Ketevan Eloshvili
Chief Financial Officer

Tbilisi, Georgia
15 October 2019

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Georgian Lari)

	Note	2018	2017
Cash flows from operating activities			
Profit/(loss) before income tax		19	(1,050)
Adjustments for:			
Depreciation and amortisation	5	12,467	11,274
Impairment of non-current assets	5	18,257	18,042
Impairment loss recognised on trade receivables and non-current assets	6,7	1,365	-
Amortisation of deferred revenue	9	(17,277)	(13,865)
Gain/(loss) from disposal of property, plant and equipment		(10)	107
Write-off of accounts receivables	14	-	3
Finance income		(3,734)	(1,143)
Net foreign exchange gain		(9)	(971)
Operating cash flows before working capital changes		**11,078**	**12,397**
Changes in working capital			
Increase in trade and other receivables		(2,298)	(4,311)
Decrease/(increase) in inventories		7	(359)
Decrease/(increase) in prepayments		303	(1,444)
Decrease/(increase) in prepaid and recoverable taxes		480	(624)
Increase/(decrease) in trade and other payables		1,313	(1,247)
Increase in advances received		168	696
Cash generated from operations		**11,051**	**5,108**
Interest income received		3,771	1,143
Net cash from operating activities		**14,822**	**6,251**
Cash flows from investing activities			
Purchase of property, plant and equipment		(19,421)	(26,422)
Proceeds from disposal of property, plant and equipment		21	24
Purchase of intangible assets		(7)	(75)
Net cash used in investing activities		**(19,407)**	**(26,473)**
Cash flows from financing activities			
Capital contributions from owner		-	71,700
Net cash from financing activities		**-**	**71,700**
Effect of exchange rate changes on cash and cash equivalents		186	702
Net Decrease/(increase) in cash and cash equivalents		**(4,399)**	**52,180**
Cash and cash equivalents at the beginning of year	8	**59,006**	**6,826**
Cash and cash equivalents at the end of the year	8	**54,607**	**59,006**

On behalf of the Management:

Giorgi Chogovadze	**Ketevan Eloshvili**
Director	**Chief Financial Officer**
Tbilisi, Georgia	Tbilisi, Georgia
15 October 2019	15 October 2019

1. GENERAL INFORMATION

United Airports of Georgia LLC (the "Company","UAG") was incorporated on 1 November 2010. On 19 April 2011, the Company merged with Tbilisi International Airport JSC and became its legal successor with respect to all existing contractual relationships. The Company is a limited liability company, set up in accordance with Georgian regulations, domiciled in Georgia and is registered by Tbilisi Tax Inspection with identification number: 404389693.

The Company's immediate and ultimate controlling party is the Government of Georgia (the "Owner") represented by the Ministry of Economy and Sustainable Development of Georgia (the "MoESD").

The Company is engaged in development, operation and supervision of civil airports in Georgia. The Company is owner of international airports in Tbilisi, Batumi and Kutaisi; and domestic airports in Mestia and Ambrolauri. Kutaisi, Mestia and Ambrolauri airports are operated by the Company, while Tbilisi and Batumi airports are operated under concession agreements.

On 6 September 2005 Tbilisi International Airport JSC concluded "Build, Operate and Transfer Agreement for Tbilisi International Airport terminal building and the related infrastructure" (the "Original BOT Agreement") with TAV Urban Georgia LLC (the "TAV") to transfer the land of the Tbilisi Airport with all buildings, equipment and vehicles, machinery and inventory with the right to use. Under the Original BOT Agreement (further amended in 2006 and 2010) TAV undertook to build a new airport terminal and related infrastructure and maintain it in a good operational condition, in exchange for the right to operate Tbilisi International Airport during the concession period, which was for a total period of 10.5 years from the date of operations commencing from the new terminal. Operations were commenced on 7 February 2007 at the new terminal.

On 4 August 2006 under the amendment made in the Original BOT agreement, TAV agreed to spend minimum USD 28.5 million in Batumi airport in exchange of extension for concession period by 9.5 year at Tbilisi airport.

On 25 May 2015 the Owner contributed the land and buildings of Batumi airport in the capital of the Company. On 28 May 2015 UAG concluded agreement with Batumi Airports LLC, 100% owned by Government of Georgia and managed by TAV Batumi Operations LLC, for transfer and operation of Batumi international airport until 10 August 2027.

On 28 May 2015 TAV and UAG signed the amended and restated "Build Operate and Transfer Agreement relating to Tbilisi International Airport"("BOT"), whereby TAV undertook to construct the additional arrival terminal and related infrastructure. The concession period was defined up to 21 January 2027. In July 2017 the additional arrival terminal was put in operation.

According to the above-described agreements, the Company receives the project fees from Tbilisi and Batumi airports' operators, which represent the share of landing and ground handling fees charged by the operators to their customers. Additionally, the Company generates the security service revenue from airlines for aircrafts and passengers security services provided in respective airports.

Kutaisi airport is international airport, which is focused to develop cheap international flights in order to attract low-cost airlines and increase the competition, popularise Georgian macroeconomic, political and business environment and as a result encourage low prices for tickets in order to increase passenger flow and to support tourism development in Georgia.

In order to maintain regular flights to Batumi, Mestia and Ambrolauri airports, the Company gets financial assistance from the Government of Georgia, to subsidise the part of costs incurred to arrange such flights.

The Company's registered address is Airport Settlement, Isani-Samgori district 0109, Tbilisi, Georgia.

(in thousands of Georgian Lari)

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2018, the following new and revised standards and interpretations have been adopted:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied IFRS 9 prospectively using modified retrospective approach, with an initial application date of 1 January 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings.

The effect of adopting IFRS 9 as at 1 January 2018 was, as follows:

(GEL'000)	31 December 2017	Effect of IFRS 9 adoption	1 January 2018
Assets			
Trade and other receivables	6,500	(467)	6,033
Other non-current assets	8,426	(33)	8,393
Total assets	**14,926**	**(500)**	**14,426**
13,			
Equity			
Accumulated deficit	(100,040)	(500)	(100,540)
Total equity	**(100,040)**	**(500)**	**(100,540)**

The nature of this adjustment is described below:

The adoption of IFRS 9 changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon the adoption of IFRS 9, Retained earnings of the Company as at 1 January 2018 decreased by GEL 500 thousand, expected credit loss for trade and other receivables and other non-current assets increased by GEL 467 thousand and GEL 33 thousand, respectively.

(in thousands of Georgian Lari)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018:

(GEL'000)	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loan and receivables	Amortised cost	59,006	59,006
Trade and other receivables	Loan and receivables	Amortised cost	6,500	6,033
Other non-current assets	Loan and receivables	Amortised cost	8,426	8,393
Total Financial assets			**73,932**	**73,432**
Trade and other payables	Amortised cost	Amortised cost	3,812	3,812
Non-current payables	Amortised cost	Amortised cost	248	248
Total financial liabilities			**4,060**	**4,060**
Net financial assets			**69,872**	**69,372**
Impact of adopting IFRS 9 at 1 January 2018				**(500)**

All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable local banking institutions.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The core principle of IFRS 15 is that a company should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the company satisfies a performance obligation.

Under IFRS 15, a company recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Company has adopted IFRS 15 effective from 1 January 2018 using modified retrospective method. The application of this standards has had no material effect on the Company's financial statements.

New and revised IFRS Standards in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 16 Leases[1];
- IFRS 17 Insurance Contracts[2];
- Amendments to IFRS 9 Prepayment Features with Negative Compensation[1];
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures[3];
- Annual Improvements to IFRS Standards 2015–2017 Cycle[1];
- Amendments to IAS 19 Employee Benefits[3];
- IFRIC 23 Uncertainty over Income Tax Treatments[4];
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)[5].

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[2] Effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted.
[3] Effective for annual reporting periods beginning on or after 1 January 2019 retrospectively. Earlier application is permitted.
[4] Effective for annual periods beginning on or after 1 January 2019 with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.
[5] The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Company will be 1 January 2019. The Company has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Company will not restate the comparative information. The Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

A preliminary assessment indicates that available exemption has been taken in regard with the lease arrangements, since existing lease arrangements qualify for low value and short-term leases upon the application of IFRS 16. Respectively, the management of the Company does not anticipate that the application of these amendments will have a impact on the Company’s financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The management of the Company does not anticipate that the application of the amendments to IFRS 9 will have a significant impact on the Company's financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle

The Annual Improvements include amendments to four Standards: Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

The amendments to IAS 12 clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The management of the Company does not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The management of the Company does not anticipate that the application of the amendments will have a significant impact on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and in accordance with requirements of Law of Georgia on Accounting, Reporting and Auditing. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3 for new and amended standards adopted by the Company).

Going Concern. - These financial statements have been prepared by management on the assumption that the Company will continue as a going concern, which presumes that the Company will for the foreseeable future be able to realize its assets and discharge its liabilities in the normal course of business.

As of 31 December 2018 and 2017 the Company had accumulated losses of GEL 100,521 thousand and GEL 100,040 thousand, respectively. In addition, during the year ended 31 December 2018 and 2017 the company incurred an operating loss in the amount of GEL 3,724 thousand and GEL 3,164 thousand, respectively. Management of the Company believes that preparation of the accompanying financial statements on the going concern basis is appropriate because the following:

- In 2018 the Company's operating cash flows were positive and amounted to GEL 14,822 thousand (2017: GEL 6,251 thousand).
- The Company is 100% owned by the Government of Georgia, respectively, the Company's liquidity and accomplishment of some large capital projects depend on government support. Management believes that such support will be available and historically has been available enabling the Company to carry on its business without a significant curtailment of operations for the foreseeable future. Accordingly, these financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Basis of measurement. These financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is 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, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset and liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these preliminary financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirely, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional currency. Items included in the financial statements of each of the Company's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Company is the Georgian Lari ("GEL"). The presentational currency of the financial statements of the Company is the GEL. All values are rounded to the nearest thousand Lari, except when otherwise indicated.

(in thousands of Georgian Lari)

The principal accounting policies are set out below.

Foreign Currencies. Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. All realized and unrealized gains and losses arising on exchange differences are included in the statement of profit or loss and other comprehensive income for the period.

Below are exchange rates as at year end which were used by the Company for the purpose of these financial statements:

	31/12/2018	**31/12/2017**
GEL/USD	2.6766	2.5922
GEL/EUR	3.0701	3.1044

Revenue recognition. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of services. Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Aviation revenues includes revenues from various airport services, including the revenues from security services, parking area and other services. Revenues are recognised based on the daily reports obtained from ground staff and airline companies related to number of passengers, utilisation of runway (for landing and take-off), parking areas, apron and other services.

Non-aviation revenues includes the project fees collected from the operators of Tbilisi and Batumi airports. Revenue from project fee comprise a portion of landing and ground handling fees charged by the operators of Tbilisi and Batumi airports. Ground handling service revenues are recognised when services are provided based on monthly reports obtained from operators. Landing fees rates to be charged by the Operators are defined in BOT agreement and are recognised when services are provided based on monthly reports obtained from operators.

Non-aviation revenue also includes revenues from counterparties with exclusive rights for passengers transportation, advertisements, petrol and other services accounted on accrual base based on the rental period (month) and/or utilised areas in the airport

Revenue from issued concession rights are recognised from the date when those right are available for use over the concession period to reflect the pattern of the economic benefit which are expected to be consumed by the Operator.

Interest income. Interest income is recognised on a time-proportion basis using the effective interest method.

Government grants. Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants (subsidies) relating to reimbursement of costs are netted with related costs in profit or loss.

Employee benefits. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Company. The Company does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees.

Leasing. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Company as lessor</u>
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

<u>The Company as lessee</u>
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs of disposal
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year.

Service concession assets and deferred revenue. The Company recognises an asset and/or an upgrade to the existing assets provided by the Operator as a service concession asset if:

- The Company controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
- The Company controls – through ownership, beneficial entitlement or otherwise – any significant residential interest in the asset at the end of the term of the arrangement.

The Company initially measures such service concession asset at its fair value. Where an existing asset of the Company meets the conditions specified in (a) and (b) above, the Company reclassifies the existing asset as a service concession asset, but continues to measure it at its carrying amounts. Service concession assets are presented within “Property, plant and equipment‟ line for the purposes of the Company's financial statements. After initial recognition or reclassification, service concession assets are accounted for as a separate class of assets in accordance with IAS 16 at cost, less accumulated depreciation and impairment.

Where the Company recognises a service concession asset, it also recognises a liability and measures it initially at the same amount as service concession asset. The Company does not recognise a liability when an existing asset of the Company is reclassified as a service concession asset. Where the Company does not have an unconditional obligation to pay cash or another financial asset to the Operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the Operator the right to earn revenue from third-party users, the Company accounts for this liability as the unearned portion of the revenue arising from the exchange of assets between the Company and Operator. The liability is presented within "Deferred revenue" line for the purposes of the financial statements.

The Company recognises revenue and reduces the liability according to the economic substance of the service concession arrangement, As the Company earns the benefit associated with the assets received in the service concession arrangement in exchange for the right granted to the Operator over the period of the arrangement. Revenue is recognised and the liability is reduced on a straight-line bases as access to the service concession asset is provided to the Operator over the term of the service concession arrangement.

Refer to Note 4 for significant judgement regarding application of IPSAS 32 "Service concession arrangements: Grantor" for grantor accounting treatment of concession arrangements.

Depreciation. Land and construction in progress is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Buildings	10 to 50 years
Plant and equipment	5 to 20 years
Vehicles	8 to 10 years
Other	5 to 10 years

The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include employee benefits expense of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives. Useful lives for the Company's software and licenses ranges from 5 years to 25 years.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal.

Investment property. Investment property is property held by the Company to earn rental income or for capital appreciation, or both and which is not occupied by the Company. Investment property includes assets under construction for future use as investment property.

Investment properties are stated at cost, less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired,

the Company estimates the recoverable amount as the higher of value in use and fair value less costs of disposal. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.
Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Company, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

***Impairment of non-financial assets**.* Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Financial instruments. Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Based on the past experience all financial assets are held in order to collect contractual cash flows and are classified into first business model – Held to collect (H2C).

Effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Trade and other receivables. Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks due on demand or with original maturities of less than three months. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in restricted cash.

Impairment of financial assets. The Company recognises an allowance for expected credit losses (ECLs) for debt instruments at amortised cost. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). The Company defined full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). The company provides 12-months ECLs for cash and bank balances.

For trade and other receivables and non-current receivables the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company calculates ECL amount on trade and other receivables using the loss rates determined by applying the expert judgment. Application of expert judgment was assumed as reasonable due to inexistence of historical information that would allow producing provision matrix. Impairment rates are multiplied on the respective receivables balance for the period that calculates the amount, which is considered to be non-recoverable.

At initial recognition, financial asset is allocated to stage 2. In case the contractual payments are 90 days past due, the financial asset is considered to be defaulted and, respectively, transferred to stage 3. The company considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the company.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Derecognition of financial assets. The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to
control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

<u>Classification as debt or equity</u>

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities (represented with borrowings, trade and other accounts payable and dividends payable) are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory comprise the purchase price, import duties and non-recoverable taxes and transport, handling and other costs directly attributable to the acquisition of goods. The cost of inventories is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as

non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Charter capital. The amount of Company's charter capital is defined by the Owner of the Company. The changes in the Company's Charter (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's owner. Non-cash contribution by the owner to the Company's charter capital is measured at fair value of underlying assets contributed. Difference
between fair value and respective charter capital contribution defined by the owner's resolution is recorded directly in retained earnings/accumulated deficit account of the Company's equity.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, and estimates, in the process of applying the accounting policies. Judgements and estimates that have the most significant effect on the amounts recognised in these financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Accounting treatment of service concession arrangements. There is no direct IFRS guidance regarding the accounting of service concession assets by the grantor. In the absence of the direct IFRS guidance regarding the accounting by the grantor, the Company decided to develop its accounting policy based on the guidance provided by IPSAS 32 "Service concession arrangements: Grantor", issued by International Public Sector Accounting Standards Board (IPSASB), which approach is consistent with that used for the operator's accounting in IFRIC 12 "Service Concession Arrangements" and does not contradict any of IFRS standards. According to IPSAS 32 guidance the Company recognised infrastructure assets on its balance sheet, together with a deferred revenue balance.

Fair value estimation of property plant and equipment. Property, plant and equipment asset and/or an upgrade to the existing assets provided by the Operator as a service concession asset and capital contributions of land and buildings from the Owner are initially recognised at fair value has been determined by an independent appraiser. The market approach was used in cases when quoted market prices directly or indirectly were available for the assets. When the property, plant and equipment item is specialised in nature and is rarely sold on the open market, other than as part of a continuing business, the fair values of property, plant and equipment is primarily determined using a depreciated replacement cost base of valuation, as the market for similar property, plant and equipment is not active in Georgia and does not provide evidence for using a market-based approach for determining their fair values. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. In addition to the determination of the depreciated replacement cost, the income approach was applied to assess the reasonableness of those values. Depreciated replacement costs were adjusted to the values determined based of the income approach, when values determined based on the income approach were lower than depreciated replacement costs.

The carrying values and depreciation of property, plant and equipment are affected by the estimates and assumptions related to market values, replacement cost, depreciated replacement cost, estimated future net incomes, weighted average cost of capital, expected economic usage of the assets and etc. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment.

Useful lives of property, plant, equipment and intangible assets. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Expected Credit Loss. The Company estimates expected credit loss to account for expected losses resulting from the inability of customers to make the required payments. When evaluating the adequacy of an expected credit loss, management bases its estimate on current overall economic conditions, ageing of the receivables and prepayments balances, historical write-off experience, customer's creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the expected credit loss recorded in the financial statements.

As at 31 December 2018 and 1 January 2018 expected credit losses for trade receivables amounted to GEL 1,798 and GEL 467 thousand, respectively.

As at 31 December 2018 and 1 January 2018 expected credit losses for non-current receivables amounted to GEL 67 and GEL 33 thousand, respectively.

(in thousands of Georgian Lari)

5. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment for the year ended 31 December 2018 and 31 December 2017 were as follows:

	Assets Operated by the Company						Assets Operated by Concession Operator						
	Lands	Buildings	Plant and equipment	Vehicles	CIP and others*	Total operated assets	Lands	Buildings	Plant and equipment	Vehicles	CIP and other*	Total concession assets	Total
Cost													
At 1 January 2017	**54,648**	**7,383**	**5,581**	**5,849**	**12,932**	**86,393**	**114,845**	**152,566**	**1,211**	**220**	**23,081**	**291,923**	**378,316**
Additions	224	3	125	72	20,796	21,220	47	37,168	-	-	-	37,215	58,435
Transfers	35	2,166	2,526	967	(5,659)	35	(35)	23,081	-	-	(23,081)	(35)	-
Disposals	(66)	(191)	(2)	(49)	-	(308)	-	(7)	-	-	-	(7)	(315)
At 31 December 2017	**54,841**	**9,361**	**8,230**	**6,839**	**28,069**	**107,340**	**114,857**	**212,808**	**1,211**	**220**	**-**	**329,096**	**436,436**
Additions	4	40	1,143	1,666	22,126	24,979	-	-	-	-	-	-	**24,979**
Transfers	-	308	-	-	(308)	-	-	-	-	-	-	-	**-**
Disposals	(187)	(14)	(8)	(22)	-	(231)	-	-	-	-	-	-	**(231)**
At 31 December 2018	**54,658**	**9,695**	**9,365**	**8,483**	**49,887**	**132,088**	**114,857**	**212,808**	**1,211**	**220**	**-**	**329,096**	**461,184**
At 1 January 2017	**-**	**(1,396)**	**(2,883)**	**(1,473)**	**(10,863)**	**(16,615)**	**-**	**(12,639)**	**(249)**	**(88)**	**-**	**(12,976)**	**(29,591)**
Depreciation charge	-	(416)	(722)	(978)	-	(2,116)	-	(8,932)	(150)	(44)	-	(9,126)	(11,242)
Disposals	-	30	1	28	-	59	-	-	-	-		-	59
Impairment charge	-	(18)	(1,182)	-	(16,842)	(18,042)	-	-	-	-	-	-	(18,042)
At 31 December 2017	**-**	**(1,800)**	**(4,786)**	**(2,423)**	**(27,705)**	**(36,714)**	**-**	**(21,571)**	**(399)**	**(132)**	**-**	**(22,102)**	**(58,816)**
Depreciation charge	-	(424)	(866)	(1,178)	-	(2,468)	-	(9,758)	(150)	(44)	-	(9,952)	**(12,420)**
Disposals	-	3	1	18	-	22	-	-	-	-	-	-	**22**
Impairment charge	-	-	(887)	-	(17,370)	(18,257)	-	-	-	-	-	-	**(18,257)**
At 31 December 2018	-	**(2,221)**	**(6,538)**	**(3,583)**	**(45,075)**	**(57,417)**	**-**	**(31,329)**	**(549)**	**(176)**	**-**	**(32,054)**	**(89,471)**
Net Carrying amount													
At 31 December 2018	**54,658**	**7,474**	**2,827**	**4,900**	**4,812**	**74,671**	**114,857**	**181,479**	**662**	**44**	**-**	**297,042**	**371,713**
At 31 December 2017	**54,841**	**7,561**	**3,444**	**4,416**	**364**	**70,626**	**114,857**	**191,237**	**812**	**88**	**-**	**306,994**	**377,620**

CIP and others* - Uninstalled equipment and construction in progress

As at 31 December 2018 and 2017, cost of fully depreciated assets included in property, plant and equipment was GEL 13,501 thousand and GEL 13,058 thousand, respectively

(in thousands of Georgian Lari)

6. OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Non-current receivables from non-aviation services	3,089	1,518
Less: expected credit loss	(67)	-
Non-current receivables, net	**3,022**	**1,518**
Prepayments for PPE	767	6,908
Total other non-current assets	**3,789**	**8,426**

Non-current receivables as at 31 December 2018 and 31 December 2017 represent non-overdue balances and are allocated to the Stage 2. Expected credit loss charge for the year 2018 equals to GEL 34.

Movements in prepayments for PPE are as follows:

	2018	2017
Carrying value at 1 January	**6,908**	**1,015**
Additions	274	6,908
Prepayments derecognised on receipt of related goods or services, or transferred to construction in progress	(6,415)	(1,015)
Total prepayments for PPE at 31 December	**767**	**6,908**

7. TRADE AND OTHER RECEIVABLES

At 31 December 2018 and 2017 trade and other receivables were as follows:

	31 December 2018	31 December 2017
Trade receivables	7,060	6,470
Less: expected credit loss/impairment loss provision for trade receivables	(1,798)	-
Total financial assets within trade and other receivables	**5,262**	**6,470**
Other receivables	20	30
Total trade and other receivables	**5,282**	**6,500**

Movements in the expected credit loss for trade and other receivables are as follows:

(GEL'000)	**2018**
Provision for impairment at 31 December	-
Adjustment upon application of new accounting standards	467
Provision for impairment at 1 January	**467**
Expected credit loss for trade receivables	1,366
Recovery of provision for impairment during the year	(35)
Provision for impairment at 31 December	**1,798**

(in thousands of Georgian Lari)

Analysis by credit quality of trade receivables is as follows:

31 December 2018 (GEL'000)	**Not past due**	**- less than 30 days overdue**	**- 31 to 90 days overdue**	**- over 90 days overdue**	**Total**
Estimated total gross carrying amount at default	4,376	212	822	1,650	**7,060**
Lifetime ECL	(374)	(16)	(329)	(1,079)	**(1,798)**

1 January 2018 (GEL'000)	**Not past due**	**- less than 30 days overdue**	**- 31 to 90 days overdue**	**- over 90 days overdue**	**Total**
Estimated total gross carrying amount at default	4,004	430	1,163	873	**6,470**
Lifetime ECL	(44)	(17)	(156)	(250)	**(467)**

The table below provides a credit risk rating grade disclosures:

	31 December 2018		
(GEL'000)	**Stage 2 Lifetime ECL - not credit- impaired**	**Stage 3 Lifetime ECL – credit-impaired**	**Total**
Non-overdue	27	347	**374**
0-30 past due	4	12	**16**
30-60 past due	5	324	**329**
60-90 past due	-	387	**387**
90> past due	-	692	**692**
Total	**36**	**1,762**	**1,798**

	1 January 2018		
(GEL'000)	**Stage 2 Lifetime ECL - not credit- impaired**	**Stage 3 Lifetime ECL – credit-impaired**	**Total**
Non-overdue	69	4	**73**
0-30 past due	4	12	**16**
30-90 past due	14	112	**126**
90-180 past due	-	219	**219**
180> past due	-	33	**33**
Total	**87**	**380**	**467**

8. CASH AND CASH EQUIVALENTS

	31 December 2018	**31 December 2017**
Cash on hand	1	2
Bank current account	54,606	59,004
Total cash and cash equivalents	**54,607**	**59,006**

None of the balances with banks are past due. No loss allowance is recognised for balances with banks due to short-term nature. Bank balances include current accounts at banks in Georgia and are used for the purpose of the daily activities of the Company.

(in thousands of Georgian Lari)

9. DEFERRED REVENUE

Deferred revenue as at 31 December 2018 and 31 December 2017 were as follows:

	2018	2017
Deferred revenue at 1 January	**156,582**	**133,279**
Increase of deferred revenue	-	37,168
Amortisation of deferred revenue	(17,277)	(13,865)
Deferred revenue at 31 December	**139,305**	**156,582**

Revenue is recognised and the liability is reduced on a straight-line bases as access to the service concession asset is provided to the Operator over the term of the service concession arrangement.

10. TRADE AND OTHER PAYABLES

Trade and other accounts payable as at 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018	31 December 2017
Trade payables	4,477	3,082
Liabilities for purchased property, plant and equipment	144	728
Total Financial Liabilities	**4,621**	**3,810**
Other payables	-	2
Trade and other payables	**4,621**	**3,812**

11. REVENUE

During the years ended 31 December 2018 and 2017, the revenue of the Company consisted of the following:

	2018	2017
Aviation revenue		
Tbilisi	27,419	22,651
Kutaisi	3,636	3,255
Batumi	3,164	2,546
Mestia	53	53
Ambrolauri	16	13
Total aviation revenue	**34,288**	**28,518**
Non-aviation revenue		
Tbilisi	9,464	9,323
Kutaisi	1,605	1,340
Batumi	1,521	1,800
Ambrolauri	4	2
Total non-aviation revenue	**12,594**	**12,465**
Revenue from issued concession rights		
Tbilisi	17,277	13,865
Total revenue from issued concession rights	**17,277**	**13,865**
Total revenue	**64,159**	**54,848**

(in thousands of Georgian Lari)

12. OTHER INCOME

During the years ended 31 December 2018 and 2017, the other income of the Company consisted of the following:

	2018	2017
Income from fines	574	48
Income from sales of inventory	226	282
Commission income	137	178
Domestic flights project income	-	304
Other non-operating income	355	27
Total other income	**1,292**	**839**

13. ROUTE MARKETING AND DEVELOPMENT EXPENSES

Route marketing and development expenses include incentive amounts paid for airlines, stipulated in various non-exclusive incentive packages defined by the Company, oriented on growth of the routes, frequencies or/and passenger flow at Kutaisi and Tbilisi international airports. For route marketing and development activities the Company pays monthly amounts based on airlines' performance (e.g. new routes, passengers per period of time, frequencies per period of time, etc.), essentially linked with the incentive package requirements.

14. OTHER OPERATING EXPENSES

During the years ended 31 December 2018 and 2017, the other operating expenses of the Company consisted of the following:

	2018	2017
Taxes, other than on income tax	4,226	4,106
Marketing expenses	997	680
Representative expenses	524	329
Fuel and lubricants	519	236
Utility costs	476	425
Business trips	377	412
Insurance	370	326
Repair and maintenance	362	182
Consultation expenses	334	375
Cleaning expenses	184	184
IT expenses	155	46
Communication costs	81	158
Loss from disposal of PPE items	-	107
Write off receivables	-	3
Other expenses	1,230	966
Total other operating expenses	**9,835**	**8,535**

In the year 2018 company hosted Connect route development forum. More than 500 representatives of 65 airline companies and 250 airports participated in the forum. Costs related to the forum in the amount of GEL 768 thousand and GEL 454 thousand are included in marketing and representative expenses, respectively.

(in thousands of Georgian Lari)

15. FINANCIAL RISK MANAGEMENT

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk by class of assets is as follows:

	31 December 2018	31 December 2017
Other non-current receivables		
- Other non-current receivables	3,022	1,518
Trade and other receivables		
- Trade receivables	5,262	6,470
Cash and cash equivalents		
- cash and cash equivalents	54,607	59,006
Total on-balance sheet exposure	**62,891**	**66,994**
Total maximum exposure to credit risk	**62,891**	**66,994**

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review. The Company's management performs assessment of creditworthiness for trade receivables and other non-current receivables. Details of the impairment policy are given in Note 3.

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. Currency risk is the risk that the financial results of the Company will be adversely impacted by changes in exchange rates to which the Company is exposed.
The Company undertakes certain transactions denominated in foreign currencies. The Company does not use any derivatives to manage foreign currency risk exposure.

The carrying amounts of the Company's monetary assets and liabilities as at 31 December 2018 and 31 December 2017 were as follows:

	At 31 December 2018			At 31 December 2017		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
Georgian Lari	47,002	(1,727)	45,275	54,703	(1,704)	52,999
US Dollars	6,744	(289)	6,455	2,924	(67)	2,857
Euros	9,145	(2,803)	6,342	9,367	(2,289)	7,078
Total	**62,891**	**(4,819)**	**58,072**	**66,994**	**(4,060)**	**62,934**

(in thousands of Georgian Lari)

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The table below details the Company's sensitivity to strengthening/weakening of functional currency against foreign currencies by 20% as at 31 December 2018 and 31 December 2017. The analysis was applied to monetary items at the reporting date denominated in respective currencies.

	2018	**2017**
US Dollar strengthening by 10%	7,101	3,143
US Dollar weakening by 10%	(7,101)	(3,143)
Euro strengthening by 10%	6,976	7,786
Euro weakening by 10%	(6,976)	(7,786)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Company.

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	On demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**More than 5 years**	**Total**
31 December 2018						
Total financial assets	59,641	389	**-**	2,861		**62,891**
Total financial liabilities	(4,518)	(65)	(38)	(198)	-	**(4,819)**
Net interest sensitivity gap at 31 December 2018	**55,123**	**324**	**(38)**	**2,663**	**-**	**58,072**
31 December 2017						
Total financial assets	65,109	367	**-**	1,518		**66,994**
Total financial liabilities	(3,656)	(8)	(148)	(248)	-	**(4,060)**
Net interest sensitivity gap at 31 December 2017	**61,453**	**359**	**(148)**	**2,205**	**-**	**62,934**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to daily calls on its available cash resources. Management monitors monthly rolling forecasts of the Company's cash flows. The Company seeks to maintain a stable funding base primarily consisting of trade and other payables.

The table below shows liabilities at 31 December 2018 and 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the official exchange rate at the end of the reporting period.

(in thousands of Georgian Lari)

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Trade and other payables						
Trade and other payables	(4,518)	(65)	(38)	(198)		**(4,819)**
Total future payments, including future principal and interest payments	**(4,518)**	**(65)**	**(38)**	**(198)**		**(4,819)**

The maturity analysis of financial liabilities at 31 December 2017 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Trade and other payables						
Trade and other payables	(3,656)	(8)	(148)	(248)	-	**(4,060)**
Total future payments, including future principal and interest payments	**(3,656)**	**(8)**	**(148)**	**(248)**	-	**(4,060)**

16. FAIR VALUE DISCLOSURE

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Assets and liabilities not measured at fair value but for which fair value is disclosed. Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

(in thousands of Georgian Lari)

	31 December 2018			
	Level 1 fair value	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**
ASSETS				
FINANCIAL ASSETS				
- Cash and cash equivalents	54,607	-	-	54,607
- Trade and other financial receivables	-	5,262	-	5,262
- Other non-current assets	-	3,022	-	3,022
TOTAL ASSETS	**54,607**	**8,284**	**-**	**62,891**
LIABILITIES				
Other financial liabilities				
- Trade and other financial payables	-	4,621	-	4,621
- Other non-current liabilities	-	198	-	198
TOTAL LIABILITIES	-	**4,819**	**-**	**4,819**

	31 December 2017			
	Level 1 fair value	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**
ASSETS				
FINANCIAL ASSETS				
- Cash and cash equivalents	59,006	-	-	59,006
- Trade and other financial receivables	-	6,470	-	6,470
- Other non-current assets	-	1,518	-	1,518
TOTAL ASSETS	**59,006**	**7,988**	**-**	**66,994**
LIABILITIES				
Other financial liabilities				
- Trade and other financial payables	-	3,810	-	3,810
- Other non-current liabilities	-	248	-	248
TOTAL LIABILITIES	**-**	**4,058**	**-**	**4,058**

The fair values in Level 2 and Level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

(in thousands of Georgian Lari)

17. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances with related parties under common control were as follows:

	31 December 2018	**31 December 2017**
Trade receivables	364	272
Trade and other payables	(946)	(908)

The payables bear no interest.

The income and expense items with related parties under common control were as follows:

	2018	**2017**
Revenue related to non-aviation and aviation services	354	357
Government subsidies	5,033	2,666
Security expenses	(9,588)	(8,060)
Other operating expenses	(244)	(224)

There are no other rights and obligations connected to related parties.

Key management compensation. Key management includes the Director of the Company. Key management compensation is presented below:

	2018	**2017**
Short-term benefits:		
- Salaries	101	72
- Short-term bonuses	8	-
Total key management compensation	**109**	**72**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

There are no commitments and contingent obligations towards key management personnel.

18. CONTINGENCIES AND COMMITMENTS

Commitments – The Company had no material commitments outstanding as at 31 December 2018 and 31 December 2017.

Legal proceedings. As at 31 December 2018 and 31 December 2017 the Company was not engaged in any significant litigation proceedings. Management is of the opinion that no material un-accrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxes – Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Company may be assessed additional taxes, penalties and interest. The Company believes that it has already made all tax payments, and therefore no allowance has been made in the separate financial statements. 2018 year remains open to review by the tax authorities.

Operating environment – Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's

economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during 2017 and 2018 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

Environmental matters. The enforcement of environmental regulation in Georgia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage. The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

19. EVENTS AFTER REPORTING DATE

There were no other events after the end of the reporting period that may require adjustment of or disclosure in these financial statements.

1. About the Company

"United Airports of Georgia" LLC (hereinafter – "UAG" / "Company") is 100% state-owned enterprise, carrying out management of domestic and international, civil airports existing in Georgia on the basis of delegation of the state. UAG was incorporated by the state on November 1, 2010. The mission of its incorporation was to unify the civil airports existing in a variety of form in Georgia under single "umbrella" to ensure their harmonious and systematic development.

The Company unites 3 international and 2 domestic civil airports, namely:

- Shota Rustaveli Tbilisi International Airport;
- Alexander Kartveli Batumi International Airport;
- David Agmashenebeli Kutaisi International Airport;
- Mestia Queen Tamar Domestic Airport;
- Ambrolauri Domestic Airport;

In addition, UAG owns land plots and infrastructure of former Zugdidi and Poti airports, although these airports are not functioning at this stage.

On April 19, 2011, UAG was merged with the owner company of Tbilisi International Airport - JSC "Tbilisi International Airport", which was also 100% state-owned company and UAG became its legal successor.

As for the other airports, at the same period the process of inputting of assets of various airports into the equity of UAG has started and has been gradually carried out. This process was organized only regarding the property and UAG has no legal relationship in any form of successorship with those state companies previously owing / operating other airports before.

Main Directions of Activities of the Company

Main directions of activities of the Company are as follows:

- Supervision of the civil airports of Georgia;
- Ensuring aviation security in the civil airports of Georgia directly or through a contractor company;
- Provision of airport services to airlines in the civil airports of Georgia directly or through a contractor company;
- Ensuring design, construction, modernization and development of the civil airports of Georgia;
- Management and optimization of human and technical resources existing in the civil airports of Georgia;
- Drafting of unified guidance documentation regarding airport services and fees for the civil airports of Georgia;
- Management of property of the civil airports of Georgia in agreement with the partner and the supervisory board;
- Introduction and maintenance of applicable international standards and norms (ICAO, IATA, etc.) in the civil airports;
- Drafting of the development plans for the civil airports of Georgia.

Managing Bodies of the Company

Managing bodies of the Company are as follows:

- Partner;
- Supervisory Board;
- Director.

Partner

LEPL "National Agency of State Property" under the governance of the Ministry of Economy of Georgia carries out the functions of Partner of the Company.

"National Agency of State Property" approves the annual business plan of UAG, discusses the business-plan performance reports, approves the decisions about disposal of considerable assets owned by UAG and performs other activities as provided for in the Charter of the Company.

Supervisory Board

The Supervisory Board of the Company is created by the decision of the Government of Georgia. The Board consists of 7 (seven) members, namely:

- Deputy Minister of Economy and Sustainable Development of Georgia;
- Deputy Minister of Regional Development and Infrastructure of Georgia;
- Deputy Minister of Environment Protection and Agriculture of Georgia;
- Deputy Minister of Defense of Georgia;
- Deputy Minister of Internal Affairs of Georgia;
- Deputy Minister of Justice of Georgia;
- Deputy Minister of Finance of Georgia.

The Supervisory Board approves the annual business plan of UAG, discusses the business-plan performance reports, approves the decisions about disposal of considerable assets owned by UAG, reviews and approves non-standard or special issues raised regarding the activities of the Company and performs other activities defined by the Charter Company.

Director

The Supervisory Board is responsible for a decision on appointment or reassignment of the director of UAG, in agreement with the partner. The Director has standard rights and responsibilities and carries out the standard activities defined by the applicable legislation of Georgia and the Charter of the Company.

Structure of UAG

The structure of the Company consists of the abovementioned airports and the Headquarter, which carries out the activities that are common for all of the airports or are needed for the entire Company.

By the end of 2018 in total, 383 employees are employed in UAG, namely:

- "United Airports of Georgia" LLC (Central Office) - 93 employees;
- Kutaisi International Airport - 245 employees;
- Mestia Queen Tamar Airport - 18 employees;
- Ambrolauri Airport - 19 employees;
- Batumi Airport - 8 employees.

Company Development Plans

The Company permanently carries out the activities for improvement and perfection of the Company's management system. In this regard, there are several events that have been implemented in recent years and will continue in terms of future plans as well. These events are:

- The Company used to carry out the accounting activities and financial reporting in accordance with the requirements of the Georgian Tax Legislation basically. Since 2016, the company has launched a project aimed at implementation of the International Financial Reporting Standards (IFRS) in the Company and financial accounting and drafting of financial statements in accordance with these standards. It should be noted, that drafting of financial statements according to IFRS was not mandatory at the time of initiation and launching of the above project and this decision was the company's willingness to take the financial accounting - important part of management activity - on a new level.

The project is being completed in 2018. Systematization and harmonization of other business processes, regulations and controls of the Company in accordance with the needs and

requirements of IFRS is planned in future.

- Accounting and management software "SAP Business One" was implemented in UAG. The main part of the project was implemented in 2017 - 2018. At this time, the accounting module and its associated reporting modules are introduced. Gradual introduction of the management modules is planned in future, aiming to more automation of the processes in the longer term and transition to more or less full ERP systems.
- According to the legislation, UAG is a critical information system subject. Therefore, introduction of the Information Security Management System (ISMS) is underway. Introduction of this system will facilitate systematization of business processes in the Company and protection of existing information assets and increase of their security.

In addition, the Company permanently plans the events for raising of qualification of the staff through organization of their professional training, and their participation in appropriate conferences or other events.

In the terms of infrastructure, construction of a new central office of the Company is underway, which will be arranged and equipped in compliance with the modern standards and the best practices and ensure the proper working environment for the employees.

In addition, the plans related to the specific measures of development are mostly related to a particular airport; therefore, the relevant information is given below, in the sub-chapters of the appropriate airport.

Analyses of financial results

As of the year of 2018, total revenues of the Company have been increased by 17%, from GEL 54 848 thousands to GEL 64 158 thousands, compared to the year 2017. The main reason of revenue increase that new flights were added to airports so passengers number were increased. More details are presented below:

	2018	**2017**
Aviation revenue		
Tbilisi	27,419	22,651
Kutaisi	3,636	3,255
Batumi	3,164	2,546
Mestia	53	53
Ambrolauri	16	13
Total aviation revenue	**34,288**	**28,518**
Non-aviation revenue		
Tbilisi	9,464	9,323
Kutaisi	1,605	1,340
Batumi	1,521	1,800
Ambrolauri	4	2
Total non-aviation revenue	**12,594**	**12,465**
Revenue from issued concession rights		
Tbilisi	17,277	13,865
Total revenue from issued concession rights	**17,277**	**13,865**
Total revenue	**64,159**	**54,848**

Total comprehensive gain of the company for the year 2018 was 943 thousands, in 2017 loss (1050) thousands. Results from operating activities excluded non-cash revenues and expenses are presented below:

	2018	**2017**
Total comprehensive profit/loss for the year	**19**	**(1,050)**
Adjustment:	**11,059**	**13,447**
Depreciation and amortization	12,467	11,274
Impairment	18,257	18,042
Amortization of deferred revenue	(17,277)	(13,865)
Gain/loss on disposal of property, plant and equipment	(10)	107
ECL of Account receivables	1,365	3
Foreign Exchange gain/loss (net)	(9)	(971)
Finance income	(3,734)	(1,143)
Results from Operating activities	**11,078**	**12,397**

Other Information about Outcomes and Status of Development of the Activities

- Detailed information about financial performance indicators of the Company is given in a financial statements published together with the present management statement.
- No additional explanations for financial statements and financial performance indicators are required in the present management statement, since all such explanations are provided in the financial statement itself.
- Essential research have not been conducted in the field of development during 2018.
- The company have not bought its own shares.
- Development plans and non-financial indicators are discussed below per airport.

2. Information about the Airports

As it has been already mentioned, 5 civil airports operate within UAG. Three of them - Kutaisi, Ambrolauri and Mestia airports are fully operated by UAG itself.

As for Tbilisi and Batumi International Airports, they are handed over to private companies – "TAV Urban Georgia" LLC and "TAV Batumi Operations" LLC for management. However, the property of these airports belong to UAG and the aviation security in these airports is provided by "United Airports of Georgia" LLC. In addition, UAG carries out monitoring of management of the airports by the management companies.

It should be noted, that for implementation of the aviation security measures directly in the field of aviation security, UAG signed an agreement with LEPL "Security Police Department" of the Ministry of Internal Affairs, which carries out the aviation security measures directly in exchange for a certain compensation.

Shota Rustaveli Tbilisi International Airport

Tbilisi International Airport is the largest airport in the country. Nowadays dozens of arrivals and departures are fulfilled there on daily basis and it serves many of the world's well-known airlines.

The history of Tbilisi Airport starts from the 50'ies of the XX century. During this period, it has changed its appearance and scale from time to time. At the end of the 90'ies, the need for renewal of obsolete infrastructure and its formation as modern airport became more and more urgent, which required large investments and special experience. To that end, the airport was handed over for temporary management to one of the largest companies of region in the field of operation of airports – "TAV Holding", namely "TAV Urban Georgia" LLC created for this purpose, in 2005.

The main principle of the contract is that the management company shall take certain investment liabilities for development of the airport infrastructure, in exchange for the right to run the airport for a certain period of time and to receive income, after which the renewed airport should be returned to the owner. However, it should be noted, that the investor shall also pay a certain part of its revenues to UAG during the period of management of the airport. During the entire period of transfer into management, the investor shall fully be subject to the aviation legislation and standards of Georgia and is obliged to operate the airport in full compliance with them and international standards. In addition, the contract on transfer into management stipulates a number of requirements and mechanisms, which ensure that the airport management is carried out by the investor in consideration of bilateral interests and at the same time maximally effectively.

The contract has been amended for several times for its completion and adaptation with the existing circumstances. Among them, the amendments made within the frameworks of negotiations carried out in 2013-2015 may be considered as the most significant amendments, resulting in signing of a contract of renewed edition in May 2015. Abovementioned amendments envisaged arrangement of a number of additional infrastructure and investments by the operator company, as well as indicating new mechanisms for the effective management and monitoring, etc. It is noteworthy that the term of transfer of the airport into management did not change during these amendments and the deadline for transferring it back to UAG in 2027, remained unchanged.

As for the future plans for development of the airport, it is worth to mention, that the relevant measures were detailed in the latest edition of the contract on transfer of management signed by and between UAG and “TAV Urban Georgia” LLC. Many important projects were implemented within the frameworks of this plan - new arrival terminal was built, runway was significantly renovated, aircraft parking lots were repaired and expanded, new car parking lots were arranged, etc.

For the future purposes, UAG continually carries out consultations with the existing investor and other stakeholders regarding the prospects of further development of the airport.

In addition to development of infrastructure, development of the airport implies to increase the number of airlines, destinations and passenger traffics as well. Representatives of both parties work in this direction - as an airport operator company, as well as UAG itself.

Alexander Kartveli Batumi International Airport

100% of share of the Batumi Airport, or rather “Batumi Airport” LLC (which is also the old state company) was transferred to “TAV Batumi Operations” LLC for management. This transfer took place shortly after the Tbilisi airport was transferred, when the negotiations were held between the parties that the investor was ready to invest in the Batumi Airport if the period of management of the Tbilisi Airport would be extended for several years.

The land plot and the main other property of the Airport also belongs to UAG and is leased to the operator company of the Batumi Airport.

The flights and passenger traffic load in the Batumi Airport is mainly seasonal, however in recent years a significant increase in passenger traffic is observed, therefore the issue of further development of infrastructure has been raised. Future infrastructure development of the airport is permanently negotiated with the investor company. As for development of the airport in terms of attraction of new airlines and addition of new destination, both the operator company, as well as UAG are working on this.

Basic quantitative indicators of the Batumi Airport (airlines, destinations and passenger traffic) is given below, in the unified table, for each airport.

David Aghmashenebeli Kutaisi International Airport

David Aghmashenebeli Kutaisi International Airport was built in 2011 - 2013 on the site of the former Soviet airport. The airport terminal and the navigation tower were completely rebuilt, while the runway and other airfield infrastructure underwent significant rehabilitation works.

Kutaisi Airport is mainly focused on attraction of low-cost airlines to facilitate the growth of passenger traffic, as well as the growth and development of inbound and outbound tourism, which will play an important role in development of economy of the region and the country as a whole.

The airport was launched at the end of 2012 and continues to grow in terms of destinations and passenger traffic as well as in terms of generation of additional non-aviation revenue.

In addition to the growth of operations, the additional infrastructure development activities of the airport infrastructure used to be carried out from time to time - addition of new parking lots, addition of the Gate and the check-in counters, construction of various technical buildings and structures, procurement of additional special equipment, etc.
However, the works carried out in 2016-2017 can be considered as the largest project, when the second taxiway was built, the apron was expanded and therefore the number of aircraft parking lots was increased from 3 to 9, the entire airfield (300 ha) drainage system was rehabilitated, the lighting system of the apron was totally renewed, etc.

As for future development plans, another large infrastructural project was launched in 2017 and is still underway - construction of a new passenger terminal that will be connected to the existing terminal after completion and we will get 3 times larger terminal compared to the existing one. This change will increase the terminal throughput multiple times and in conjunction with extended aerodrome infrastructure, which we mentioned above, will make the airport more attractive for new airlines.

This will be facilitated by another project that will be implemented by the Georgian Railway through coordination with UAG - construction of the railway station near the airport, which will provide additional comfort for passengers.

Besides, there is a discussion on total reconstruction of the airport runway or the construction of a new runway, which will also positively affect the airport's throughput.

As for airlines and destinations, well-known European low-cost airline WIZZ AIR is the largest carrier in Kutaisi International Airport at this stage, carrying out direct flights to the 20 cities of Europe. It should be noted that the airline owns 2 based aircraft in the Kutaisi Airport.

In the term of future prospects, UAG is actively working with the existing airlines to increase the scale of their operation, as well as the introduction of new, including low-cost airlines.

The main quantitative indicators of the airport (airlines, destinations, passenger traffic) are listed below in the unified table, for each airport.

Mestia Queen Tamar Airport

Mestia Airport is a domestic airport that was built at the end of 2010. Its main objective is to support development of tourism in the region of Svaneti, as well as to create an alternative of fast and efficient transportation for the local population, thus facilitating to maintenance of the local population in the region. Based on the Government's order, "United Airports of Georgia" also organizes domestic flights, for which some funds are allocated from the state budget.

At this stage, the airport essentially meets the existing needs, however with the purpose of improvement of quality of operation and comfort of passengers, construction of certain auxiliary structures is planned and the possibility of building a new, relatively large-sized terminal is considered.

The main quantitative indicators of the airport (airlines, destinations, passenger traffic) are listed below, in the unified table, for each airport.

Ambrolauri Airport

Ambrolauri Airport, like Mestia Airport, is a domestic airport, built at the end of 2016. Its main objective is to support development of tourism in the region of Racha, as well as to create an alternative of fast and efficient transportation for the local population, thus facilitating to maintenance of the local population in the region. Based on the Government's order, "United Airports of Georgia" also organizes domestic flights to Ambrolauri, for which some funds are allocated from the state budget.

At this stage, the airport meets the existing requirements, however it should be noted that the airport terminal and the airport infrastructure is designed and arranged in such a way as to stipulate future expansion. The issue of further development of the above airport will be discussed in terms of demand in the market and the needs.

The main quantitative indicators of the airport (airlines, destinations, passenger traffic) are listed below, in the unified table, for each airport.

Information about the airlines operating in the international airports and destinations

Airport	Airline	Destination
Tbilisi	45	58
Batumi	28	28
Kutaisi	3	21

Note: *Number of airlines and destinations is variable, according to season.*

Statistics of passenger traffic growth in the airports in 2012-2018

	2012	2013	2014	2015	2016	2017	2018
Tbilisi	1,220,832	1,436,629	1,575,707	1,847,534	2,252,543	3,164,275	3,808,651
Tbilisi growth %		17,7%	9,7%	17,3%	21,9%	40,5%	20%
Batumi	168,362	208,935	213,820	226,477	312,379	495,704	598,862
Batumi growth %		24,1%	2,3%	5,9%	37,9%	58,7%	21%
Kutaisi	12,916	188,682	218,003	182,954	271,363	405,698	617,342
Kutaisi growth %		1360,8%	15,5%	-16,1%	48,3%	49,5%	52%
Mestia	2,922	881	1,131	4,458	4,214	7,152	6,741
Mestia growth %	-	-69,8%	28,4%	294,2%	-5,5%	69,7%	-6%
Ambrolauri	-	-	-	-	-	1,609	1,523
Ambrolauri growth %	-	-	-	-	-		-6%

3. Risks

The factors defining the main risks and challenges for the Company's activity may be the general political and economic environment and events in the country (including changes in currency exchange rates) and in the region, as well as economic situation in the region and to some extent - in the European aviation market. In addition, general safety and aviation security challenges for civil aviation should be taken into account.

The Company considers abovementioned risks in its activity, as it is possible in every specific circumstance. For instance, for those cases, when the fulfillment of the obligations of the Company is needed in different currencies, the Company accumulates its amounts in different currencies (as the incomes are in different currencies as well) to avoid or to increase the possible loss caused by the instability of currency exchange rates.

When it comes to general economic risks, the Company takes into consideration relevant economic situation during preparing and making decisions about the commercial terms within its main activities, such as negotiations with airlines, rendering airport services, managing property, etc.

As for general safety and aviation security challenges, the appropriate units of the Company work on systematic basis to ensure being in line with the relevant standards and requirements, to evaluate risks in every specific situation and enforce all appropriate activities for eliminating on reducing the negative impact of them.