



Georgian Railway JSC

**Condensed Consolidated Interim
Financial Statements for the Nine-month
periods ended 30 September 2020 and 2019**

Contents

Condensed Consolidated Statement of Financial Position	3
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	4
Condensed Consolidated Statement of Changes in Equity	5
Condensed Consolidated Statement of Cash Flows	6
Notes to the Condensed Consolidated Financial Statements	7

Georgian Railway JSC
Condensed Consolidated Interim Statement of Financial Position

'000 GEL	Note	30 September 2020 Unaudited	31 December 2019	30 September 2019 Unaudited	31 December 2018
ASSETS					
Non-current assets					
Property, plant and equipment	12	1,895,630	1,865,352	1,846,728	1,826,590
Loans receivable	13	-	24,133	24,287	20,480
Other non-current assets	14	98,340	93,789	94,454	97,525
Total non-current assets		1,993,970	1,945,420	1,965,469	1,944,595
Current assets					
Inventories	15	36,746	40,226	34,257	32,882
Loans receivable	13	29,860	-	-	-
Tax assets		-	6,381	-	3,899
Trade and other receivables	16	27,145	24,337	40,910	40,912
Prepayments and other current assets	17	1,844	1,371	2,032	416
Cash and cash equivalents	18	293,017	257,975	246,616	241,308
Total current assets		388,612	330,289	323,815	319,416
Total assets		2,382,583	2,313,563	2,289,284	2,264,010
EQUITY AND LIABILITIES					
Equity					
Share capital	19 (a)	1,053,811	1,053,372	1,053,335	1,053,714
Non-cash owner contribution reserve	19 (b)	100,322	100,322	100,322	100,245
Retained earnings		(748,037)	(630,327)	(688,606)	(624,743)
Total equity		406,097	523,367	465,051	529,215
Non-current liabilities					
Loans and borrowings	21	1,715,339	1,500,687	1,552,290	1,336,665
Advance received from the Government	19(d)	46,593	46,593	46,593	46,593
Total non-current liabilities		1,761,932	1,547,280	1,598,883	1,383,258
Current liabilities					
Loans and borrowings	21	42,771	64,944	38,920	134,194
Trade and other payables	22	141,985	149,865	158,999	191,610
Liabilities to the Government	19(c)	4,735	4,896	5,729	5,317
Provisions	23	13,519	16,027	12,565	11,356
Tax Payable		3,742	-	1,391	-
Other current liabilities		7,802	7,185	7,746	9,060
Total current liabilities		214,554	242,916	225,350	351,537
Total liabilities		1,976,486	1,790,196	1,824,233	1,734,796
Total equity and liabilities		2,382,583	2,313,563	2,289,284	2,264,010

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 39.

Georgian Railway JSC
Condensed Consolidated Interim Statement of Changes in Equity

'000 GEL	Note	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019
Revenue	7	363,475	364,164
Other income		10,045	13,229
Employee benefits expense		(122,752)	(117,308)
Depreciation and amortization expense	11	(59,738)	(64,939)
Electricity, consumables and maintenance costs	8	(29,916)	(33,804)
Impairment loss/Gain on trade receivables		(19,695)	(22,519)
Other expenses	9	(48,419)	(49,722)
Results from operating activities		93,000	89,101
Finance income	10	19,963	10,459
Finance costs	10	(230,287)	(162,814)
Net finance costs/income		(210,324)	(152,355)
Loss/Gain before income tax		(117,324)	(63,254)
Income tax expense		(386)	(610)
Loss and total comprehensive loss for the year		(117,710)	(63,864)

These consolidated financial statements were approved by the Management Board on 09 November 2020 and were signed on its behalf by:

David Peradze
General Director

Irakli Titvinidze
Chief Financial Officer

*The Group has initially applied IFRS 9 at 1 January 2018. Impairment loss on trade receivables is reclassified from Finance income.

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 39.

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 2019	1,053,714	100,244	(624,742)	529,216
Loss and total comprehensive loss for the period	-	-	(63,864)	(63,864)
Transactions with owners, recorded directly in equity				
Net non-cash contributions by and distributions to owners (note 18 a)	(379)	78	-	(301)
Total transactions with owners, recorded directly in equity	(379)	78	-	(301)
Balance at 30 September 2019	1,053,335	100,322	(688,606)	465,051

'000 GEL	Share capital	Non-cash owner contribution reserve	Retained earnings	Total equity
Balance at 1 January 2020	1,053,372	100,322	(630,327)	523,367
Profit and total comprehensive loss for the period (unaudited)	-	-	(117,710)	(117,710)
Transactions with owners, recorded directly in equity				
Net non-cash contributions by and distributions to owners	439	-	-	439
Total transactions with owners, recorded directly in equity	-	-	-	-
Balance at 30 September 2020	1,053,812	100,322	(748,037)	406,096

*The Group has initially adopted IFRS 16 Leases from January 2019. See Note 5.

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 39.

'000 GEL	Note	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019
Cash flows from operating activities			
Cash receipts from customers		359,041	366,953
Cash paid to suppliers and employees		(192,552)	(202,859)
Cash flows from operations before income taxes paid		166,489	164,094
Income tax paid		-	(250)
Net cash from operating activities		166,489	163,844
Cash flows from investing activities			
Acquisition of property, plant and equipment		(43,276)	(82,007)
Proceeds from sale of property, plant and equipment		2,432	13,584
Interest received		11,420	8,789
Net cash used in investing activities		(29,424)	(59,634)
Cash flows from financing activities			
Repayment of borrowings		(6,990)	(5,895)
Interest paid		(116,362)	(108,128)
Net cash used in financing activities		(123,352)	(114,023)
Net increase / (decrease) in cash and cash equivalents		13,713	(9,813)
Cash and cash equivalents at 1 January		257,975	241,308
Effect of exchange rate fluctuations on cash and cash equivalents		21,149	15,052
Effect of movements in ECL on cash and cash equivalents		180	69
Cash and cash equivalents at 30 September		293,017	246,616

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 39.

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 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 registration number is 03/4-965.

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. Partnership Fund JSC produces publicly available consolidated financial statements.

Related party transactions are disclosed in note 26.

2. Basis of accounting

Statement of compliance

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

This is the first set of the Group's annual financial statements in which IFRS 16 *Leases* have been applied.

Changes to significant accounting policies are described in note 5.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Group's functional currency and the currency in which these 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 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.

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).

5. Changes in significant accounting policies

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

IFRS 16

The Company has initially adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has not recognised right-of-use assets, representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

6. 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	
	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019
'000 GEL						
External revenues	340,038	330,555	10,279	25,334	350,317	355,889
Depreciation and amortization	(16,186)	(15,739)	(4,779)	(4,680)	(20,964)	(20,419)
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	233,487	228,680	(12,436)	2,352	221,051	231,032
Reportable segment assets	169,155	194,781	135,389	143,495	304,545	338,276
Capital expenditure and other additions to non-current assets	11,165	979	2,285	145	13,451	1,123

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

'000 GEL	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019
Revenues		
Total revenue for reportable segments	350,317	355,889
Other revenue	13,158	8,275
Consolidated revenue	363,475	364,164
Profit or loss		
Total profit or loss for reportable segments	221,051	231,032
Employee benefits expense – infrastructure and headquarters	(52,338)	(51,597)
Depreciation expenses – infrastructure and headquarters	(38,773)	(44,520)
Net finance loss	(210,324)	(152,355)
Other net unallocated expenses	(36,938)	(45,814)
Consolidated profit before income tax	(117,323)	(63,254)
Assets		
Total assets for reportable segments	304,545	338,276
Property, plant and equipment - infrastructure and headquarters	1,616,085	1,558,577
Other unallocated assets, principally cash and non-current assets	461,953	392,431
Consolidated total assets	2,382,583	2,289,284

(iii) Other material items Nine -month periods ended 30 September 2020

'000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	13,451	88,086	101,536
Depreciation and amortization	20,964	38,773	59,738

(iv) Other material items Nine -month periods ended 30 September 2019

'000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	1,123	81,729	82,852
Depreciation and amortization	20,419	44,520	64,939

(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 nine month periods ended 30 September 2020 the Group's freight transportation segment represented approximately 5% of the Group's total revenue. For the nine month periods ended 30 September 2019 the Group's freight transportation segment represented approximately 7% of the Group's total revenue.

7. Revenue

'000 GEL	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019
Freight traffic	285,377	272,340
Logistic services	39,378	38,685
Passenger traffic	10,279	25,334
Freight car rental	15,283	19,529
Other	13,158	8,276
	363,475	364,164

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.

a) **Performance obligations and revenue recognition policies**

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Freight traffic- Revenue generated by transporting freight from one point to another in return of the consideration determined based on agreement.

Logistics services- Revenue for provision of general freight transportation supervision, document preparation and other related services to the external parties.

Passenger traffic - Revenue generated by charging the individuals for transporting from one place to another through sale of railway tickets.

Freight car rental - Revenue of renting wagons of the group to foreign countries' railways, mostly within CIS, as well as local customers.

Other revenue - Revenue is comprised from sale of scrap and other services.

Revenue Type	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Freight traffic, Logistic services and Passenger traffic	Freight traffic, Logistic services and Passenger traffic revenue streams are to be recognized "over time" since transportation is the service, during which customer receives and consumes simultaneously the benefit as the Group performs. The customer benefits from the distance travelled.	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on estimated time to completion of transportation.
Other revenue	Other revenue is recognised at the point in time when sale has been commenced and control over the goods was transferred.	Revenue is recognised at a point in time when the goods have been accepted by customers at the Group`s warehouse.

8. Electricity, consumables and maintenance costs

'000 GEL	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019
Electricity	14,599	16,076
Materials	7,396	9,272
Repair and maintenance	3,469	3,306
Fuel	4,453	5,150
	29,917	33,804

9. Other expenses

'000 GEL	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019
Taxes other than income tax	18,047	17,277
Logistic services	12,192	13,983
Security	7,493	6,921
Freight car rental	2,637	2,589
Other	8,051	8,952
	48,420	49,722

10. Finance income and finance costs

'000 GEL	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019
Recognised in profit or loss		
Interest income	13,361	10,390
Reversal of impairment on cash in bank	-	69
Reversal of impairment on PPE	6,602	
Finance income	19,963	10,459
Impairment loss on issued loans	108	(17)
Impairment loss on cash in bank	180	-
Net foreign exchange loss	(188,996)	(125,059)
Interest expense	(41,580)	(37,738)
Finance costs	(230,288)	(162,814)
Net finance loss recognised in profit	(210,325)	(152,355)

11. Income tax benefit

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

'000 GEL	Nine-month period ended 30 September 2020	Nine-month period ended 30 September 2019
Current tax expense		
Current year	386	610
	386	610

12. Property, plant and equipment

(a) Construction in progress

By the end of 2010, the Group started two large capital projects:

- The Main Line Modernisation; and
- Tbilisi Bypass Project.

The Group commenced the initiation of the above projects in September 2010 and November 2010, respectively. The Group issued unsecured bonds in 2010 to partly finance the projects above. During 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see note 19).

The borrowing costs were capitalized on the above two projects in proportion to the costs incurred on those projects based on a capitalization rate of 8% (2018: 8%). Capitalised borrowing costs of GEL 73,518 thousand during 2019 relate to the Main Line Modernization project (2018: GEL 57,114 thousand).

13. 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.

'000 GEL	30 September 2020	30 September 2019
<i>Non-current assets</i>		
Parent company	-	24,287
	-	24,287
<i>Current assets</i>		
Parent company	29,860	-
	29,860	-

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 GEL	Currency	Nominal interest rate	Year of maturity	30 September 2020		30 September 2019	
				Face value	Carrying amount	Face value	Carrying amount
Parent company	USD	9.75%	2021	29,860	29,860	24,287	24,287
Total interest-bearing assets				29,860	29,860	24,287	24,287

14. Other non-current assets

'000 GEL	<u>30 September 2020</u>	<u>30 September 2019</u>
Prepayments for non-current assets	61,624	61,239
Construction materials	27,087	23,198
Goodwill	46	46
Intangible assets	9,583	9,971
	<u>98,340</u>	<u>94,454</u>

* Prepayments for non-current assets are related to Bypass project, which was suspended as at 30 September 2020 and 2019. Per Management assessment the prepayments are fully recoverable based on the performance guarantee from a foreign bank.

15. Inventories

'000 GEL	<u>30 September 2020</u>	<u>30 September 2019</u>
Materials	30,130	30,562
Fuel	2,085	1,079
Rails	1,686	1,331
Other	2,844	3,236
	<u>36,746</u>	<u>36,208</u>
Allowance for inventory obsolescence	-	(1,951)
	<u>36,746</u>	<u>34,257</u>

16. Trade and other receivables

'000 GEL	<u>30 September 2020</u>	<u>30 September 2019</u>
Trade receivables	232,780	210,416
Impairment allowance on trade receivables	(205,886)	(169,715)
	<u>26,894</u>	<u>40,701</u>
Receivable from the Government (note 18 (d))	25,205	25,205
Impairment allowance on trade receivables	(25,205)	(25,205)
Other receivables	250	209
	<u>27,144</u>	<u>40,910</u>

- The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.
- Receivable from the Government of Georgia (hereinafter the Government or the GoG) was recognized as a result of the transfer of the property to the GoG, as according to the Bypass Project

Memorandum of Understanding (MoU), the Government will reimburse the Group for the value added tax payable incurred on such transfers

17. Prepayments and other current assets

'000 GEL	<u>30 September 2020</u>	<u>30 September 2019</u>
Prepaid expense	207	79
Advances paid to suppliers	1,638	1,953
	<u>1,845</u>	<u>2,032</u>

18. Cash and cash equivalents

'000 GEL	<u>30 September 2020</u>	<u>30 September 2019</u>
Current accounts in banks	30,566	45,061
Call deposits	262,806	201,966
Provision for Cash and cash equivalents	(390)	(486)
Petty cash	35	75
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	<u>293,017</u>	<u>246,616</u>

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.

19. Equity and liabilities to the Government

(a) Share capital

<i>Number of shares</i>	Ordinary shares	
	<u>30 September 2020</u>	<u>30 September 2019</u>
In issue at 1 January	1,053,371,024	1,053,713,624
Issued for property, plant and equipment	440,976	(378,606)
In issue at 30 September, fully paid	<u>1,053,812,000</u>	<u>1,053,335,018</u>
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	30 September 2020	30 September 2019
Liabilities to the Government	4,735	5,729

(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.

20. 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.

21. 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	30 September 2020	30 September 2019
<i>Non-current liabilities</i>		
Secured loan	72,451	76,112
Unsecured bonds	1,642,888	1,476,178
Loans and borrowings	1,715,339	1,552,290
 <i>Current liabilities</i>		
Secured loan	14,320	14,341
Current portion of unsecured bonds	28,450	24,579
Loans and borrowings	42,771	38,920

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	30 September 2020		30 September 2019	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds	USD	7.8%	2022	1,671,338	1,671,338	1,500,757	1,500,757
Secured loan	USD	Libor +1.25%	2026	86,772	86,772	90,453	90,453
Total interest-bearing liabilities				1,758,110	1,758,110	1,591,210	1,591,210

In July 2012, the Group carried out the issuance, placement and registration (listing) of unsecured bonds of USD 500 million on the London Stock Exchange with an interest rate of 7.75% due in 2022.

Part of the above bonds were used for an early redemption of the unsecured bonds of USD 250 million issued by the Group in 2010.

The secured loan was obtained for the sole purpose of the acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains, with the carrying amount of GEL 72,451 thousand as at 30 September 2020 (30 September 2019: GEL 76,112 thousand) .

22. Trade and other payables

'000 GEL	<u>30 September 2020</u>	<u>30 September 2019</u>
Trade payables	120,628	139,640
Advances received from customers	21,357	19,359
	<u>141,985</u>	<u>158,999</u>

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

23. Provisions

'000 GEL	<u>30 September 2020</u>	<u>30 September 2019</u>
Balance as at 1 January	16,027	11,356
Net provisions made during the period	(2,508)	1,209
Balance at the period end	<u>13,519</u>	<u>12,565</u>

24. 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	
	30 September 2020	30 September 2019
Cash and cash equivalents	292,982	246,542
Trade receivables	26,966	40,701
Loans receivable	29,860	24,287
	349,808	311,530

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 7% (30 September 2019: 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	
	30 September 2020	30 September 2019
CIS countries	18,792	30,931
Domestic	8,174	9,770
	26,966	40,701

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

'000 GEL	30 September 2020	30 September 2019
Balance at beginning of the year	180,491	146,732
Increase during the period	25,251	22,983
Balance at end of the period	205,742	169,715

. 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.

Loans receivable

As at 30 September 2020, the Group has issued loan to the parent company. The loan is not secured.

Management believes that the Group is not exposed to a significant amount of credit risk relating to the parent company loan, as the loan is not past due as at 30 September 2020 and 2019. There are no indications that the parent company will fail to meet its obligations, when it falls due and management assessed expected credit loss from loans receivable at GEL 90 thousand as at 31 December 2019.

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 or global pandemic.

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.

30 September 2020

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	80,398	106,665	9,114	8,935	17,453	48,785	22,378
Unsecured bonds	1,581,858	1,898,705	63,701	63,701	1,771,302	-	-
Trade payables	120,628	120,628	120,628	-	-	-	-
Other current liabilities	21,354	21,354	21,354	-	-	-	-
	1,803,965	2,147,352	214,797	72,636	1,788,755	48,785	22,378

30 September 2019

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	90,453	112,644	8,463	8,307	16,223	45,458	34,193
Unsecured bonds	1,500,757	1,821,142	57,257	57,257	114,514	1,592,114	-
Trade payables	139,640	139,640	139,640	-	-	-	-
Other current liabilities	7,746	7,746	7,746	-	-	-	-
	1,738,596	2,081,172	213,106	65,564	130,737	1,637,572	34,193

(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
	30 September 2020	30 September 2020	30 September 2019	30 September 2019
Cash and cash equivalents	176,469	273	166,569	277
Loan receivable	29,860	-	24,287	-
Trade receivables	18,518	274	22,457	8,474
Secured loan	(80,398)		(90,453)	-
Unsecured bonds	(1,581,858)		(1,500,757)	-
Trade and other payables	(4,964)		(7,878)	-
Net exposure	(1,442,373)	547	(1,385,775)	8,751

The following significant exchange rates applied during the period:

in GEL	Average rate		Reporting date spot rate	
	30 September 2020	30 September 2019	30 September 2020	30 September 2019
USD 1	3.03	2.75	3.29	2.96
CHF 1	3.16	2.76	3.56	2.98

(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	
	30 September 2020	30 September 2019
Fixed rate instruments		
Financial assets	206,602	226,253
Financial liabilities	(1,581,858)	(1,500,757)
	(1,289,192)	(1,274,504)
Variable rate instruments		
Financial liabilities	(80,398)	(90,453)
	(80,398)	(90,453)

25. Subsidiaries

Subsidiary	Country of incorporation	Principal activities	30 September 2020 Ownership/ voting	30 September 2019 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%

26. Operating leases

Non-cancellable operating lease rentals are receivable as follows:

'000 GEL	30 September 2020	30 September 2019
Less than one year	2,837	5,350
Between one and five years	7,589	6,120
More than five years	25,994	20,857
	36,420	32,327

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.

27. Capital commitments

As at 30 September 2020 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 399,463 thousand (30 September 2019: GEL 423,936 thousand) mainly relating to the Main Line Modernization project of GEL 108,786 thousand (30 September 2019: GEL 180,805 thousand) and Tbilisi Bypass project of GEL 289,833 thousand (30 September 2019: 242,202 thousand).

28. 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.

29. 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	30 September 2020	30 September 2019
Salaries and bonuses	680	792

(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 have not purchases electricity from a state-owned operator for the nine month periods ended 30 September 2020 and 30 September 2019. The Group also purchases security services from a state agency which amounted to GEL 7,304 thousand for the nine month periods ended 30 September 2020 (30 September 2019: GEL 6,717 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	
	30 September 2020	30 September 2019	30 September 2020	30 September 2019
Loans issued:				
Parent company	-	-	29,860	24,287

30. 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.

31. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the adoption of IFRS 15 and IFRS 9 from 1 January 2018, and have been applied consistently by Group entities.

(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 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

The Group has initially applied IFRS 15 from 1 January 2018. Information about the Group's accounting policies relating to contracts with customers is provided in Note 7. The timing or amount of the Group's income from contracts with customers were not significantly impacted by the adoption of IFRS 15.

(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 other financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

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

(i) Current tax

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

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

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

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

Set off the tax payable on dividends declared and paid is available for the corporate income tax paid on the

undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

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

(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 16% 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 | 13-25 years; |
| • transport, machinery, equipment and other | 10-16 years. |

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

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

designated as at FVTPL:

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

Trade and other receivables, loans receivable and cash and cash are classified as measured at amortised cost.

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.

These financial assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Before 1 January 2018, the Group classified non-derivative financial assets into the following categories: loans and receivables and cash and cash equivalents. These were measured at amortised cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial 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 amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(i) 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- Policy applicable from 1 January 2018

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

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

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

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

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

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

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

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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.

(iii) 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.

32. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 16 Leases

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

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

(i) Leases in which the Group is a lessee

No significant impact is expected for the Group's finance leases since Group does not acts as a lessee.

(ii) Leases in which the Group is a lessor

The Group will reassess the classification of sub-leases in which the Group is a lessor.

No significant impact is expected for other leases in which the Group is a lessor.

(iii) Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(b) Other standards and interpretations

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*;
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*;
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*;
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards;
- *Amendments to References to Conceptual Framework in IFRS Standards*;
- *IFRS 17 Insurance Contracts*;
- *Definition of a Business (Amendments to IFRS 3)*;
- *Definition of material (Amendments to IAS 1 and IAS 8)*;
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*.