

Georgian Railway JSC

**Consolidated Financial
Statements for 2018**

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Independent Auditors' Report

To the Shareholder of Georgian Railway JSC

Opinion

We have audited the consolidated financial statements of Georgian Railway JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Impairment of Property, Plant and Equipment

Please refer to the Note 11 in the consolidated financial statements.

The key audit matter

As described in note 1 (b) and note 11 (c) to the consolidated financial statements, the Group experienced a continuing decline in the cargo volumes and revenues compared to the prior years. Consequently, the Group determined that there is an indication of an impairment and conducted an impairment test of the Group's property, plant and equipment.

How the matter was addressed in our audit

We have performed the following audit procedures to address the key audit matter:

- Performed inquiries of management to obtain an understanding of the process for the impairment analysis;
- Evaluated the design and implementation of the processes and internal controls of the Group, surrounding the preparation of the impairment model, to assess the reliability and accuracy of the Group's forecasting and budgeting process;

As a result of the impairment test conducted, the recoverable amount of the Group's property, plant and equipment was determined to be less than its carrying amount and an impairment loss of GEL 691 million was recorded for the year ended 31 December 2018.

The impairment of property, plant and equipment is a Key Audit Matter due to the level of judgement involved in Management's impairment analysis and inherent estimation uncertainties involved in the forecasting and discounting future cash flows related to the impairment model assessment.

- Involved our own valuation specialists to challenge the key assumptions and judgements underpinning the impairment-testing model, such as liquid and dry cargo growth rates, inflation rate, discount rate, period of cash flow projections (to 2037), annual maintenance capital expenditure and payments for the finalisation of the Main Line Modernization project by comparing those inputs to externally derived data, as well as our own expectations;
- We compared the current year's actual results with the figures for the same period included in the impairment model prepared as at 31 December 2017, to assess management's ability to accurately budget the expected results;
- We obtained the Group's budget for the year ending 31 December 2019 and assessed whether expected cash flows in that budget are consistent with those included in the current year's impairment model;
- We obtained and evaluated the Market Study and Traffic Forecast feasibility study confirming the increased cargo flow, resulting from the completion of Anaklia Deep Sea Port;
- We evaluated the sensitivity of the impairment model outcomes by considering the downside scenarios against reasonably plausible changes to the key assumptions; and
- We evaluated the adequacy of the disclosures made in Note 1 (b) and Note 11 (c) of the consolidated financial statements by reference to the requirements of IAS 36 – Impairment of Assets and IAS 1 – Presentation of financial statements.

Statement of Management Report

Management is responsible for the Management Report. Our opinion on the consolidated financial statements does not cover the Management Report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and based on the work we have performed, we conclude that the Management Report:

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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



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

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

Irina Gevorgyan:

A handwritten signature in black ink, appearing to be 'I. Gevorgyan', written over a faint, illegible stamp or watermark.

KPMG Georgia LLC
27 May 2019

000 GEL	Note	2018	2017*
Assets			
Property, plant and equipment	11	1,826,591	2,368,380
Loans receivable	12	20,480	18,113
Other non-current assets	13	97,525	123,562
Non-current assets		1,944,596	2,510,055
Inventories	14	32,882	32,807
Tax assets		3,899	2,360
Prepayments and other current assets		415	383
Trade and other receivables	15	40,912	73,614
Cash and cash equivalents	16	241,308	243,018
Current assets		319,416	352,182
Total assets		2,264,012	2,862,237
Equity			
Share capital	17 (a)	1,053,714	1,053,271
Non-cash owner contribution reserve	17 (b)	100,244	98,192
(Accumulated losses)/retained earnings		(624,742)	93,385
Total equity		529,216	1,244,848
Liabilities			
Loans and borrowings	19	1,336,665	1,374,363
Advance received from the Government	17 (e)	46,594	46,594
Non-current liabilities		1,383,259	1,420,957
Loans and borrowings	19	134,194	58,809
Trade and other payables	20	191,610	112,221
Liabilities to the Government	17 (c)	5,317	7,592
Provisions	21	11,356	7,953
Other current liabilities		9,060	9,857
Current liabilities		351,537	196,432
Total liabilities		1,734,796	1,617,389
Total equity and liabilities		2,264,012	2,862,237

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

000 GEL	Note	2018	2017
Revenue	7	424,614	434,534
Income from the transferred property	17 (e)	-	23,417
Other income		19,512	15,560
Impairment loss on property, plant and equipment	11 (b) (c)	(691,387)	(382,616)
Employee benefits expense		(154,338)	(148,302)
Depreciation and amortization expense	11	(113,804)	(109,703)
Electricity, consumables and maintenance costs	8	(43,708)	(41,490)
Impairment loss on trade receivables		(12,017)	(12,115)
Other expenses	9	(73,758)	(71,868)
Results from operating activities		(644,886)	(292,583)
Finance income	10	14,534	43,281
Finance costs	10	(85,018)	(104,150)
Net finance costs		(70,484)	(60,869)
Loss before income tax		(715,370)	(353,452)
Income tax expense		(1,169)	(648)
Loss and total comprehensive loss for the year		(716,539)	(354,100)

These consolidated financial statements were approved by the Management Board on 27 May 2019 and were signed on its behalf by:





David Peradze
 General Director

Irakli Titvinidze
 Chief Financial Officer

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Comparative information has been re-presented due to a new impairment loss line item. See Note 5.

Georgian Railway LLC
Consolidated Statement of Changes in Equity for the year ended 31 December 2018

'000 GEL	Share capital	Non-cash owner contribution reserve	(Accumulated losses)/ Retained earnings	Total equity
Balance at 1 January 2017	1,053,004	98,312	447,960	1,599,276
Loss and total comprehensive loss for the year	-	-	(354,100)	(354,100)
Transactions with owner, recorded directly in equity				
Increase in share capital (note17 (a))	267	-	-	267
Non-cash distribution to owner	-	(120)	(475)	(595)
Total transactions with owner, recorded directly in equity	267	(120)	(475)	(328)
Balance at 31 December 2017	1,053,271	98,192	93,385	1,244,848
Adjustment on initial application of IFRS 9, net of tax	-	-	(1,588)	(1,588)
Balance at 1 January 2018*	1,053,271	98,192	91,797	1,243,260
Loss and total comprehensive loss for the year	-	-	(716,539)	(716,539)
Transactions with owner, recorded directly in equity				
Increase in share capital (note17 (a))	443	-	-	443
Non-cash contributions by and distributions to owners	-	2,052	-	2,052
Total transactions with owner, recorded directly in equity	443	2,052	-	2,495
Balance at 31 December 2018	1,053,714	100,244	(624,742)	529,216

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

'000 GEL	Note	2018	2017*
Cash flows from operating activities			
Cash receipts from customers		455,638	447,510
Cash paid to suppliers and employees		(276,328)	(268,593)
Cash flows from operations before income taxes paid		179,310	178,917
Income tax paid		(270)	(2,685)
Net cash from operating activities		179,040	176,232
Cash flows from investing activities			
Acquisition of property, plant and equipment		(104,694)	(165,265)
Proceeds from sale of property, plant and equipment		17,357	5,133
Interest received		11,856	14,805
Net cash used in investing activities		(75,481)	(145,327)
Cash flows from financing activities			
Proceeds from borrowings	19 (b)	-	50,248
Repayment of borrowings	19 (b)	(11,327)	(10,996)
Interest paid	19 (b)	(101,022)	(103,126)
Net cash used in financing activities		(112,349)	(63,874)
Net decrease in cash and cash equivalents		(8,790)	(32,969)
Cash and cash equivalents at 1 January		243,018	277,953
Effect of exchange rate fluctuations on cash and cash equivalents		7,635	(1,966)
Effect of movements in ECL on cash and cash equivalents		(555)	-
Cash and cash equivalents at 31 December	16	241,308	243,018

*The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 5.

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.

Most of the Group's revenue is derived from the freight transportation and freight forwarding services. Accordingly, the Group's results are particularly sensitive to the cargo flows through Georgia. Due to continued pressure from a challenging market environment, the Group's transportation volumes have been declining for the last 6 years from 5,899 million metric-ton per kilometer of cargo in 2012 to 2,747 million metric-ton per kilometer of cargo in 2018).

As a result, management identified indicators that the recoverable amount of the Group's cash-generating unit might be lower than its carrying value (see note 11(c)).

However, management expect gradual increase of cargo volumes from 2020 resulting in an increased operational profit and cash flows. Management also expect an increase in volumes from 2023 as a result of the Anaklia Deep Sea Port becoming operational.

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 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* 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.

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

- Note 11 (c) – impairment of property, plant and equipment;
- Note 15 – impairment allowances for trade and other receivables;
- Note 19 (a) – despite the breach of covenant on the secured loan, Management believes that the unsecured bonds should still be classified as long-term because the cross-acceleration of the bonds applies if the event of default occurs and is continuing.
- Note 28 (h) (iii) – useful lives and residual values of property, plant and equipment;

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 (c) – sensitivity of impairment of property, plant and equipment;
- Note 22(b)(ii) – measurement of ECL allowance for financial assets

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 17 (e) – fair value of the land plots transferred to the Government of Georgia.
- Note 22 (a) – fair value of financial assets and liabilities;

5. Changes in significant accounting policies

The Group has initially applied IFRS 15 (see (A)) and IFRS 9 (see (B)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these consolidated financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables.

The effect of initially applying these standards is mainly attributed to an increase in impairment losses recognised on financial assets

A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

IFRS 15 did not have a significant impact on the Group's accounting policies with respect to the Group's revenue streams – Freight traffic, Logistic services, Passenger traffic, Freight car rental and other revenue from customers (see note 7), therefore, there has been no impact of transition to IFRS 15 on retained earnings at 1 January 2018. No contract assets/liabilities were recognized as a result of transition to IFRS 15.

B. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of trade receivables to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in other finance costs. Consequently, the Group reclassified impairment losses amounting to GEL 12,115 thousand, recognised under IAS 39, from 'finance cost' to 'impairment loss on trade receivables' in the statement of profit or loss and OCI for the year ended 31 December 2017. Impairment losses on other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and OCI due to materiality considerations.

Due to recognition of expected credit losses under IFRS 9, the impact of transition on retained earnings as at 1 January 2018 amounted to GEL 1,588 thousand.

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

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9

eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

For an explanation of how the Group classifies and measures financial instruments, treats modifications and accounts for related gains and losses under IFRS 9, see note 28 (i).

Trade and other receivables, loans receivable and cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

'000 GEL	
Loss allowance at 31 December 2017 under IAS 39	191,207
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables as at 31 December 2017	1,091
Loan receivable at amortised cost	81
Cash and cash equivalents	416
Loss allowance at 1 January 2018 under IFRS 9	192,795

Additional information about how the Group measures the allowance for impairment is described in note 22 (b) (ii) and note 28(i).

(iii) Transition

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

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

'000 GEL	Freight transportation		Passenger transportation		Total	
	2018	2017	2018	2017	2018	2017
External revenues	388,643	403,515	27,404	22,843	416,047	426,358
Depreciation and amortization	(36,303)	(41,939)	(8,457)	(9,245)	(44,760)	(51,184)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	220,452	244,690	(5,166)	(10,104)	215,286	234,586
Reportable segment assets	184,898	314,442	147,654	204,211	332,552	518,653
Capital expenditure and other additions to non-current assets	2,496	5,098	812	60,881	3,308	65,979

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

'000 GEL	2018	2017
Revenues		
Total revenue for reportable segments	416,047	426,358
Other revenue	8,567	8,176
Consolidated revenue	424,614	434,534
Profit or loss		
Total profit or loss for reportable segments before infrastructure costs, net impairment, interest cost and income tax	215,286	234,586
Employee benefits expense – infrastructure and headquarters	(67,860)	(60,190)
Depreciation expenses – infrastructure and headquarters	(69,044)	(58,519)
Impairment	(691,387)	(382,616)
Net finance costs	(70,484)	(72,984)
Other net unallocated expenses	(31,881)	(13,729)
Consolidated loss before income tax	(715,370)	(353,452)
Assets		
Total assets for reportable segments	332,552	518,653
Property, plant and equipment - infrastructure and headquarters	1,520,426	1,878,568
Other unallocated assets, principally cash and non-current assets	411,034	465,016
Consolidated total assets	2,264,012	2,862,237

(iii) Other material items 2018

'000 GEL	<u>Reportable segment totals</u>	<u>Infrastructure and headquarters</u>	<u>Consolidated totals</u>
Capital expenditure and other additions to non-current assets	3,308	239,287	242,595
Depreciation and amortization	44,760	69,044	113,804

(iv) Other material items 2017

'000 GEL	<u>Reportable segment totals</u>	<u>Infrastructure and headquarters</u>	<u>Consolidated totals</u>
Capital expenditure and other additions to non-current assets	65,979	153,214	219,193
Depreciation and amortization	51,184	58,519	109,703

(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

In 2018, one customer of the Group's freight transportation segment represented approximately 7% of the Group's total revenue (2017: 8%).

7. Revenue

'000 GEL	<u>2018</u>	<u>2017</u>
Freight traffic	292,963	312,960
Logistic services *	70,318	73,774
Passenger traffic	27,404	22,844
Freight car rental	25,362	16,780
Other	8,567	8,176
	<u>424,614</u>	<u>434,534</u>

* On 28 September 2017, GR Transit LLC concluded a Ship-or-Pay Agreement (SoP) with foreign company, according to which foreign company had to transport at least 1,200,000 metric tons of crude oil and oil and gas condensate (Cargo) until the end of 2017 using the Group railway infrastructure and 50% of annual quantity of crude oil sourced from Turkmenistan and delivered to Baku- Tbilici-Ceihan pipeline until the end of 2018. Included in the logistics services during 2018 and 2017 is the revenue recognised in the above regards, amounting to GEL 23,471 thousand and GEL 26,440 thousand respectively.

Notwithstanding the above, no Cargo was transported during 2018 and 2017, however, foreign company should still pay for the service, regardless of the Cargo transportation, as stipulated by the SoP (see note 15).

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. Freight car rental represents a lease and is accounted for under IAS 17.

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 under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
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.	Revenue was recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion was 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.	Revenue was recognised when the customer accepted the goods and the related risks and rewards of ownership were transferred.

8. Electricity, consumables and maintenance costs

'000 GEL	2018	2017
Electricity	20,962	20,868
Materials	11,929	11,565
Repair and maintenance	4,113	3,820
Fuel	6,704	5,237
	43,708	41,490

9. Other expenses

'000 GEL	2018	2017
Property and land tax	26,813	27,043
Logistic services	17,636	12,996
Security	9,209	8,918
Other tax	-	7,752
Freight car rental	4,177	4,095
Other *	15,923	11,064
	73,758	71,868

* Included in the other above are the fees paid to the audit firms of about GEL 208 thousand, for the provision of audit and other professional services (2017: GEL 220 thousand).

10. Finance income and finance costs

'000 GEL	2018	2017
Recognised in profit or loss		
Interest income under the effective interest method	14,534	17,793
Net foreign exchange gain	-	25,488
Finance income	14,534	43,281
Impairment loss on other receivables	-	(27,215)
Impairment loss on other financial assets	(149)	(23,502)
Interest expense on financial liabilities measured at amortised cost	(47,352)	(53,433)
Net foreign exchange loss	(37,517)	-
Finance costs	(85,018)	(104,150)
Net finance costs recognised in profit or loss	(70,484)	(60,869)

11. Property, plant and equipment

'000 GEL	Land	Buildings and constructions	Rail track infrastructure	Transport, machinery, equipment and other	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2017	541,862	129,841	940,266	968,064	874,580	3,454,613
Additions	319	61	255	65,710	181,133	247,478
Disposals and write offs	(3,622)	(3,468)	(25,853)	(5,251)	-	(38,194)
Transfers	125	3,626	41,470	2,828	(51,306)	(3,257)
Balance at 31 December 2017	538,684	130,060	956,138	1,031,351	1,004,407	3,660,640
Balance at 1 January 2018	538,684	130,060	956,138	1,031,351	1,004,407	3,660,640
Additions	1,024	950	5,694	6,854	254,320	268,842
Disposals and write offs	(156)	(71)	(2,495)	(13,080)	-	(15,802)
Transfers	173	62	7,663	(1,015)	(6,883)	-
Balance at 31 December 2018	539,725	131,001	967,000	1,024,110	1,251,844	3,913,680
Depreciation and impairment loss						
Balance at 1 January 2017	-	33,413	323,294	474,312	-	831,019
Depreciation for the year	-	3,934	47,976	57,563	-	109,473
Disposals and write offs	-	(1,326)	(25,316)	(4,206)	-	(30,848)
Impairment loss	32,101	-	-	-	350,515	382,616
Balance at 31 December 2017	32,101	36,021	345,954	527,669	350,515	1,292,260
Balance at 1 January 2018	32,101	36,021	345,954	527,669	350,515	1,292,260
Depreciation for the year	-	3,364	57,840	52,600	-	113,804
Disposals and write offs	-	(26)	(868)	(9,468)	-	(10,362)
Impairment loss	139,383	25,165	154,883	124,469	247,487	691,387
Balance at 31 December 2018	171,484	64,524	557,809	695,270	598,002	2,087,089
Carrying amounts						
At 1 January 2017	541,862	96,428	616,972	493,752	874,580	2,623,594
At 31 December 2017	506,583	94,039	610,184	503,682	653,892	2,368,380
At 31 December 2018	368,241	66,477	409,191	328,840	653,842	1,826,591

(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% (2017: 8%). Capitalised borrowing costs of GEL 57,114 thousand during 2018 relate to the Main Line Modernization project (2017: GEL 49,755 thousand).

(b) Impairment of Tbilisi Bypass Project (the Project)

In June 2013, the Group announced a decision to redesign the Tbilisi Bypass Project. The Group held negotiations with the Government of Georgia and with the main third party construction companies to agree a plan for the conservation of the Project for the period of redesigning. All construction works in progress were substantially completed by the end of October 2013 and further construction was suspended. No borrowing costs are capitalised since October 2013.

In March 2014, the Government of Georgia decided that the suspension of the construction of Tbilisi Bypass project will last for 18 months until the final modified project is presented.

During 2016 and 2015, the Group was in discussion with the Tbilisi City Hall and the Government of Georgia about various scenarios of completing the project. One of the scenarios under discussion included an option envisaging a change of the original bypass location, because of which the existing bypass infrastructure may become redundant. The alternative scenarios also included the determination of the future use of the existing infrastructure, should it become redundant. The options of future use of the infrastructure were bypass automobile road, light rail/extension of the Tbilisi Metro System, freight depot, etc., however, as at 31 December 2017, 2018 and the date these consolidated financial statements were authorized for issue, no decision was made by the Government of Georgia about the redesign of the Tbilisi Bypass Project.

Due to significant uncertainties associated with either the continuation of the existing Project or implementation of any other scenarios, envisaging the change in the existing use of the Project, and also considering the fact that Management does not expect that the Project will generate any future economic benefit to the Group either individually, or in combination with other non-current assets, the carrying value of the Project was written-down by GEL 382,616 thousand in 2017 to its recoverable amount GEL 14,689 thousand, representing land included in the construction in progress heading above.

During 2018 no event or change in circumstances occurred which would result in reversal of provision.

(c) *Impairment of property, plant and equipment (excluding Tbilisi Bypass Project)*

The impairment testing was carried out by the Group due to the significant decline in the volumes transported (from 5,899 million metric-ton per kilometer of cargo in 2012 to 2,747 million metric-ton per kilometer of cargo in 2018) and revenue in freight transportation (from GEL 350,749 thousand in 2012 to GEL 241,572 thousand in 2018). Revenue from freight transportation services represents about 57% of the total revenue generated for the past two years, which was considered as the indicator of the impairment.

The recoverable amount of the CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU. Based on the analysis, the recoverable amount of the CGU was determined to be less than its carrying amount by GEL 691,387 thousand, therefore impairment loss was recorded in the profit or loss and other comprehensive income in 2018. The impairment loss was allocated to items of property, plant and equipment on a pro-rata basis, but not less than the fair value less costs to sell of the individual items.

The following main key assumptions are used in the estimation of the recoverable amount:

- Cash flows are projected based on actual operating results and cash flows for a period up to 2037, with the further calculation of the terminal value. Due to the significant impact that the construction of Anaklia Port is expected to have on volumes in the future, the Group has determined that it is justified to use cash flow projections for a period of 19 years since the Group believe that the 19 year period will allow cash flows to stabilize after the Anaklia Port is constructed. The projections are prepared in nominal terms;
- Volumes are projected based on the actually transported quantities during 2018, adjusted for the Georgian GDP growth rate of 4.6% up to 2022. No volume growth is projected from 2023. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2019, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 2.25% during the first two projected years and 1.7% increase during the remaining projected period;

- Cash flows include annual maintenance capital expenditure and payments for the finalization of the Main Line Modernization project. Projected cash flows include USD 80 million associated with the Modernization project above. The finalization of the above project is expected to decrease the projected electricity and material costs by 10% during 2020 and 2021;
- A pre-tax discount rate of 12.91% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. The long-term growth rate for the terminal period approximates to the long-term inflation forecast for USD, which is 1.9%.

The key assumptions used to determine the value in use to which the calculation is most sensitive include:

- Discount rate – An increase of 1% point in the discount rate used would have resulted in an additional impairment loss of approximately GEL 186 million.
- Discount rate – A decrease of 1% point in the discount rate used would have resulted in a decrease in impairment loss of approximately GEL 227 million.
- Volume growth due to Anaklia Deep Sea Port – The exclusion of these volumes from the projected cash flows would have resulted in an additional impairment loss of about GEL 293 million;

(d) Capital contributions

The Government of Georgia contributes certain property, plant and equipment in the form of an increase in share capital. In 2018 and 2017 the share capital has been increased by the fair value of these assets of GEL 443 thousand and GEL 267 thousand respectively (see note 17 (a)).

(e) Security

At 31 December 2018, property with a carrying amount of GEL 76,717 thousand (2017: GEL 108,365 thousand) is pledged in respect of the secured loan (see note 19).

(f) Capital commitment

As at 31 December 2018, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 399,446 thousand (2017: GEL 488,135 thousand) mainly relating to the Main Line Modernization project of GEL 69,487 thousand (2017: GEL 267,305 thousand) and Tbilisi Bypass project of GEL 328,214 thousand (2017: GEL 216,375 thousand).

Management does not expect that the cessation of the construction agreement with the counterparty, responsible for the Tbilisi Bypass project completion, will result in the payment of the above amount.

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 22.

'000 GEL	2018	2017
<i>Non-current assets</i>		
Parent company	20,480	18,113
	20,480	18,113

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 GEL	Nominal interest rate	Year of maturity	31 December 2018		31 December 2017		
			Face value	Carrying amount	Face value	Carrying amount	
Parent company	USD	9.75%	2021	20,480	20,480	18,113	18,113
Total interest-bearing assets				20,480	20,480	18,113	18,113

13. Other non-current assets

'000 GEL	2018	2017
Prepayments for non-current assets*	60,630	79,071
Construction materials	26,463	36,108
Intangible assets	10,386	8,337
Other	46	46
	97,525	123,562

* Prepayments for non-current assets are related to Bypass project, which was suspended as at 31 December 2017 and 2018. Per Management assessment the prepayments are fully recoverable based on the performance guarantee from a foreign bank.

14. Inventories

'000 GEL	2018	2017
Materials	27,227	29,563
Fuel	3,405	2,380
Rails	1,264	1,174
Other	2,937	2,948
	34,833	36,065
Allowance for inventory obsolescence	(1,951)	(3,258)
	32,882	32,807
Reversal of previous write-down of inventories	1,307	178

15. Trade and other receivables

'000 GEL	2018	2017
Trade receivables *	186,373	237,464
Impairment allowance on trade receivables *	(146,732)	(164,058)
	39,641	73,406
Receivable from the Government **	25,205	27,149
Impairment allowance on receivable from the Government **	(25,205)	(27,149)
	-	-
Other receivables	1,271	208
	40,912	73,614

* Trade receivables as at 31 December 2018 and 31 December 2017 include the receivable from Foreign Company (see note 7), amounting to GEL 37,441 thousand and GEL 21,256 thousand respectively. As at 31 December 2018 and 31 December 2017 and the date these consolidated financial statements were authorised for issue, the receivable above was fully overdue. Provision for the receivable as at 31 December 2018 amounts to GEL 18,373 thousand. No provision was made as at 31 December 2017 as following the updated payment terms and receipt of first payments in 2018, the Group expected to fully recover the receivable by the end of 2018.

** 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 (see note 17 (e)).

Based on discussions with the GoG and due to uncertainties associated with the reimbursement of the above receivable, the Group recognized an impairment loss on the receivable from the Government, which was recognised in finance cost during 2017.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 22.

16. Cash and cash equivalents

'000 GEL	2018	2017
Current accounts in banks	91,716	79,073
Call deposits	150,028	163,866
Petty cash	119	79
Provision for Cash and cash equivalents	(555)	-
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	241,308	243,018

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 22.

17. Equity and liabilities to the Government

(a) Share capital

Number of shares

	Ordinary shares	
	2018	2017
In issue at 1 January	1,053,271,005	1,053,003,675
Issued for property, plant and equipment (see note 11 (d))	442,619	267,330
In issue at 31 December, fully paid	1,053,713,624	1,053,271,005
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 Government 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 Government. These liabilities are recorded at the carrying amount of assets to be transferred to the owner.

'000 GEL	2018	2017
Liabilities to the Government	5,317	7,592

(d) Dividends

In 2018 and 2017, no dividends were declared.

(e) 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 meters of land plots with attached constructions which would 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 agreed 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. As of the date these consolidated financial statements were authorized for issue there is no decision by the Government about these advances and no indication from the Government that this amount is due on demand.

(i) Transfer of the property to the Government

During 2017, the Company transferred 55,787 square meters of land plots with attached constructions, respectively, to the Government within the framework of the Bypass Project Memorandum. During 2018 no such transfers took place. The fair value of these land plots with attached constructions was determined by an independent appraiser based on announced asking prices of similar properties in the similar location and physical condition. The fair value estimate is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation methods. The significant unobservable inputs related to the differences in the characteristics of the properties, such as size, location, access to the property and discount achieved through negotiation, for which the appraiser applied 0% to 15% adjustments to observed asking prices.

The difference between the fair value and the carrying value of the transferred property was recognized as income in the consolidated statement of profit or loss. The difference between the cost of the transferred property, as agreed between the Group and the Government and used for the reduction of advances received from the Government, and the fair value of the transferred property was recognized directly in equity as a non-cash owner contribution reserve.

'000 GEL	2018	2017
Cost of the transferred property, as agreed between the Group and the Government	-	27,215
Less: fair value of the transferred property	-	(27,215)
Recognized in non-cash owner contribution reserve	-	-
Fair value of the transferred property	-	27,215
Less: carrying value of the transferred property	-	(3,798)
Recognized as income from the transferred property	-	23,417

18. 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.

19. 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 22.

'000 GEL	2018	2017
<i>Non-current liabilities</i>		
Secured loan	-	80,294
Unsecured bonds	1,336,665	1,294,069
Loans and borrowings	1,336,665	1,374,363
<i>Current liabilities</i>		
Secured loan	85,594	11,708
Current portion of unsecured bonds	48,600	47,101
Loans and borrowings	134,194	58,809

(a) 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 December 2018		31 December 2017	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds	USD	7.8% Libor	2022	1,385,265	1,385,265	1,341,170	1,341,170
Secured loan	USD	+1.25%	2026	85,594	85,594	92,002	92,002
Total interest-bearing liabilities				1,470,859	1,470,859	1,433,172	1,433,172

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 76,717 thousand as at 31 December 2018 (31 December 2017: GEL 108,365 thousand) (see note 11 (e)).

As at 31 December 2018 a financial covenant related to Net debt to EBITDA ratio on the secured loan above was breached. As a result, the lender can request repayment on demand and Group has classified the loan as short-term borrowings. The Group obtained a preliminary agreement from the lender on waiving the covenant at 31 December 2018 and the final waiver was received and became effective as of 10 January 2019.

(b) Changes in liabilities arising from financing activities

'000 GEL	Loans and borrowings 2018	Loans and borrowings 2017
Balance at 1 January	1,433,172	1,418,774
Proceeds from borrowings	-	50,248
Repayment of borrowings	(11,327)	(10,996)
Interest paid	(101,022)	(103,126)
Total change from financing cash flows	(112,349)	(63,874)
The effect of changes in foreign exchange rates	45,570	(24,916)
<i>Other changes</i>		
Interest expense recognised in finance cost	47,352	53,433
Interest expense capitalised as borrowing costs (note 11 (a))	57,114	49,755
Total liability-related other changes	104,466	103,188
Balance at 31 December	1,470,859	1,433,172

20. Trade and other payables

'000 GEL	2018	2017
Payables for non-current assets	158,359	77,805
Trade payables	18,552	16,771
Advances received from customers	14,699	17,645
	191,610	112,221

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

21. Provisions

'000 GEL	2018	2017
Balance as at 1 January	7,953	8,547
Net additional/(reversed) provision during the year	3,403	(594)
Balance at 31 December	11,356	7,953

The Group recognised a provision for the estimated cash outflow required to settle legal cases against the Group existing as at 31 December 2018 and 31 December 2017 as well as to settle the legal obligations towards the employees injured during the performance of their duties.

22. 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	
	2018	2017
Cash and cash equivalents	241,190	242,939
Trade receivables	39,641	73,406
Loans receivable	20,480	18,113
Balance at 31 December	301,311	334,458

Cash and cash equivalents

The Group usually holds funds with banks with good credit ratings. As at 31 December 2018, approximately 99% (31 December 2017: 90%) of the bank balances are held with the largest Georgian banks with short-term default rating of B, rated by Fitch Ratings. All balances are categorized under Stage 1.

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. During 2018, about 7% (2017: 8%) 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 and one large customer. 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 expected credit 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	
	2018	2017
Foreign countries	37,646	67,929
Domestic	1,995	5,477
	39,641	73,406

The Group's two most significant customers account for GEL 21,975 thousand of the trade receivables carrying amount as at 31 December 2018 (31 December 2017: GEL 40,681 thousand).

Expected credit loss assessment for corporate customers as at 1 January and 31 December 2018

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement regarding customer behaviour. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies.

The following table provides information about the exposure to credit risk and ECLs for trade receivables for customers as at 31 December 2018:

Expected credit loss

The following table provides information about the exposure to credit risk and ECLs for trade receivables for customers as at 31 December 2018:

'000 GEL	2018	2018	2018
	Not credit-impaired	Credit-impaired	Total
Customer Credit risk grade			
Low risk	3,589	-	3,589
Medium risk	-	9,382	7,026
High risk	-	173,402	173,402
Total Gross carrying amount	3,589	182,784	186,373
Loss allowance	-	(146,732)	(146,732)
	3,589	36,052	39,641

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, information on potential financial difficulties of the counterparties and information on past due days) and applying experienced credit judgement.

Exposures within each credit risk grade are segmented by geographic region and an ECL rate is calculated for each segment based on delinquency status, external credit rating and actual credit loss experience over

the past two years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under IAS 39

The credit quality of the Group's trade receivables as at 31 December 2017 was as follows:

'000 GEL	Gross 2017	Impairment 2017
Past due 0- 90 days	21,808	-
Past due 91-180 days	4,520	1,270
Past due 181-365 days	1,606	680
Past due more than one year	209,530	162,108
	237,464	164,058

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39:

'000 GEL	2018	2017
Balance as at 1 January under IAS 39	164,058	151,372
Adjustment on initial application of IFRS 9	1,091	-
Balance at 1 January under IFRS 9	165,149	151,372
Increase during the year	12,017	12,686
Net write off during the year	(30,434)	-
Balance at end of the year	146,732	164,058

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 31 December 2018, 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 31 December 2018 and 2017. 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 2018. The balance is categorized under Stage 1.

(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 December 2018, the Group maintains a committed credit line of GEL 162,800 thousand (31 December 2017: GEL 158,835 thousand).

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.

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	85,594	108,559	7,719	7,516	14,677	41,329	37,318
Unsecured bonds	1,385,265	1,753,173	51,859	51,859	103,718	1,545,737	-
Trade payables	176,911	176,911	176,911	-	-	-	-
Other current liabilities	9,060	9,060	9,060	-	-	-	-
	1,656,830	2,047,703	245,549	59,375	118,395	1,587,066	37,318

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	92,002	115,581	7,109	7,044	13,820	39,507	48,101
Unsecured bonds	1,341,170	1,798,338	50,223	50,223	100,446	1,597,446	-
Trade payables	94,576	94,576	94,576	-	-	-	-
Other current liabilities	9,857	9,857	9,857	-	-	-	-
	1,537,605	2,018,352	161,765	57,267	114,266	1,636,953	48,101

As disclosed in note 19, the Group has a secured bank loan for which there was a breach of financial covenant as at 31 December 2018 resulting in classification of secured loan as current liability. However, considering that as of 10 January 2019 the Group received a waiver letter from the lender, the management expects that the repayment of the secured loan will follow the contractual schedule. Consequently for liquidity note purposes secured loan repayments are allocated per age buckets based on contractual terms.

(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 2018	CHF - denominated 2018	USD - denominated 2017	CHF - denominated 2017
Cash and cash equivalents	180,680	17	167,859	1,891
Loan receivable	20,480	-	18,113	-
Trade receivables	33,324	4,323	39,433	28,505
Secured loan	(85,594)	-	(92,002)	-
Unsecured bonds	(1,385,265)	-	(1,341,170)	-
Trade and other payables	(659)	-	(8,748)	-
Net exposure	(1,237,034)	4,340	(1,216,515)	30,396

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
USD 1	2.53	2.51	2.68	2.59
CHF 1	2.59	2.55	2.73	2.66

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

'000 GEL	Profit or loss and equity
2018	
USD (10% weakening)	(123,703)
CHF (10% weakening)	434
2017	
USD (10% weakening)	(121,652)
CHF (10% weakening)	3,040

A strengthening of the GEL against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(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	
	2018	2017
Fixed rate instruments		
Financial assets	169,953	181,979
Financial liabilities	(1,385,265)	(1,341,170)
	(1,215,312)	(1,159,189)
Variable rate instruments		
Financial liabilities	(85,594)	(92,002)
	(85,594)	(92,002)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates as at 31 December 2018 would have affected profit or loss by GEL 855 thousand (31 December 2017: GEL 920 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

23. Subsidiaries

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>2018 Ownership/ voting</u>	<u>2017 Ownership/ voting</u>
GR Property Management LLC	Georgia	Property management and development	100%	100%
GR Logistics and Terminals LLC	Georgia	Container transportation and terminal services	100%	100%
Georgian Railway Construction JSC	Georgia	Construction and other projects	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	Georgia	Transportation services	100%	100%

24. Operating leases

Non-cancellable operating lease rentals are receivable as follows:

<u>'000 GEL</u>	<u>2018</u>	<u>2017</u>
Less than one year	5,400	4,378
Between one and five years	4,610	5,660
More than five years	17,753	18,250
	<u>27,763</u>	<u>28,288</u>

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.

25. 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 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 not already provided for, 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.

26. Related parties

(a) 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	2018	2017
Salaries and bonuses	1,102	1,086

(b) 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 purchases security services from a state agency, which amounted to GEL 8,956 thousand for 2018 (2017: GEL 8,956 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 for the year ended 31 December		Outstanding balance as at 31 December	
	2018	2017	2018	2017
Loans issued:				
Parent company	-	-	20,480	18,113

During 2018, interest income of GEL 1,775 thousand (2017: GEL 1,598 thousand) was recognised in profit and loss in respect of related party loans.

(iv) *Income from the transferred property*

During 2018, the Group recognised income from the sale of transferred property of GEL nil (2017: GEL 23,417 thousand) within the framework of Bypass Project Memorandum. The movement in the advance received from the Government is summarized in note 17 (e) (i).

The receivable from the Government within the scope of the Bypass Project memorandum as at 31 December 2018 amounted to GEL 25,205 thousand (31 December 2017: GEL 27,149 thousand). The receivable as at 31 December 2018 and 31 December 2017 was fully provisioned (see note 15).

(v) Credit line

As at 31 December 2018, the Group has unused credit line of USD 7 million from the parent company (2017: USD 7 million). The credit line bears interest rate of 10% per annum and matures in June, 2019.

27. Basis of measurement

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

28. 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 equivalents 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.

(ii) Non-derivative financial assets – Policy applicable before 1 January 2018

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.

29. 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)*.