# JSC Georgian Railway

# Consolidated Financial Statements for 2020

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KPMG Georgia LLC
GMT Plaza
5th Floor, 4 Liberty Square
Tbilisi, Georgia 0105
Telephone +995 322 93 5713
Internet www.kpmg.ge

# Independent Auditors' Report

## To the Shareholder of JSC Georgian Railway

### Opinion

We have audited the consolidated financial statements of JSC Georgian Railway (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

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

### Key Audit Matters

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

#### Impairment of Property, Plant and Equipment

Please refer to the Note 10 in the consolidated financial statements.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Due to significant market turmoil during 2020 from COVID-19 and considering that impairment test conducted at 31 December 2019 was sensitive to changes in key assumptions the Management concluded that there was an indication of an impairment and conducted an impairment test at 31 December 2020.<br><br>As a result of the impairment test conducted, the recoverable amount of the Group's property, plant and equipment was determined to be higher | We have performed the following audit procedures to address the key audit matter:<br><br>- Performed inquiries of management to obtain an understanding of the process for the impairment analysis;<br>- 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;<br>- Involved our own valuation specialists to challenge the key assumptions and judgements underpinning the impairment testing model, such as cargo |

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| | |
|---|---|
| than its carrying amount and no additional impairment loss was recognised in 2020.<br><br>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 assessment. | growth rates, inflation rate, discount rate, period of cash flow projections, 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;<br>- 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 2019, to assess management's ability to accurately budget the expected results;<br>- We obtained the Group's budget for the year ending 31 December 2021 and assessed whether expected cash flows in that budget are consistent with those included in the current year's impairment model;<br>- We evaluated the sensitivity of the impairment model outcomes by considering the downside scenarios against reasonably plausible changes to the key assumptions; and<br>- We evaluated the adequacy of the disclosures made in Note 10 (c) of the consolidated financial statements by reference to the requirements of IAS 36 –Impairment of Assets and IAS 1 – Presentation of financial statements. |

## Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, covering the Management Report, prepared for statutory purposes, but does not include the consolidated financial statements and our auditors' report thereon.

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

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

We have read the other information and based on the work we have performed, we conclude that the other information:

- is consistent with the consolidated financial statements and does not contain material misstatement;
- Management Report 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, actions taken to eliminate threats or safeguards applied.

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

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

Irina Gevorgyan:

KPMG Georgia LLC
10 April 2021

| 000 GEL | Note | 31 December 2020 | 31 December 2019 | 1 January 2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| Property, plant and equipment | 10 | 1,829,561 | 1,865,352 | 1,826,591 |
| Loans receivable | 11 | 30,336 | 24,133 | 20,480 |
| Other non-current assets | 12 | 99,131 | 93,789 | 97,525 |
| **Non-current assets** | | **1,959,028** | **1,983,274** | **1,944,596** |
| | | | | |
| Inventories | 13 | 38,399 | 40,224 | 32,882 |
| Tax assets | | 1,830 | 6,383 | 3,899 |
| Prepayments and other current assets | | 1,942 | 1,369 | 415 |
| Trade and other receivables | 14 | 23,579 | 24,337 | 40,912 |
| Cash and cash equivalents | 15 | 322,986 | 257,976 | 241,308 |
| **Current assets** | | **388,736** | **330,289** | **319,416** |
| **Total assets** | | **2,347,764** | **2,313,563** | **2,264,012** |
| | | | | |
| **Equity** | | | | |
| Share capital | 16 (a) | 1,053,936 | 1,053,371 | 1,053,714 |
| Non-cash owner contribution reserve | 16 (b) | 100,322 | 100,322 | 100,244 |
| Accumulated losses | | (794,972) | (630,328) | (624,742) |
| **Total equity** | | **359,286** | **523,365** | **529,216** |
| | | | | |
| **Liabilities** | | | | |
| Loans and borrowings | 18 | 1,702,980 | 1,500,687 | 1,336,665 |
| Advance received from the Government | 16 (e) | 46,594 | 46,594 | 46,594 |
| Payables for non-current assets | 19 | 53,535 | 21,551 | 55,146 |
| **Non-current liabilities** | | **1,803,109** | **1,568,832** | **1,438,405** |
| | | | | |
| Loans and borrowings | 18 | 74,356 | 64,944 | 134,194 |
| Trade and other payables | 19 | 82,331 | 128,313 | 136,464 |
| Liabilities to the Government | 16 (c) | 4,734 | 4,896 | 5,317 |
| Provisions | 20 | 16,551 | 16,027 | 11,356 |
| Other current liabilities | | 7,397 | 7,186 | 9,060 |
| **Current liabilities** | | **185,369** | **221,366** | **296,391** |
| **Total liabilities** | | **1,988,478** | **1,790,198** | **1,734,796** |
| **Total equity and liabilities** | | **2,347,764** | **2,313,563** | **2,264,012** |



The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

| '000 GEL | Note | 2020 | 2019 |
|---|---|---|---|
| Revenue | 6 | 489,370 | 491,038 |
| Other income | | 12,547 | 12,751 |
| Employee benefits expense | | (170,502) | (160,561) |
| Depreciation and amortization expense | 10 | (76,156) | (81,235) |
| Electricity, consumables and maintenance costs | 7 | (41,411) | (47,921) |
| Impairment loss on trade receivables | 21(b)(ii) | (13,560) | (33,729) |
| Other expenses | 8 | (71,042) | (72,128) |
| **Results from operating activities** | | **129,246** | **108,215** |
| Finance income | 9 | 26,508 | 14,849 |
| Finance costs | 9 | (127,983) | (42,882) |
| Net foreign exchange loss | 9 | (191,901) | (85,249) |
| **Net finance costs** | | **(293,376)** | **(113,282)** |
| **Loss before income tax** | | **(164,130)** | **(5,067)** |
| Income tax expense | | (514) | (519) |
| **Loss and total comprehensive loss for the year** | | **(164,644)** | **(5,586)** |

These consolidated financial statements were approved by the Management Board on 10 April 2021 and were signed on its behalf by:

David Peradze
General Director

Irakli Titvinidze
Chief Financial Officer



The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

| **'000 GEL** | **Share capital** | **Non-cash owner contribution reserve** | **Accumulated losses** | **Total equity** |
|---|---|---|---|---|
| Balance at 1 January 2019 | 1,053,714 | 100,244 | (624,742) | 529,216 |
| Loss and total comprehensive loss for the year | - | - | (5,586) | (5,586) |
| **Transactions with owner, recorded directly in equity** | | | | |
| Net decrease in share capital (Note 16 (a)) | (343) | - | - | (343) |
| Non-cash contributions by owners | - | 78 | - | 78 |
| **Total transactions with owner, recorded directly in equity** | **(343)** | **78** | **-** | **(265)** |
| **Balance at 31 December 2019** | **1,053,371** | **100,322** | **(630,328)** | **523,365** |
| | | | | |
| Balance at 1 January 2020 | 1,053,371 | 100,322 | (630,328) | 523,365 |
| Loss and total comprehensive loss for the year | - | - | (164,644) | (164,644) |
| **Transactions with owner, recorded directly in equity** | | | | |
| Net increase in share capital (Note 16 (a)) | 565 | - | - | 565 |
| **Total transactions with owner, recorded directly in equity** | **565** | **-** | **-** | **565** |
| **Balance at 31 December 2020** | **1,053,936** | **100,322** | **(794,972)** | **359,286** |



The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

| '000 GEL | Note | 2020 | 2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 487,815 | 503,900 |
| Cash paid to suppliers and employees | | (275,099) | (288,414) |
| **Cash flows from operations before income taxes paid** | | **212,716** | **215,486** |
| Income tax paid | | - | (250) |
| **Net cash from operating activities** | | **212,716** | **215,236** |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | | (55,904) | (112,151) |
| Proceeds from sale of property, plant and equipment | | 2,330 | 13,835 |
| Interest received | | 16,261 | 12,653 |
| **Net cash used in investing activities** | | **(37,313)** | **(85,663)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | 18 (b) | (14,310) | (12,343) |
| Interest paid | 18 (b) | (117,300) | (110,033) |
| **Net cash used in financing activities** | | **(131,610)** | **(122,376)** |
| | | | |
| **Net increase in cash and cash equivalents** | | **43,793** | **7,197** |
| Cash and cash equivalents at 1 January | | 257,976 | 241,308 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | 20,968 | 9,486 |
| Effect of movements in ECL on cash and cash equivalents | | 249 | (15) |
| **Cash and cash equivalents at 31 December** | 15 | **322,986** | **257,976** |



The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

# 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 COVID-19 coronavirus pandemic has further increased uncertainty in the business environment (see Note 26).

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

JSC Georgian Railway (the "Company") and its subsidiaries (the "Group") comprise Georgian joint stock and limited liability companies as defined in the Civil Code of Georgia. The Company was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The Company's registration number is 03/4-965.

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

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

The Company is wholly owned by JSC Partnership Fund, a wholly state-owned company. The ultimate controlling party of the Group is the Government of Georgia. JSC Partnership Fund produces publicly available consolidated financial statements.

Related party transactions are disclosed in Note 25.

# 2. Basis of accounting

### Statement of compliance

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

# 3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the 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 thousands, except when otherwise indicated.

# 4. Use of estimates and judgments

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

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

Information about 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 10 (c) – impairment of property, plant and equipment;
- Note 14 – impairment allowances for trade and other receivables;
- Note 28 (h) (iii) – useful lives and residual values of property, plant and equipment;
- Note 10 (a) – suspension of capitalisation of borrowing costs.

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

- Note 10 (c) – sensitivity of impairment of property, plant and equipment;
- Note 21 (b)(ii) – measurement of ECL allowance for financial assets.

***Measurement of fair values***

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. 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.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

- Note 21 (a) – fair value of financial assets and liabilities.

# 5. Operating segments

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

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

There are no inter-segment charges.

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

## *(i) Information about reportable segments*

| | **Freight transportation** | | **Passenger transportation** | | **Total** | |
|---|---|---|---|---|---|---|
| **'000 GEL** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| External revenues | 463,459 | 449,967 | 11,201 | 31,138 | 474,660 | 481,105 |
| Depreciation and amortization | (17,203) | (17,196) | (12,339) | (11,121) | (29,542) | (28,317) |
| Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax | 322,741 | 310,148 | (24,797) | (4,541) | 297,944 | 305,607 |
| Reportable segment assets | 183,949 | 181,553 | 127,784 | 137,510 | 311,733 | 319,063 |
| Capital expenditure and other additions to non-current assets | 5,432 | 1,750 | 2,315 | 391 | 7,747 | 2,141 |

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

| '000 GEL | 2020 | 2019 |
|---|---|---|
| **Revenues** | | |
| Total revenue for reportable segments | 474,660 | 481,105 |
| Other revenue | 14,710 | 9,933 |
| Consolidated revenue | **489,370** | **491,038** |
| | | |
| **Profit or loss** | | |
| Total profit or loss for reportable segments before infrastructure costs, net impairment, interest cost and income tax | 297,944 | 305,607 |
| Employee benefits expense – infrastructure and headquarters | (73,029) | (68,500) |
| Depreciation expenses – infrastructure and headquarters | (46,614) | (52,918) |
| Net finance costs | (293,376) | (113,282) |
| Other net unallocated expenses* | (49,055) | (75,974) |
| Consolidated loss before income tax | **(164,130)** | **(5,067)** |
| | | |
| **Assets** | | |
| Total assets for reportable segments | 311,733 | 319,063 |
| Property, plant and equipment - infrastructure and headquarters | 1,543,936 | 1,568,891 |
| Other unallocated assets, principally cash and non-current assets | 492,095 | 425,609 |
| **Consolidated total assets** | **2,347,764** | **2,313,563** |

* Other net unallocated expenses include logistic services expense of GEL 21,105 thousand (2019: GEL 20,182 thousand) which was not included in the freight transportation segment profit presented to the Group's Management Board.

### *(iii) Other material items in 2020*

| '000 GEL | Reportable segment totals | Infrastructure and headquarters | Consolidated totals |
|---|---|---|---|
| Capital expenditure and other additions to non-current assets | 7,747 | 47,036 | 54,783 |
| Depreciation and amortization | 29,542 | 46,614 | 76,156 |

### *(iv) Other material items in 2019*

| '000 GEL | Reportable segment totals | Infrastructure and headquarters | Consolidated totals |
|---|---|---|---|
| Capital expenditure and other additions to non-current assets | 2,141 | 111,767 | 113,908 |
| Depreciation and amortization | 28,317 | 52,918 | 81,235 |

### *(v) Geographical information*

Approximately 95% 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 2020, two customers of the Group's freight transportation segment represented approximately 23% of the Group's total revenue (2019: one customer - 11%).

# 6. Revenue

| **'000 GEL** | **2020** | **2019** |
|---|---|---|
| Freight traffic | 389,308 | 373,913 |
| Logistic services | 54,106 | 48,814 |
| Passenger traffic* | 11,201 | 31,138 |
| Rent of wagons and other rental income | 8,838 | 16,090 |
| Freight car cross-border charge | 14,147 | 14,156 |
| Other | 11,770 | 6,927 |
| | **489,370** | **491,038** |

* In response to the restrictions imposed by the Government of Georgia against COVID-19, the Group periodically terminated the passenger transportation services during 2020.

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 the 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 cross-border charge -** Revenue generated, when the Group's wagons cross Georgian border and enter another country's territory, based on daily charges for wagons, containers and any other services.

**Rent of wagons and other rental income –** Income represents operating lease and is accounted for under IFRS 16, see Note 23.

**Other revenue -** Revenue is predominantly comprised of sale of scrap.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

| Revenue Type | Nature and timing of satisfaction of performance obligations, including significant payment terms | Revenue recognition policies |
|---|---|---|
| **Freight traffic, logistic services and passenger traffic** | Freight traffic, logistic services and passenger traffic revenue streams are to be recognized "over time" since transportation is the service, during which customer receives and consumes simultaneously the benefit as the Group performs. The customer benefits from the distance travelled. | Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on estimated time to completion of transportation. |
| **Freight car cross-border charge** | Freight car cross-border charge stream is to be recognized "over time" since it is the service, during which customer receives and consumes simultaneously the benefit as the Group performs. | Revenue for such services is recognised over time. |
| **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. |

## 7. Electricity, consumables and maintenance costs

| ’000 GEL | 2020 | 2019 |
|---|---|---|
| Electricity | 19,519 | 22,069 |
| Materials | 10,306 | 12,135 |
| Repair and maintenance | 5,402 | 6,694 |
| Fuel | 6,184 | 7,023 |
| | **41,411** | **47,921** |

## 8. Other expenses

| ’000 GEL | 2020 | 2019 |
|---|---|---|
| Property and land tax | 23,938 | 22,225 |
| Logistic services | 21,105 | 20,182 |
| Security | 9,917 | 9,246 |
| Freight car cross-border charge | 3,688 | 3,780 |
| Other * | 12,394 | 16,695 |
| | **71,042** | **72,128** |

* Included in the other above are the fees paid to the audit firms of about GEL 337 thousand, for the provision of audit and other professional services (2019: GEL 432 thousand).

## 9. Finance income and finance costs

| ’000 GEL | 2020 | 2019 |
|---|---|---|
| **Recognised in profit or loss** | | |
| Interest income under the effective interest method | 18,920 | 14,849 |
| Gain on modification of financial instruments | 7,367 | - |
| Impairment reversal on other financial assets | 221 | - |
| **Finance income** | **26,508** | **14,849** |
| | | |
| Impairment loss on other financial assets | - | (39) |
| Unwinding of discount on provisions and financial liabilities measured at amortised cost | (1,225) | - |
| Interest expense on financial liabilities measured at amortised cost * | (126,758) | (42,843) |
| **Finance costs** | **(127,983)** | **(42,882)** |
| | | |
| Net foreign exchange loss | (191,901) | (85,249) |
| **Net finance costs recognised in profit or loss** | **(293,376)** | **(113,282)** |

* As disclosed in note 10 (a) capitalisation of borrowing costs on a qualifying asset was suspended in 2020.

# 10. 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 2019 | 539,725 | 131,001 | 967,000 | 1,024,110 | 1,251,844 | 3,913,680 |
| Additions | 489 | 605 | 5,232 | 6,370 | 111,569 | 124,265 |
| Disposals and write-offs | (308) | (402) | (1,764) | (16,822) | (2) | (19,298) |
| Transfers | 81 | 127 | 11,098 | 197 | (11,503) | - |
| **Balance at 31 December 2019** | **539,987** | **131,331** | **981,566** | **1,013,855** | **1,351,908** | **4,018,647** |
| Balance at 1 January 2020 | 539,987 | 131,331 | 981,566 | 1,013,855 | 1,351,908 | 4,018,647 |
| Additions | 200 | 442 | 2,857 | 4,107 | 35,899 | 43,505 |
| Disposals and write offs | (2,630) | (155) | (2,545) | (5,257) | (115) | (10,702) |
| Transfers | 386 | 1,440 | 37,975 | 7,337 | (47,138) | - |
| **Balance at 31 December 2020** | **537,943** | **133,058** | **1,019,853** | **1,020,042** | **1,340,554** | **4,051,450** |
| ***Depreciation and impairment loss*** | | | | | | |
| Balance at 1 January 2019 | 171,484 | 64,524 | 557,809 | 695,270 | 598,002 | 2,087,089 |
| Depreciation for the year | - | 2,575 | 45,359 | 33,325 | - | 81,259 |
| Disposals and write offs | (79) | (217) | (1,406) | (13,351) | - | (15,053) |
| Transfer of impairment loss allocated to construction in progress | 21 | 33 | 2,908 | 52 | (3,014) | - |
| **Balance at 31 December 2019** | **171,426** | **66,915** | **604,670** | **715,296** | **594,988** | **2,153,295** |
| Balance at 1 January 2020 | 171,426 | 66,915 | 604,670 | 715,296 | 594,988 | 2,153,295 |
| Depreciation for the year | - | 2,783 | 38,382 | 34,488 | - | 75,653 |
| Disposals and write offs | (521) | (144) | (2,012) | (4,330) | (52) | (7,059) |
| Reallocation of depreciation and impairment | 2,086 | 556 | 8,976 | (19,845) | 8,227 | - |
| **Balance at 31 December 2020** | **172,991** | **70,110** | **650,016** | **725,609** | **603,163** | **2,221,889** |
| ***Carrying amounts*** | | | | | | |
| At 1 January 2019 | **368,241** | **66,477** | **409,191** | **328,840** | **653,842** | **1,826,591** |
| **At 31 December 2019** | **368,561** | **64,416** | **376,896** | **298,559** | **756,920** | **1,865,352** |
| **At 31 December 2020** | **364,952** | **62,948** | **369,837** | **294,433** | **737,391** | **1,829,561** |

## (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 18).

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 approximately 8% in 2019. No borrowing costs were capitalized in 2020 due to significant slowdown of the works performed on Modernization project, mainly linked with COVID-19 pandemic situation in Georgia (2019: Capitalised borrowing costs of GEL 73,518 thousand during 2019 relate to the Main Line Modernization project).

### (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 2020 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 2020 and 2019 no event or change in circumstances occurred which would result in a reversal of the provision.

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

At each reporting date, the Group assesses whether there is any indication that the recoverable amount of the Group's non-financial assets has declined below the carrying value or previously recognized impairment loss is subject to reversal.

At 31 December 2018, 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). As a result of the impairment testing, the Group recognized impairment loss of GEL 691,387 thousand in 2018 and 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 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.

In 2019, the Group revisited some of its key assumptions with respect to longer-term prospects of growth as a result of the new developments in the market, outside of the control of the Group. Consequently, the Group conducted an impairment test at 31 December 2019. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

As at 31 December 2020, the Management analyzed impairment indicators (external and internal) according to IAS 36 and concluded that there is an indication of impairment because of the significant market turmoil during 2020 driven by the outbreak of COVID-19 and considering that impairment test conducted at 31 December 2019 was sensitive to changes in key assumptions. The Management conducted a new impairment test at 31 December 2020. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

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 five years and a terminal growth rate thereafter. A long-term growth rate for the terminal period is determined as approximate long-term economy growth forecast for Georgia and the region affecting the Group's operations.
- Volumes are projected based on the budgeted quantities during 2021, adjusted for the Georgian GDP growth rate of 4.5% and 4.1% during the first two projected years and 4.6% increase during the remaining projected period. No volume growth is projected from 2026. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2021, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 2.1% and 1.8% during the first two projected years and 1.9% increase during the remaining projected period;
- Cash flows include annual maintenance capital expenditures and payments for the finalization of the Main Line Modernization project. Projected cash flows include USD 50 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 2022 and 2023;
- A pre-tax discount rate of 11.49% 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 to which the impairment indicator analysis is most sensitive include:

- Discount rate – An increase of 1% point in the discount rate used would have resulted in an impairment loss of approximately GEL 96,800 thousand;
- Volume growth – A decrease of 5% in the transported volumes projection used would have resulted in impairment loss of approximately GEL 46,503 thousand;
- Terminal growth – A decrease of 1% point in the terminal growth rate used would have resulted in impairment loss of approximately GEL 44,390 thousand.

### (d) Capital contributions and distributions

The Government of Georgia contributes and distributes certain property, plant and equipment in the form of an increase or decrease in share capital. In 2020 the share capital has been increased by the fair value of assets contributed of GEL 565 thousand, unlike to 2019, when share capital decreased by the carrying amount of assets of GEL 343 thousand (See Note 16 (a)).

**(e) Security**

At 31 December 2020, property with a carrying amount of GEL 72,494 thousand (31 December 2019: GEL 74,274 thousand) is pledged in respect of the secured loan (See Note 18).

**(f) Capital commitment**

As at 31 December 2020, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 367,643 thousand (2019: GEL 331,617 thousand) mainly relating to the Main Line Modernization project of GEL 65,369 thousand (2019: GEL 91,152 thousand) and Tbilisi Bypass project of GEL 301,993 thousand (2019: GEL 240,012 thousand, increased only due to foreign exchange rate fluctuation).

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

**(g) Property received free of charge**

In 2020, the Group obtained railway infrastructure assets from a non-related party (the Party), free of charge, with a fair value of GEL 3,051 thousand, which was recognized in Other income. The Party receives freight traffic services from the Group under the normal course of the Group's business operations. To benefit from the received service from the Group, the Party constructed and initially operated its own railway infrastructure independently in the territory adjacent to its operations. However, based on the commercial disadvantages of such independent operations, the Party decided to gift those assets to the Group and pay normal tariffs for received services on this territory.

# 11. 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 21.

| **'000 GEL** | **2020** | **2019** |
|---|---|---|
| ***Non-current assets*** | | |
| Parent company | 30,336 | 24,133 |
| | **30,336** | **24,133** |

**(a) Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

| | | | | **31 December 2020** | | **31 December 2019** | |
|---|---|---|---|---|---|---|---|
| **'000 GEL** | **Currency** | **Nominal interest rate** | **Year of maturity** | **Face value** | **Carrying amount** | **Face value** | **Carrying amount** |
| Parent company | USD | 9.75% | 2022 | 30,336 | 30,336 | 24,133 | 24,133 |
| **Total interest-bearing assets** | | | | **30,336** | **30,336** | **24,133** | **24,133** |

In September 2020, the Parent company used its contractual option to extend the principal repayment of the loan obtained from the Group till March 2022.

## 12. Other non-current assets

| '000 GEL | 2020 | 2019 |
|---|---|---|
| Prepayments for non-current assets* | 63,719 | 60,768 |
| Construction materials | 26,084 | 23,240 |
| Intangible assets | 9,328 | 9,735 |
| Other | - | 46 |
| | **99,131** | **93,789** |

* Prepayments for non-current assets are mainly related to Bypass project, which was suspended as at 31 December 2020 and 31 December 2019. Per Management's assessment the prepayments are fully recoverable based on the performance guarantee from a foreign bank.

## 13. Inventories

| '000 GEL | 2020 | 2019 |
|---|---|---|
| Materials | 31,374 | 32,238 |
| Fuel | 2,370 | 3,582 |
| Rails | 1,402 | 1,422 |
| Other | 5,045 | 4,743 |
| | **40,191** | **41,985** |
| Allowance for inventory obsolescence | (1,792) | (1,761) |
| | **38,399** | **40,224** |
| (Write-down)/reversal of previous write-down of inventories | (31) | 190 |

## 14. Trade and other receivables

| '000 GEL | 2020 | 2019 |
|---|---|---|
| Trade receivables | 253,070 | 229,810 |
| Impairment allowance on trade receivables | (229,789) | (205,666) |
| | **23,281** | **24,144** |
| Other receivables | 298 | 193 |
| | **23,579** | **24,337** |

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 21.

## 15. Cash and cash equivalents

| '000 GEL | 2020 | 2019 |
|---|---|---|
| Current accounts in banks | 124,622 | 104,342 |
| Call deposits | 198,687 | 154,122 |
| Petty cash | - | 82 |
| Provision for cash and cash equivalents | (323) | (570) |
| **Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows** | **322,986** | **257,976** |

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 21.

# 16. Equity and liabilities to the Government

## (a) Share capital

| *Number of shares* | **Ordinary shares** | |
|---|---|---|
| | **2020** | **2019** |
| In issue at 1 January | 1,053,371,024 | 1,053,713,624 |
| Net increase/(reduction) for property, plant and equipment (See Note 10 (d)) | 565,000 | (342,600) |
| **In issue at 31 December, fully paid** | **1,053,936,024** | **1,053,371,024** |
| **Authorised shares - par value** | **1** | **1** |

All ordinary shares rank equally with regard to the Group'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 Group.

## (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** | **2020** | **2019** |
|---|---|---|
| Liabilities to the Government | 4,734 | 4,896 |

## (d) Dividends

No dividends were declared in 2020 and in 2019.

## (e) Advance received from the Government

In April 2012, the Group 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 Group declared dividends of GEL 231,592 thousand (CHF 138 million). Subsequently, the Group 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. No transfer of the aforementioned land plots to the Government took place in 2019 or in 2020.

# 17. 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.

# 18. 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 21.

| **'000 GEL** | **2020** | **2019** |
|---|---|---|
| ***Non-current liabilities*** | | |
| Secured loan | 65,546 | 68,092 |
| Unsecured bonds | 1,637,434 | 1,432,595 |
| | **1,702,980** | **1,500,687** |
| ***Current liabilities*** | | |
| Secured loan | 14,453 | 12,876 |
| Current portion of unsecured bonds | 59,903 | 52,068 |
| | **74,356** | **64,944** |
| | **1,777,336** | **1,565,631** |

## (a) Terms and debt repayment schedule

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

| | | | | **31 December 2020** | | **31 December 2019** | |
|---|---|---|---|---|---|---|---|
| **'000 GEL** | **Currency** | **Nominal interest rate** | **Year of maturity** | **Face value** | **Carrying amount** | **Face value** | **Carrying amount** |
| Unsecured bonds | USD | 7.75% | 2022 | 1,697,337 | 1,697,337 | 1,484,663 | 1,484,663 |
| Secured loan | USD | Libor +1.25% | 2026 | 79,999 | 79,999 | 80,968 | 80,968 |
| **Total interest-bearing liabilities** | | | | **1,777,336** | **1,777,336** | **1,565,631** | **1,565,631** |

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

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

The secured loan was obtained for the sole purpose of the acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains, with the carrying amount of GEL 72,494 thousand as at 31 December 2020 (31 December 2019: GEL 74,274 thousand) (See Note 10 (e)).

As at 31 December 2020 a financial covenant related to Net debt to EBITDA ratio on the secured loan above was breached allowing the lender to request repayment on demand, however on 23 December 2020 the Group obtained a waiver from the lender on this covenant until 31 December 2021, consequently the Group classified the loan as long-term borrowings as at 31 December 2020.

### (b) Changes in liabilities arising from financing activities

| **’000 GEL** | **2020** | **2019** |
|---|---|---|
| **Balance at 1 January** | **1,565,631** | **1,470,859** |
| Repayment of borrowings | (14,310) | (12,343) |
| Interest paid | (117,300) | (110,033) |
| **Total change from financing cash flows** | **(131,610)** | **(122,376)** |
| | | |
| **The effect of changes in foreign exchange rates** | **216,557** | **100,787** |
| | | |
| ***Other changes*** | | |
| Interest expense recognised in finance costs | 126,758 | 42,843 |
| Interest expense capitalised as borrowing costs (Note 10 (a)) | - | 73,518 |
| **Total liability-related other changes** | **126,758** | **116,361** |
| | | |
| **Balance at 31 December** | **1,777,336** | **1,565,631** |

# 19. Trade and other payables

| **’000 GEL** | **2020** | **2019** | **1 January 2019** |
|---|---|---|---|
| ***Current*** | | | |
| Payables for non-current assets | 37,380 | 75,772 | 103,213 |
| Trade payables | 26,122 | 32,884 | 18,552 |
| Advances received from customers | 18,829 | 19,657 | 14,699 |
| | **82,331** | **128,313** | **136,464** |
| | | | |
| ***Non-current*** | | | |
| Payables for non-current assets | 53,535 | 21,551 | 55,146 |
| | **53,535** | **21,551** | **55,146** |

During the preparation of 2020 consolidated financial statements the Management reconsidered its right under the construction contract for Modernisation Project to defer the payment beyond 12 months. The Management determined that as at 31 December 2019 and 1 January 2019 it has an unconditional right to defer the payment of GEL 21,551 thousand and GEL 55,146 thousand, respectively, for over 1 year. The Management re-presented the balance sheets as at those dates in these consolidated financial statements to show these amounts as non-current liabilities.

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

# 20. Provisions

| **’000 GEL** | **2020** | **2019** |
|---|---|---|
| Balance at 1 January | 16,027 | 11,356 |
| Additional provision during the year | 2,362 | 4,671 |
| Provision used | (1,007) | - |
| Reversal of provision during the year | (2,182) | - |
| Unwinding of provision | 843 | - |
| Net foreign exchange loss | 508 | - |
| **Balance at 31 December** | **16,551** | **16,027** |

The Group recognised a provision for the estimated cash outflow required to settle legal cases against the Group existing as at 31 December 2020 and as at 31 December 2019 as well as to settle the legal obligations towards the employees injured during the performance of their duties.

# 21. 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 5% 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:

| | Carrying amount | |
|---|---|---|
| **’000 GEL** | **2020** | **2019** |
| Cash and cash equivalents | 322,986 | 257,894 |
| Trade receivables | 23,281 | 24,144 |
| Loans receivable | 30,336 | 24,133 |
| **Balance at 31 December** | **376,603** | **306,171** |

### Cash and cash equivalents

The Group usually holds funds with banks with good credit ratings. As at 31 December 2020, approximately 100% (31 December 2019: 99%) 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. During 2020, about 23% of the Group’s revenue is attributable to sales transactions with two customers (2019: 11% with single customer).

Credit risk is managed mostly by requesting prepayments from freight and passenger transportation customers. Accordingly, the Group’s trade receivables mainly consist of receivables from foreign railway companies and two large customers. 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:

| | Carrying amount | |
|---|---|---|
| **’000 GEL** | **2020** | **2019** |
| Foreign countries | 15,084 | 17,047 |
| Domestic | 8,197 | 7,097 |
| | **23,281** | **24,144** |

The Group’s two most significant customers (2019: two customers) account for GEL 8,951 thousand of the trade receivables carrying amount as at 31 December 2020 (31 December 2019: GEL 9,051 thousand).

**Expected credit loss assessment for corporate customers**

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 tables provides information about the exposure to credit risk and ECLs for trade receivables for customers as at 31 December 2020 and 31 December 2019:

| **'000 GEL** | **2020** | **2020** | **2020** |
|---|---|---|---|
| Customer Credit risk grade | **Not credit-impaired** | **Credit-impaired** | **Total** |
| Low risk | 5,816 | - | 5,816 |
| Medium risk | - | 12,967 | 12,967 |
| High risk | - | 234,287 | 234,287 |
| **Total Gross carrying amount** | **5,816** | **247,254** | **253,070** |
| Loss allowance | (453) | (229,336) | (229,789) |
| | **5,363** | **17,918** | **23,281** |

| **'000 GEL** | **2019** | **2019** | **2019** |
|---|---|---|---|
| Customer Credit risk grade | **Not credit-impaired** | **Credit-impaired** | **Total** |
| Low risk | 9,520 | - | 9,520 |
| Medium risk | 10,030 | 5,081 | 15,111 |
| High risk* | - | 205,179 | 205,179 |
| **Total Gross carrying amount** | **19,550** | **210,260** | **229,810** |
| Loss allowance | (1,563) | (204,103) | (205,666) |
| | **17,987** | **6,157** | **24,144** |

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.

* The Group has receivable from the Government of Georgia (hereinafter the Government or the GoG) with amount of GEL 25,205 thousand recognized as a result of the transfer of the property to the GoG, as according to the Bypass Project Memorandum of Understanding (MoU).

Due to uncertainties associated with the reimbursement of the above receivable, total balance of GEL 25,205 is impaired since 2017 (See Note 16 (e).

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

| **'000 GEL** | **2020** | **2019** |
|---|---|---|
| **Balance at 1 January** | **205,666** | **171,937** |
| Net charge for the year | 13,560 | 33,729 |
| Effect of movements in foreign exchange rates | 10,563 | - |
| **Balance at 31 December** | **229,789** | **205,666** |

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 2020 and 31 December 2019, 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 2020 and 31 December 2019. There are no indications that the parent company will fail to meet its obligations, when it falls due and management assessed expected credit loss from loans receivable at GEL 136 thousand as at 31 December 2020 (31 December 2019: GEL 108 thousand). 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 or global pandemic.

As at 31 December 2020, the Group maintains committed unused credit lines of GEL 64,766 thousand maturing in 2022 with the local banks (31 December 2019: GEL 146,708 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.

**31 December 2020**

| ’000 GEL | Carrying amount | Contractual cash flows | 0-6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| Secured loan ** | 79,999 | 89,853 | 7,789 | 7,735 | 15,298 | 44,598 | 14,433 |
| Unsecured bonds | 1,697,337 | 1,892,236 | 63,484 | 63,484 | 1,765,268 | - | - |
| Trade payables* | 117,037 | 124,107 | 63,169 | 365 | 27,667 | 32,906 | - |
| | **1,894,373** | **2,106,196** | **134,442** | **71,584** | **1,808,233** | **77,504** | **14,433** |

**31 December 2019**

| ’000 GEL | Carrying amount | Contractual cash flows | 0-6 months | 6-12 months | 1-2 years | 2-5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| Secured loan | 80,968 | 98,025 | 7,686 | 7,562 | 14,800 | 41,993 | 25,984 |
| Unsecured bonds | 1,484,663 | 1,767,220 | 55,562 | 55,562 | 111,123 | 1,544,973 | - |
| Trade payables | 130,207 | 130,207 | 72,738 | 35,918 | 21,551 | - | - |
| | **1,695,838** | **1,995,452** | **135,986** | **99,042** | **147,474** | **1,586,966** | **25,984** |

* Based on the agreement signed between the Group and the construction company responsible for the Modernization Project, there is a specified percentage of each milestone payment to be withheld (retention fee), to protect the Group from the contractor failing to adequately complete its obligations under the contract. Such retention fee is due to pay within two years after the completion of the project.

** As at the date these consolidated financial statements are authorized for issue, the largest refinancing risk faced by the Group is related to its USD 500 thousand Eurobonds due in July 2022. The bonds are currently traded with a lower yielding (approx. 4%) compared to the initial yield of 7.75%. The management believes that the market data adequately captures the appetite of the market and the investors and consequently believes in the Group's capacity to refinance the existing Eurobonds without any major implications. Subsequent to the reporting date the Group hired banks, underwriters and lawyers who are involved in refinance process. The Parties involved in the process are in active communication and have already prepared draft Tender Offer and Consent Solicitation Memorandum; Preliminary Prospectus and Publicity Guidelines. Considering the recent status of the refinancing process and expectation of investors the Management believes that the Group has a capacity to successfully refinance its existing debt instrument in June 2021.

### *(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 2020** | **CHF – denominated 2020** | **USD - denominated 2019** | **CHF - denominated 2019** |
|---|---|---|---|---|
| Cash and cash equivalents | 194,823 | 1 | 186,711 | 128 |
| Loan receivable | 30,336 | - | 24,133 | - |
| Trade receivables | 18,549 | 507 | 6,816 | 6,957 |
| Secured loan | (79,999) | - | (80,968) | - |
| Unsecured bonds | (1,697,337) | - | (1,484,663) | - |
| Trade and other payables | (5,468) | - | (7,115) | (15) |
| **Net exposure** | **(1,539,096)** | **508** | **(1,355,086)** | **7,070** |

The following significant exchange rates applied during the year:

| in GEL | Average rate | | Reporting date spot rate 31 December | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| USD 1 | 3.1097 | 2.8192 | 3.2766 | 2.8677 |
| CHF 1 | 3.3178 | 2.8374 | 3.7103 | 2.9488 |

***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** |
|---|---|
| **2020** | |
| USD (10% weakening) | (153,910) |
| CHF (10% weakening) | 51 |
| **2019** | |
| USD (10% weakening) | (135,509) |
| CHF (10% weakening) | 707 |

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** | |
|---|---|---|
| **Fixed rate instruments** | **2020** | **2019** |
| Financial assets | 304,421 | 252,740 |
| Financial liabilities | (1,697,337) | (1,484,663) |
| | **(1,392,916)** | **(1,231,923)** |
| **Variable rate instruments** | | |
| Financial liabilities | (79,999) | (80,968) |
| | **(79,999)** | **(80,968)** |

***Fair value sensitivity analysis for fixed rate instruments***

The Group does not account for any fixed-rate financial instruments as FVTPL or FVOCI. 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 2020 would have affected profit or loss by GEL 800 thousand (31 December 2019: GEL 810 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

# 22. Subsidiaries

| Subsidiary | Country of incorporation | Principal activities | 2020 Ownership/ voting | 2019 Ownership/ voting |
|---|---|---|---|---|
| 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% |

# 23. Operating leases

The Group leases out its wagons, other buildings, containers, locomotives and fittings. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Group during 2020 was GEL 8,838 thousand (2019: GEL 16,090 thousand) and included in revenue.

The following table sets out a maturity analysis of lease payments under non-cancellable period of a lease contracts entered into as at 31 December 2020, showing the undiscounted lease payments to be received after the reporting date.

| **’000 GEL** | |
|---|---|
| **2020 – Operating leases under IFRS 16** | |
| Less than one year | 4,013 |
| Between one and five years | 10,510 |
| More than five years | 27,526 |
| **Total** | **42,049** |
| **2019 – Operating leases under IFRS 16** | |
| Less than one year | 4,946 |
| Between one and five years | 7,762 |
| More than five years | 23,178 |
| **Total** | **35,886** |

# 24. 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.

## 25. 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** | **2020** | **2019** |
|---|---|---|
| Salaries and bonuses | **933** | **1,031** |

### (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 9,655 thousand for 2020 (2019: GEL 9,246 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 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Loans issued:** | | | | |
| Parent company | - | - | 30,336 | 24,133 |

During 2020, interest income of GEL 2,659 thousand (2019: GEL 2,181 thousand) was recognised in profit or loss in respect of a related party loan.

## 26. Impact of COVID-19

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

The outbreak of COVID-19 has substantially affected the economy and the business environment globally and in Georgia. Georgia's real GDP year-over-year change for 2020 is estimated at negative 6.1% (according to Geostat) compared to positive 5.1% and 4.8% in 2019 and 2018 respectively. Although, the freight transportation sector tends to be more resilient than most of the other sectors, still COVID-19 did have a negative impact on the Group's passenger transportation segment and infrastructural project.

The major implications of COVID-19 pandemic on the business and the industry have been the following:

- The Group temporarily terminated the passenger transportation service, which has been restored from August 2020 till November 2020. See Note 6.
- The Group temporarily suspended capitalization of borrowing costs due to suspension on infrastructural projects. See note 10 (a).
- The slow-down of the economy affected the disposable income and the spending patterns of businesses.
- The local currency devaluation against US dollar by 12% (change in the year end exchange rates) had a favorable impact on the operating profit as the Group's revenues are mostly denominated in USD, while expenses are maintained in GEL. However, it negatively affected the net profit due to the currency revaluation of the Group's loans and borrowings denominated in USD.
- The management closely observed and actively managed the Group's short-term liquidity. As a result the Group maintained a strong cash liquidity throughout the year.
- The Group did not seek any additional indebtedness either for the liquidity purposes or for its ongoing capital investment projects.

Taking into account the Group's current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Group's financial position and operating results.

The management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group in the medium and longer term. The Group also considers negative development scenarios and is ready to adapt its operational plans accordingly.

# 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 a 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, and have been applied consistently by the Group entities.

A number of new or amended standards and interpretations are effective from 1 January 2020 but they do not have a material effect on the Group's consolidated financial statements.

## (a) Basis of consolidation

### *(i) Business combination*

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

### *(ii) 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

Information about the Group's accounting policies relating to contracts with customers is provided in Note 6.

### *(i) 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.

## (c) 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.

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

## (d) Foreign currency

### *(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 translation are recognised in profit or loss.

### (e) 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.

### (f) Income tax

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

#### *(i) Current tax*

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

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

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

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

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

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

## (g) Inventories

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

## (h) Property, plant and equipment

### *(i) Recognition and measurement*

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

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

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

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

### *(ii) Subsequent costs*

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

Maintenance and repair expenses are recognised as follows:

- Rolling stock:

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

- Fixed installations:

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

***(iii) Depreciation***

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. Major scheduled capital repairs for wagons and locomotives, estimated at 16% of the cost, are considered as major components and depreciated separately for an average useful life of 7 to 15 years based on the expected timing of the capital repairs.

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

- buildings and constructions 30-44 years;
- rail track infrastructure 13-25 years;
- transport, machinery, equipment and other 10-16 years.

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

**(i) Financial instruments**

***(i) Recognition and initial measurement***

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

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

***(ii) Classification and subsequent measurement***

**Financial assets**

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

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

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

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

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

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

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

**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.

## (j) 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 Group 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.

## (k) Impairment

***(i) Non-derivative financial assets***

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-financial assets***

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are 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.

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

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

An impairment loss recognised in prior periods, is 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.

**(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) Leases**

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At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

***(i) As a lessee***

The Group does not have significant lease agreements where it acts as a lessee as at 31 December 2020 and 2019. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

***(ii) As a lessor***

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

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### (n) 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 are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).*
- *COVID-19-Related Rent Concessions (Amendments to IFRS 16).*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *References to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts.*