



Georgian Railway JSC

**Condensed Consolidated Interim
Financial Statements for the Three-month
periods ended 31 March 2018 and 2017**

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Georgian Railway JSC
Condensed Consolidated Interim Statement of Financial Position

'000 GEL	Note	31 March 2018	31 December 2017	31 March 2017	31 December 2016
		Unaudited	Unaudited	Unaudited	
ASSETS					
Non-current assets					
Property, plant and equipment	11	2,803,106	2,750,996	2,640,369	2,623,594
Deferred tax assets		-	-	-	-
Loans receivable	12	17,277	18,114	32,767	35,717
Other non-current assets	13	106,087	123,562	188,892	147,565
Total non-current assets		2,926,470	2,892,672	2,862,028	2,806,876
Current assets					
Inventories	14	33,539	32,807	30,604	29,752
Loans receivable	12	-	-	4,094	3,974
Tax assets		-	561	14,433	7,129
Trade and other receivables	15	36,807	62,823	92,047	99,649
Prepayments and other current assets	16	671	383	624	350
Cash and cash equivalents	17	232,759	243,018	208,487	277,953
Total current assets		303,776	339,592	350,289	418,807
Total assets		3,230,246	3,232,262	3,212,317	3,225,683
EQUITY AND LIABILITIES					
Equity					
Share capital	18 (a)	1,053,489	1,053,271	1,053,115	1,053,004
Non-cash owner contribution reserve	18 (b)	98,192	98,192	98,326	98,312
Retained earnings		540,785	463,411	540,942	447,960
Total equity		1,692,466	1,614,874	1,692,383	1,599,276
Non-current liabilities					
Loans and borrowings	20	1,280,685	1,374,363	1,295,726	1,361,602
Advance received from the Government	18(d)	46,593	46,593	73,809	73,809
Total non-current liabilities		1,327,278	1,420,956	1,369,535	1,435,411
Current liabilities					
Loans and borrowings	20	31,590	58,809	32,491	57,172
Trade and other payables	21	148,131	112,221	92,189	109,638
Liabilities to the Government	18(c)	7,592	7,592	8,354	8,399
Provisions	22	7,898	7,953	8,496	8,547
Tax Payable		6,795	-	-	-
Other current liabilities		8,496	9,857	8,869	7,240
Total current liabilities		210,502	196,432	150,399	190,996
Total liabilities		1,537,780	1,617,388	1,519,934	1,626,407
Total equity and liabilities		3,230,246	3,232,262	3,212,317	3,225,683

The condensed consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 35.

Georgian Railway JSC
Condensed Consolidated Interim Statement of Profit or Loss
and Other Comprehensive Income

'000 GEL	Note	Three-month periods ended 31 march 2018	Three-month periods ended 31 march 2017
Revenue	6	96,510	104,419
Other income		4,280	4,672
Employee benefits expense		(36,577)	(35,455)
Depreciation and amortization expense		(29,254)	(31,513)
Electricity, consumables and maintenance costs	7	(10,122)	(10,749)
Other expenses	8	(17,827)	(17,020)
Results from operating activities		7,010	14,354
Finance income	9	82,785	93,765
Finance costs	9	(12,072)	(14,981)
Net finance income		70,713	78,784
Profit before income tax		77,723	93,138
Income tax expense	10	(349)	(205)
Profit and total comprehensive income		77,374	92,933

These condensed consolidated financial statements were approved on 15 May 2018 and were signed on its behalf by:

 Davit Peradze General Director		 Tamazi Jgerenaia Chief Accountant
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Georgian Railway JSC
Condensed Consolidated Interim Statement of Changes in Equity

'000 GEL	Share capital	Non-cash owner contribution reserve	Retained earnings	Total equity
Balance at 1 January 2017	1,053,004	98,312	447,960	1,599,276
Total comprehensive income for the period				
Profit and total comprehensive income for the period	-	-	92,933	92,933
Transactions with owners, recorded directly in equity				
Net non-cash contributions by and distributions to owners (note 18(a,b))	111	14	49	174
Total transactions with owners, recorded directly in equity	-	-	-	-
Balance at 31 March 2017	1,053,115	98,326	540,942	1,692,383

'000 GEL	Share capital	Non-cash owner contribution reserve	Retained earnings	Total equity
Balance at 1 January 2018	1,053,271	98,192	463,411	1,614,874
Total comprehensive income for the period				
Profit and total comprehensive income for the period	-	-	77,374	77,374
Transactions with owners, recorded directly in equity				
Net non-cash contributions by and distributions to owners (note 18 a)	218			218
Total transactions with owners, recorded directly in equity	-	-	-	-
Balance at 31 March 2018	1,053,489	98,192	540,785	1,692,466

The condensed consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 35.

'000 GEL	Note	Three-month period ended 31 March 2018	Three-month period ended 31 March 2017
Cash flows from operating activities			
Cash receipts from customers		129,619	108,344
Cash paid to suppliers and employees		(54,932)	(65,612)
Cash flows from operations before income taxes paid		74,687	42,732
Income tax paid		-	(1,904)
Net cash from operating activities		74,687	40,828
Cash flows from investing activities			
Acquisition of property, plant and equipment		(30,130)	(94,717)
Proceeds from sale of property, plant and equipment		1,566	1,436
Interest received		2,919	3,352
Repayment of the issued loans		-	691
Net cash used in investing activities		(25,645)	(89,238)
Cash flows from financing activities			
Proceeds from borrowings		-	42,117
Interest paid		(50,178)	(54,542)
Net cash used in financing activities		(50,178)	(12,425)
Net decrease in cash and cash equivalents		(1,137)	(60,835)
Cash and cash equivalents at 1 January		243,018	277,953
Effect of exchange rate fluctuations on cash and cash equivalents		(9,122)	(8,631)
Cash and cash equivalents at 31 March	17	232,759	208,487

The condensed consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 35.

1. Reporting entity

(a) Georgian business environment

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

(b) Organisation and operations

Georgian Railway JSC (the "Company") and its subsidiaries (the "Group") comprise Georgian joint stock and limited liability companies as defined in the Civil Code of Georgia. The Company was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia.

The Company's registered office is 15 Queen Tamar Avenue, Tbilisi 0112, Georgia.

The Group's principal activity is the operation of a nationwide railway system providing freight and passenger transportation services, freight forwarding services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

The Company is wholly owned by Partnership Fund JSC, a wholly state-owned company. The ultimate controlling party of the Group is the Government of Georgia. Related party transactions are disclosed in note 28.

2. Basis of accounting

Statement of compliance

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

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these condensed consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand.

4. Use of estimates and judgments

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

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

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

- Note 30 (h)(iii) – useful lives and residual values of property, plant and equipment;
- Note 17 – classification of deposits with original maturities of more than three months as cash and cash equivalents;

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 11 (a) – recoverability of construction of Tbilisi Bypass project;
- Note 23 (b)(ii) – recoverability of loans issued.

Measurement of fair values

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

- Note 23 (a) – fair value of financial assets and liabilities;

5. Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Freight transportation*. Includes transportation of goods and commodities and related services.
- *Passenger transportation*. Includes transportation of passengers.

There are no inter-segment charges.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before infrastructure costs, which are the cost of maintaining the rail network used by both reportable segments, central overheads, interest and income tax, as included in the internal management reports that are reviewed by the Group's Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. The Group's Management Board does not monitor segment liabilities.

(i) *Information about reportable segments*

	Freight transportation		Passenger transportation		Total	
	Three- month periods ended	Three- month periods ended	Three- month periods ended	Three- month periods ended	Three- month periods ended	Three- month periods ended
	31 March 2018	31 March 2017	31 March 2018	31 March 2017	31 March 2018	31 March 2017
'000 GEL						
External revenues	90,308	98,091	4,227	3,806	94,535	101,897
Depreciation and amortization	(10,992)	(10,434)	(2,844)	(2,057)	(13,836)	(12,491)
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	51,385	58,156	(4,183)	(4,013)	47,202	54,143
Reportable segment assets	304,590	359,496	204,488	213,232	509,078	572,728
Capital expenditure and other additions to non-current assets	86	64	433	52,425	519	52,489

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and other material items

'000 GEL	Three-month periods ended 31 March 2018	Three-month periods ended 31 March 2017
Revenues		
Total revenue for reportable segments	94,535	101,897
Other revenue	1,975	2,522
Consolidated revenue	96,510	104,419
Profit or loss		
Total profit or loss for reportable segments	47,202	54,143
Employee benefits expense – infrastructure and headquarters	(15,641)	(14,148)
Depreciation expenses – infrastructure and headquarters	(15,418)	(19,022)
Net finance income	70,713	78,784
Other net unallocated expenses	(9,133)	(6,619)
Consolidated profit before income tax	77,723	93,138
Assets		
Total assets for reportable segments	509,078	572,728
Property, plant and equipment - infrastructure and headquarters	2,320,268	2,155,582
Other unallocated assets, principally cash and non-current assets	400,899	484,007
Consolidated total assets	3,230,246	3,212,317

(iii) Other material items three-month periods ended 31 march 2018

'000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	519	63,525	64,044
Depreciation and amortization	13,836	15,418	29,254

(iv) Other material items three-month periods ended 31 march 2017

'000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	52,489	40,842	93,331
Depreciation and amortization	12,491	19,022	31,513

(v) **Geographical information**

Approximately 90% of the Group's revenue is generated in Georgia with the remainder generated in CIS countries. The non-current assets of the Group are located in Georgia.

(vi) **Major customer**

For the three month periods ended 31 March 2018 one customer of the Group's freight transportation segment represented approximately 10% of the Group's total revenue (GEL 9,157 thousand). For the three month periods ended 31 March 2017 one customer of the Group's freight transportation segment represented approximately 10% of the Group's total revenue (GEL 10,508 thousand).

6. Revenue

'000 GEL	Three-month periods ended 31 March 2018	Three-month periods ended 31 March 2017
Freight traffic	67,406	81,469
Logistic services	15,731	13,019
Passenger traffic	4,227	3,806
Freight car rental	7,170	3,603
Other	1,976	2,522
	96,510	104,419

Railroad transportation in Georgia is a natural monopoly; however the prices are not subject to government regulation. According to clause 64 of the Railway Code of Georgia, which came into force on 1 July 2005, the Government of Georgia allowed the Group to set the prices for all services provided, including freight transportation, freight transportation-related additional services and passenger transportation.

Tariffs for freight transportation are based on the International Rail Transit Tariff. The Group is a co-signatory of the Tariff Agreement together with CIS countries, Latvia, Lithuania and Estonia. The parties to the Agreement hold annual conferences to determine the tariff policy for the following year: each party declares tariffs denominated in Swiss Francs (CHF) for railway transportation and states the general rules that apply to and modify tariffs. The agreed tariffs indicate the maximum level of tariffs applicable.

7. Electricity, consumables and maintenance costs

'000 GEL	Three-month periods ended 31 March 2018	Three-month periods ended 31 March 2017
Electricity	5,544	5,935
Materials	2,719	2,965
Repair and maintenance	228	601
Fuel	1,631	1,248
	10,122	10,749

8. Other expenses

'000 GEL	Three-month periods ended 31 March 2018	Three-month periods ended 31 March 2017
Taxes other than income tax	7,738	6,893
Logistic services	3,077	3,637
Security	2,321	2,238
Freight car rental	1,491	1,904
Other	3,200	2,348
	17,827	17,020

9. Finance income and finance costs

'000 GEL	Three-month periods ended 31 March 2018	Three-month periods ended 31 March 2017
Recognised in profit or loss		
Interest income	3,846	4,547
Net foreign exchange gain	78,939	89,218
Finance income	82,785	93,765
Impairment loss on trade receivables (note 23 (b)(ii))	(377)	(1,066)
Impairment loss on issued loans	(515)	-
Interest expense	(11,180)	(13,915)
Finance costs	(12,072)	(14,981)
Net finance income recognised in profit	70,713	78,784

10. Income tax benefit

The Group's applicable income tax rate is the income tax rate of 15% for Georgian companies.

'000 GEL	Three-month periods ended 31 March 2018	Three-month periods ended 31 March 2017
Current tax expense		
Current year	349	205
	349	205

11. Property, plant and equipment

(a) Construction in progress

During the year ended 31 December 2010 the Group started two large capital projects (included in construction in progress): the Main Line Modernization and the Tbilisi Bypass and started to incur expenditures for the projects in September 2010 and November 2010 respectively. To partly finance the projects the Group issued unsecured bonds in 2010. In 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see note 20).

All the borrowing costs of the 2010 unsecured bonds allocated to each project on a 59%/41% basis were capitalized upon starting to incur expenditures for the projects. The interest on the bonds issued in 2012 was capitalized to the two projects in proportion to the costs incurred on the projects based on a capitalization rate of 8% (31 March 2017: 8%). Capitalised borrowing costs during the three month period ended 31 March 2018 related to the Main Line Modernization project amounted to GEL 8,961 thousand (31 March 2017: GEL 11,774 thousand).

12. Loans receivable

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

'000 GEL	31 March 2018	31 March 2017
<i>Non-current assets</i>		
Entity managed by the Group	-	16,859
Parent company	17,277	15,908
	17,277	32,767
<i>Current assets</i>		
Entity managed by the Group	-	4,094
	-	4,094

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 GEL	Currency	Nominal interest rate	Year of maturity	31 March 2018		31 March 2017	
				Face value	Carrying amount	Face value	Carrying amount
Entity managed by the Group	USD	10%	2023	-	-	20,953	20,953
Parent company	USD	9.75%	2021	17,277	17,277	15,908	15,908
Total interest-bearing assets				17,277	17,277	36,861	36,861

13. Other non-current assets

'000 GEL	<u>31 March 2018</u>	<u>31 March 2017</u>
Prepayments for non-current assets	64,493	146,139
Construction materials	32,577	39,541
Goodwill	46	46
Intangible assets	8,971	3,166
	<u>106,087</u>	<u>188,892</u>

14. Inventories

'000 GEL	<u>31 March 2018</u>	<u>31 March 2017</u>
Materials	29,463	26,881
Fuel	1,529	2,392
Rails	3,919	2,160
Other	1,749	2,607
	<u>36,660</u>	<u>34,040</u>
Allowance for inventory obsolescence	(3,121)	(3,436)
	<u>33,539</u>	<u>30,604</u>
Reversal of previous write-down of inventories	<u>137</u>	<u>0</u>

15. Trade and other receivables

'000 GEL	<u>31 March 2018</u>	<u>31 March 2017</u>
Trade receivables	211,918	217,529
Impairment allowance on trade receivables	(175,226)	(149,374)
	<u>36,692</u>	<u>68,155</u>
Receivable from the Government (note 18 (d))	27,149	23,690
Impairment allowance on trade receivables	(27,149)	-
Other receivables	115	202
	<u>36,807</u>	<u>92,047</u>

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

16. Prepayments and other current assets

'000 GEL	31 March 2018	31 March 2017
Prepaid expense	75	94
Advances paid to suppliers	596	530
	671	624

17. Cash and cash equivalents

'000 GEL	31 March 2018	31 March 2017
Current accounts in banks	26,347	80,879
Call deposits	206,301	127,542
Petty cash	111	66
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	232,759	208,487

Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring penalties or significant loss of interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

The Group's exposure to interest rate risk is disclosed in note 23.

18. Equity and liabilities to the Government

(a) Share capital

<i>Number of shares</i>	Ordinary shares	
	31 March 2018	31 March 2017
In issue at 1 January	1,053,271,005	1,053,003,675
Issued for property, plant and equipment	218,130	111,820
In issue at 31 March, fully paid	1,053,489,135	1,053,115,495
Authorised shares - par value	1	1

All ordinary shares rank equally with regard to the Company's residual assets.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

(b) Non-cash owner contribution reserve

The difference between the nominal amount of registered share capital for non-cash assets contributed by the owner and the fair value of the contributed assets is recognised in the non-cash owner contribution reserve.

(c) Liabilities to the Government

Liabilities to the owners represent liabilities in the form of property, plant and equipment which are withdrawn as a reduction in share capital but not yet transferred formally to the owners. These liabilities are recorded at the carrying amount of assets to be transferred to the owner.

'000 GEL	31 March 2018	31 March 2017
Liabilities to the Government	<u>7,592</u>	<u>8,354</u>

(d) Advance received from the Government

In April 2012, the Company and the Government entered into the Bypass Project Memorandum. According to the Bypass Project Memorandum the Government is interested and aims to purchase from the Group approximately 701,281 square meter land plots with attached constructions which will be freed up as a result of the removal of railway infrastructure from Tbilisi city center and construction of a new bypass railway route for the purposes of further development of the land plots. The Government agrees to pay to the Group CHF 138 million equivalents in national currency through the reduction in the amount of dividends payable to the Government.

In 2012, the Company declared dividends of GEL 231,592 thousand (CHF 138 million). Subsequently, the Company agreed with the Government that the declared dividend amount would represent a consideration due from the Government for the future sale of the land plots in accordance with the Bypass Project Memorandum. As a result, the dividend payable was classified as an advance received from the Government for the sale of land.

19. Capital management

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

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

20. Loans and borrowings

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

'000 GEL	31 March 2018	31 March 2017
<i>Non-current liabilities</i>		
Secured loan	75,274	77,363
Unsecured bonds	1,205,411	1,218,363
Loans and borrowings	1,280,685	1,295,726
<i>Current liabilities</i>		
Secured loan	10,516	10,195
Current portion of unsecured bonds	21,074	22,296
Loans and borrowings	31,590	32,491

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings were as follows:

'000 GEL	Currency	Nominal interest rate	Year of maturity	31 March 2018		31 March 2017	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds	USD	7.8%	2022	1,207,200	1,225,396	1,240,659	1,240,659
Secured loan	USD	Libor +1.25%	2026	86,846	86,846	87,537	87,537
Secured loan	USD	10%	2017	33	33	21	21
Total interest-bearing liabilities				1,294,078	1,312,275	1,328,217	1,328,217

In July 2012 the Group carried out the issuance, placement and registration (listing) on the London Stock Exchange of unsecured bonds of USD 500 million and the early redemption of the unsecured bonds of USD 250 million due in 2015 issued by the Group in July 2010 (the 2010 Notes). As a result of the above transaction, the Group has issued USD 500 million 7.75% Notes due 2022 and redeemed 88.99% of the outstanding 2010 Notes with a face value of USD 222 million. The 2010 Notes were fully repaid in 2015.

21. Trade and other payables

'000 GEL	31 March 2018	31 March 2017
Trade payables	127,736	75,783
Advances received from customers	20,395	16,406
	148,131	92,189

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

22. Provisions

'000 GEL	31 March 2018	31 March 2017
Balance as at 1 January	7,953	8,547
Net provisions made during the period	(55)	(51)
Balance at the period end	7,898	8,496

23. Fair values and risk management

(a) Fair value of financial assets and liabilities

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

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

Management's estimate of the fair value of the unsecured bonds yielded a range of values from a fair value approximately equal to the carrying amount to a fair value approximately 10% higher than the carrying amount.

The carrying values of other financial assets and liabilities of the Group are a reasonable approximation of their fair values.

(b) Financial risk management

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

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

(i) Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(ii) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

'000 GEL	Carrying amount	
	31 March 2018	31 March 2017
Cash and cash equivalents	232,648	208,421
Trade receivables	36,692	68,155
Loans receivable	17,277	36,861
Receivable from the Government	-	23,690
	337,127	337,127

Cash and cash equivalents

The Group usually holds the funds with the banks with good credit ratings.

The Group does not expect any counterparty to fail to meet its obligations.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country, in which customers operate, particularly in the currently deteriorating economic circumstances. Approximately 10% (31 March 2017: 10%) of the Group's revenue is attributable to sales transactions with a single customer.

Credit risk is managed by requesting prepayments from freight and passenger transportation customers. Accordingly the Group's trade receivables mainly consist of receivables from foreign railway companies. Credit risk related to receivables from foreign railway companies is managed through the monthly monitoring of receivable balances and requiring immediate repayment of a debt when the balance approaches specific limits set for each individual counterparty.

More than 90% of the Group's foreign railway customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties.

No collateral in respect of trade receivables is generally required.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

'000 GEL	Carrying amount	
	31 March 2018	31 March 2017
CIS countries	18,252	21,056
Domestic	18,440	47,099
	36,692	68,155

The Group's two most significant customers account for GEL 48,369 thousand of the trade receivables carrying amount as at 31 March 2018 (31 March 2017: GEL 50,639 thousand).

Impairment losses

The ageing of trade receivables at the reporting date was as follows:

'000 GEL	Gross	Impairment	Gross	Impairment
	31 March 2018	31 March 2018	31 March 2017	31 March 2017
Past due 0- 90 days	338	227	1,646	340
Past due 91-180 days	21,808	15,123	1,216	3,347
Past due 181-365 days	715	599	7,157	2,361
Past due more than one year	189,057	159,277	207,510	143,326
	211,918	175,226	217,529	149,374

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 GEL	31 March 2018	31 March 2017
Balance at beginning of the year	149,374	151,372
Increase during the period	25,852	1,067
Net foreign exchange loss/gain	-	(3,065)
Balance at end of the period	175,226	149,374

Most of the impairment loss at 31 March 2018 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances either because of economic circumstances or as a result of bankruptcy. The Group believes that the unimpaired amounts that are past due are still collectible, based on historic payment behaviour and analyses on the underlying customers' credit ratings, when available. In addition, receivables of GEL 9,961 thousand (31 March 2017: GEL 9,147 thousand) relate to freight car rental customers with which the Group incurs freight car rental expense and related payables. These receivables and payables are periodically net settled.

The allowance account in respect of trade receivables is used to record impairment losses until all possible opportunities for recovery have been exhausted; at that point the amounts are written off against the financial asset directly.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables.

Loans receivable

The Group has issued loans to the parent company and the entity managed by the Group (see note 12). None of the loans are fully secured.

Receivable from the Government

Management believes that the Group is not exposed to a significant amount of credit risk relating to this receivable as the Government is legally committed to reimburse the value added tax payable on the transfer of the property within the framework of Bypass Project Memorandum.

(iii) *Liquidity risk*

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

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of three months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

As at 31 March 2018, the Group maintains a committed credit line of GEL 150,477 thousand.

The Group has significant contractual commitments to purchase property, plant and equipment (see note 26) for the Main Line Modernization and Tbilisi Bypass projects expected to be completed by the end of 2019 and 2020, respectively. Management believes that the cash and cash equivalents

held by the Group and the future cash flows from operating activities will be sufficient to finance these two projects.

Exposure to liquidity risk

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

31 March 2018

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	86,878	102,502	6,678	6,625	12,934	36,798	39,467
Unsecured bonds	1,225,396	1,628,211	46,779	46,779	93,558	1,441,095	-
Trade payables	127,736	127,736	127,736	-	-	-	-
Other current liabilities	8,496	8,496	8,496	-	-	-	-
	1,448,506	1,866,945	189,689	53,404	106,492	1,477,893	39,467

31 March 2017

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	87,558	113,516	5,981	6,508	12,811	36,956	51,260
Unsecured bonds	1,240,659	1,743,733	47,376	47,376	94,750	284,255	1,269,976
Trade payables	75,783	75,783	75,783	-	-	-	-
Other current liabilities	8,869	8,869	8,869	-	-	-	-
	1,412,869	1,941,901	138,009	53,884	107,561	321,211	1,321,236

(iv) Market risk

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

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currencies of Group entities are the Georgian Lari (GEL). The currencies in which these transactions are primarily denominated and settled are U.S. Dollars (USD) and Swiss Francs (CHF).

Borrowings and related interest are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without a need to enter into derivatives contracts.

Exposure to currency risk

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

'000 GEL	USD - denominated	CHF – denominated	USD - denominated	CHF - denominated
	31 March 2018	31 March 2018	31 March 2017	31 March 2017
Cash and cash equivalents	156,814	1,466	137,968	73
Loan receivable	17,277	-	36,861	-
Trade receivables	15,611	2,641	717	21,056
Secured loan	(86,878)	-	(87,558)	-
Unsecured bonds	(1,225,396)	-	(1,240,659)	-
Trade and other payables	(3,184)	-	(9,575)	-
Net exposure	(1,125,756)	4,107	(1,162,246)	21,129

The following significant exchange rates applied during the period:

in GEL	Average rate		Reporting date spot rate	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
USD 1	2.48	2.41	2.41	2.45
CHF 1	2.55	2.44	2.53	2.45

(v) *Interest rate risk*

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Exposure to interest rate risk

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

'000 GEL	Carrying amount	
	31 March 2018	31 March 2017
Fixed rate instruments		
Financial assets	223,578	164,403
Financial liabilities	(1,225,396)	(1,240,659)
	(1,001,818)	(1,076,256)
Variable rate instruments		
Financial liabilities	(86,879)	(87,558)
	(86,879)	(87,558)

24. Subsidiaries

Subsidiary	Country of incorporation	Principal activities	31 March 2018 Ownership/ voting	31 March 2017 Ownership/ voting
GR Property Management LLC (former Railway Property Management LLC)	Georgia	Property management and development	100%	100%
GR Logistics and Terminals LLC (former Trans Caucasus Terminals LLC)	Georgia	Container transportation	100%	100%
Georgian Railway Construction JSC	Georgia	Construction and other projects	100%	100%
Borjomi Bakuriani Railway LLC	Georgia	Transportation services	100%	100%
Georgia Transit LLC	Georgia	Transportation services	100%	100%
GR Transit Line LLC	Georgia	Transportation services	100%	100%
GR Trans Shipment LLC	Georgia	Transportation services	100%	100%
GR Transit LLC (former Georgian Transit LLC)	Georgia	Transportation services	100%	100%

25. Operating leases

Non-cancellable operating lease rentals are receivable as follows:

'000 GEL	31 March 2018	31 March 2017
Less than one year	3,606	3,241
Between one and five years	4,798	5,948
More than five years	17,204	18,063
	25,608	27,252

Operating leases relate to rent of other buildings, containers, locomotives and fittings owned by the Group with lease terms of mainly between 10 to 50 years. Lessees do not have an option to purchase the property at the end of the lease term.

26. Capital commitments

As at 31 March 2018 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 418,259 thousand (31 March 2017: GEL 550,570 thousand) mainly relating to the Main Line Modernization project of GEL 208,360 thousand (31 March 2017: GEL 300,326 thousand) and Tbilisi Bypass project of GEL 206,161 thousand (31 March 2017: 199,804 thousand).

27. Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its property, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these condensed consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Litigation

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

28. Related parties

(a) Parent and ultimate controlling party

The immediate and ultimate parent of the Group is Partnership Fund JSC. The ultimate controlling party of the Group is the Government of Georgia. Partnership Fund JSC produces publicly available consolidated financial statements.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in employee benefits expenses:

'000 GEL	31 March 2018	31 March 2017
Salaries and bonuses	272	267

(c) Other related party transactions

(i) Transactions with the Government

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence of the Government of Georgia. The Group has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

The Group's other related party transactions are disclosed below.

(ii) Revenue, purchases and expenses

The Group not purchases electricity from a state-owned operator for the three month periods ended 31 March 2018 (31 March 2017: GEL 501 thousand). The Group also purchases security services from a state agency which amounted to GEL 2,239 thousand for for the three month periods ended 31 March 2018 (31 March 2017: GEL 2,239 thousand). The Group usually does not have significant balances for these purchases.

Management estimates that the aggregate amounts of other income and expenses and the related balances with other Government-related entities are not significant.

(iii) Loans issued

'000 GEL	Transaction value		Outstanding balance	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
Loans issued:				
Parent company	-	-	17,277	15,908

(iv) Credit line

As at 31 March 2018 the Group has unused credit line of USD 7 million from the parent company (31 March 2017: USD 7 million). The credit line bears interest rate of 10% per annum and matures in June, 2017.

29. Basis of measurement

The condensed consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRSs.

30. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated financial statements.

(a) Basis of consolidation

(i) Business combination

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

The Group measures goodwill at the acquisition date as:

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

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(b) Revenue

(i) *Transportation activities*

Revenue from freight and passenger transportation is measured at the fair value of the consideration received or receivable. Freight and passenger transportation revenue is recognized in profit or loss according to the percentage of completed service method based on transit time of freight and passengers moving from the original location to the final destination.

Revenue from services rendered in stations is recognised in profit or loss when the service is rendered.

(ii) *Commissions*

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(iii) *Rental income*

Rental income from investment property or other assets rented is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(c) Other expense

(i) *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) *Social expenditure*

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(d) Finance income and costs

The Group's finance income and finance costs include:

- interest income on bank deposits and loans receivable;
- interest expense on financial liabilities;
- impairment loss on trade receivables;
- the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised using the effective interest method.

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

(e) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

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

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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

(f) Income tax

In 2017 Income tax expense comprises only current tax, which is calculated according to the tax model, also known as the Estonian model of corporate taxation.

(i) Current tax

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

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly transfers the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

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

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRS, was determined by reference to its fair value at that date.

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

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

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

(ii) Subsequent costs

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

Maintenance and repair expenses are recognised as follows:

- Rolling stock:
 - current maintenance expenses during the useful life of equipment (repair work and replacement of unusable and missing parts) are recognised as operating expenses in profit or loss as incurred;
 - expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated separately from the main asset;
 - overhauls performed near the end of the useful life of an asset, together with refurbishment, are capitalised when they extend the useful life of the underlying asset.

- Fixed installations:
 - current maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recognised as operating expenses in profit or loss as incurred;
 - labour, materials and other costs (associated with the installation of rails, sleepers and ballast) under multi-year major building or infrastructure maintenance programmes are capitalised through the partial or total replacement of each component concerned;
 - costs associated with infrastructure improvements are capitalized to the extent that they increase the functionality (traffic working speed) of the asset.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Residual values for rails, wagons and locomotives are assessed based on the estimated market price of scrap metal and the estimated weight of rails, wagons and locomotives less deinstallation costs.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. Major scheduled capital repairs for wagons and locomotives, estimated at 20% of the cost, are considered as major components and depreciated separately for an average useful life of 7 to 15 years based on the expected timing of the capital repairs.

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

- | | |
|---|--------------|
| • buildings and constructions | 30-44 years; |
| • rail track infrastructure | 17-23 years; |
| • transport, machinery, equipment and other | 12 years. |

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

(i) Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables and cash and cash equivalents.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

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

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

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the

recognised amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

Loans and receivables

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

Loans and receivables category comprise loans given, trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest.

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

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

(iii) *Share capital*

Ordinary shares

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

Increase of share capital

Share capital increase is affected through the issuance of new shares. When share capital is increased, any difference between the registered amount of share capital and the fair value of the assets contributed is recognized as a separate component of equity as a fair value adjustment reserve for non-cash owner contributions.

Reduction of share capital

Share capital reductions and non-cash distributions are recognized at the carrying amount of the assets distributed. Non-cash distributions of the Company are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners* since the ultimate controlling party controls the assets before and after the distribution.

(j) Impairment

(i) *Non-derivative financial assets*

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

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- adverse changes in the payment status of borrowers in the Group;
- economic conditions that correlate with defaults; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested

individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

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

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

(k) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly railway infrastructure, corporate assets (primarily the Group's headquarters), head office expenses, financial income and expenses, tax expenses and tax assets and liabilities. Items related to infrastructure are not allocated as the Group has not implemented systems for such allocations. The Group's Management Board does not monitor segment liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.