

**JSC Georgian Railway**

**Condensed Consolidated Interim  
Financial Statements  
as at 31 March 2021 and for the three-month  
periods ended 31 March 2021 and  
31 March 2020**

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## **Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information**

*To the Shareholder of JSC Georgian Railway*

### **Introduction**

We have reviewed the accompanying condensed consolidated interim statement of financial position of JSC Georgian Railway (the "Company") and its subsidiaries (the "Group") as at 31 March 2021, and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2021 and 31 March 2020, and notes to the condensed consolidated interim financial information (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our reviews.

### **Scope of Reviews**

We conducted our reviews in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 31 March 2021 and for the three-month periods ended 31 March 2021 and 31 March 2020 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

### **Emphasis of Matter – Comparative Financial Information**

We draw attention to Note 20 to the condensed consolidated interim financial information which describes that the comparative financial information presented as at and for the three-month period ended 31 March 2020 has been restated. Our conclusion is not modified in respect of this matter.

Irina Gevorgyan:

KPMG Georgia LLC  
11 May 2021

**JSC Georgian Railway**  
Condensed Consolidated Interim Statement of Financial Position as at 31 March 2021


<b>000 GEL</b>	<b>Note</b>	<b>31 March 2021</b>	<b>31 December 2020</b>
<b>Assets</b>			
Property, plant and equipment	10	1,818,710	1,829,561
Loans receivable	11	-	30,336
Other non-current assets		98,983	99,131
<b>Non-current assets</b>		<b>1,917,693</b>	<b>1,959,028</b>
Inventories		36,675	38,399
Loans receivable	11	32,347	-
Tax assets		-	1,830
Prepayments and other current assets		2,847	1,942
Trade and other receivables	12	30,321	23,579
Cash and cash equivalents	13	319,065	322,986
<b>Current assets</b>		<b>421,255</b>	<b>388,736</b>
<b>Total assets</b>		<b>2,338,948</b>	<b>2,347,764</b>
<b>Equity</b>			
Share capital	14 (a)	1,053,936	1,053,936
Non-cash owner contribution reserve		100,322	100,322
Accumulated losses		(849,353)	(794,972)
<b>Total equity</b>		<b>304,905</b>	<b>359,286</b>
<b>Liabilities</b>			
Loans and borrowings	15	1,773,868	1,702,980
Advance received from the Government		46,594	46,594
Payables for non-current assets	16	49,977	53,535
<b>Non-current liabilities</b>		<b>1,870,439</b>	<b>1,803,109</b>
Loans and borrowings	15	44,046	74,356
Trade and other payables	16	83,759	82,331
Liabilities to the Government		4,734	4,734
Provisions		17,079	16,551
Tax liabilities		5,538	-
Other current liabilities		8,448	7,397
<b>Current liabilities</b>		<b>163,604</b>	<b>185,369</b>
<b>Total liabilities</b>		<b>2,034,043</b>	<b>1,988,478</b>
<b>Total equity and liabilities</b>		<b>2,338,948</b>	<b>2,347,764</b>

*JSC Georgian Railway*  
*Condensed Consolidated Interim Statements of Profit or Loss and Other Comprehensive Income*  
*for the three-month periods ended 31 March 2021 and 31 March 2020*

'000 GEL	Note	For the three months ended 31 March	
		2021	2020 Restated
Revenue	6	127,866	122,024
Other income		2,265	3,382
Employee benefits expense		(40,537)	(40,230)
Depreciation and amortization expense		(17,346)	(20,379)
Electricity, consumables and maintenance costs	7	(10,594)	(11,533)
Impairment loss on trade receivables		(2,004)	(359)
Other expenses	8	(21,416)	(15,527)
<b>Results from operating activities</b>		<b>38,234</b>	<b>37,378</b>
Finance income	9	4,802	3,862
Finance costs	9	(33,294)	(30,426)
Net foreign exchange loss	9	(63,951)	(193,184)
<b>Net finance costs</b>		<b>(92,443)</b>	<b>(219,748)</b>
<b>Loss before income tax</b>		<b>(54,209)</b>	<b>(182,370)</b>
Income tax expense		(172)	(221)
<b>Loss and total comprehensive loss for the period</b>		<b>(54,381)</b>	<b>(182,591)</b>

The comparative information is restated on account of correction of errors. See note 20.

These condensed consolidated interim financial statements were approved by Management Board on 11 May 2021 and were signed on its behalf by:



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David Peradze  
General Director



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Irakli Titvinidze  
Chief Financial Officer

**JSC Georgian Railway**  
*Condensed Consolidated Interim Statements of Changes in Equity for the three-month periods ended  
31 March 2021 and 31 March 2020*

<b>'000 GEL</b>	<b>Share capital</b>	<b>Non-cash owner contribution reserve</b>	<b>Accumulated losses</b>	<b>Total equity</b>
Balance at 1 January 2021	1,053,936	100,322	(794,972)	359,286
Loss and total comprehensive loss for the period	-	-	(54,381)	(54,381)
<b>Balance at 31 March 2021</b>	<b>1,053,936</b>	<b>100,322</b>	<b>(849,353)</b>	<b>304,905</b>
Balance at 1 January 2020	1,053,371	100,322	(630,328)	523,365
Loss and total comprehensive loss for the period, restated	-	-	(182,591)	(182,591)
<b>Balance at 31 March 2020, restated</b>	<b>1,053,371</b>	<b>100,322</b>	<b>(812,919)</b>	<b>340,774</b>

The comparative information is restated on account of correction of errors. See Note 20.

**JSC Georgian Railway**  
*Condensed Consolidated Interim Statements of Cash Flows for the three-month periods ended  
31 March 2021 and 31 March 2020*

'000 GEL	Note	<b>For the three months ended 31 March</b>	
		<b>2021</b>	<b>2020 Restated</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		116,823	115,126
Cash paid to suppliers and employees		(63,358)	(58,749)
<b>Cash flows from operations before income taxes paid</b>		<b>53,465</b>	<b>56,377</b>
Income tax paid		-	-
<b>Net cash from operating activities</b>		<b>53,465</b>	<b>56,377</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(5,310)	(14,392)
Proceeds from sale of property, plant and equipment		1,215	2,382
Interest received		4,054	3,283
<b>Net cash used in investing activities</b>		<b>(41)</b>	<b>(8,727)</b>
<b>Cash flows from financing activities</b>			
Interest paid	15 (b)	(63,992)	(55,637)
<b>Net cash used in financing activities</b>		<b>(63,992)</b>	<b>(55,637)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(10,568)</b>	<b>(7,987)</b>
Cash and cash equivalents at 1 January		322,986	257,976
Effect of exchange rate fluctuations on cash and cash equivalents		6,794	22,902
Effect of movements in ECL on cash and cash equivalents		(147)	(55)
<b>Cash and cash equivalents at 31 March</b>	13	<b>319,065</b>	<b>272,836</b>

The comparative information is restated on account of correction of errors. See Note 20.

## 1. Reporting entity

### (a) 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 the Georgia. The COVID-19 coronavirus pandemic has further increased uncertainty in the business environment (see Note 21).

The condensed consolidated interim 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 18.

## 2. Basis of accounting

### (a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2020 ("last annual consolidated financial statements") which are located on the Group's official website. These condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements.

## 3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari (GEL), which is the functional currency of the Group entities and the currency in which these condensed consolidated interim 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

Preparing the condensed consolidated interim financial statements requires Management to make judgements, estimates assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements.

### *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 Note 17.

## 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**

For the three months ended 31 March

'000 GEL	Freight transportation		Passenger transportation		Total	
	2021	2020 Restated	2021	2020 Restated	2021	2020 Restated
	External revenues	125,700	115,369	767	4,682	126,467
Depreciation and amortization	(3,222)	(5,402)	(2,882)	(3,433)	(6,104)	(8,835)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	90,383	78,216	(7,388)	(5,231)	82,995	72,985
Capital expenditure and other additions to non-current assets	1,294	609	4	109	1,298	718
Reportable segment assets	<u>31-Mar-21</u> 177,871	<u>31-Dec-20</u> 183,949	<u>31-Mar-21</u> 126,657	<u>31-Dec-20</u> 127,784	<u>31-Mar-21</u> 304,528	<u>31-Dec-20</u> 311,733

(ii) **Reconciliations of reportable segment revenues, profit or loss and assets**

'000 GEL	For the three months ended 31 March	
	2021	2020 Restated
<b>Revenues</b>		
Total revenue for reportable segments	126,467	120,051
Other revenue	1,399	1,973
Consolidated revenue	<u>127,866</u>	<u>122,024</u>
<b>Profit or loss</b>		
Total profit for reportable segments before infrastructure costs, net impairment, interest cost and income tax	82,995	72,985
Employee benefits expense – infrastructure and headquarters	(17,276)	(17,324)
Depreciation expenses – infrastructure and headquarters	(11,242)	(11,544)
Net finance costs	(92,443)	(219,748)
Other net unallocated expenses*	(16,243)	(6,739)
Consolidated loss before income tax	<u>(54,209)</u>	<u>(182,370)</u>

\* Other net unallocated expenses include logistic services expense of GEL 8,897 thousand (3 months ended 31 March 2020: GEL 3,146 thousand) which was not included in the freight transportation segment profit presented to the Group's Management Board.

There has been no change in reportable segments as well as in a basis of allocation since last annual consolidated financial statements

## 6. Revenue

The Group's operations and main revenue streams are those described in the last annual consolidated financial statements.

'000 GEL	For the three months ended	
	2021	2020 Restated
Freight traffic	102,672	93,884
Logistic services	17,690	13,114
Freight car cross-border charge	4,930	4,944
Rent of wagons and other rental income	1,219	4,195
Passenger traffic*	767	4,682
Other	588	1,205
	<b>127,866</b>	<b>122,024</b>

\* In response to the restrictions imposed by the Government of Georgia against COVID-19, the Group periodically terminated the passenger transportation services during 2020 and 2021.

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.

Performance obligations and revenue recognition policies are those described in the last annual consolidated financial statements.

## 7. Electricity, consumables and maintenance costs

'000 GEL	For the three months ended	
	2021	2020 Restated
Electricity	6,207	5,808
Materials	2,208	1,961
Fuel	1,372	2,014
Repair and maintenance	807	1,750
	<b>10,594</b>	<b>11,533</b>

## 8. Other expenses

'000 GEL	For the three months ended	
	2021	2020 Restated
Logistic services	8,897	3,146
Property and land tax	5,720	6,012
Freight car cross-border charge	2,488	1,585
Security	2,416	2,363
Other	1,895	2,421
	<b>21,416</b>	<b>15,527</b>

## 9. Finance income and finance costs

'000 GEL	<b>For the three months ended</b>	
	<b>2021</b>	<b>2020 Restated</b>
<b>Recognised in profit or loss</b>		
Interest income under the effective interest method	4,802	3,862
<b>Finance income</b>	<b>4,802</b>	<b>3,862</b>
Impairment loss on other financial assets	(156)	(74)
Unwinding of discount on provisions and financial liabilities measured at amortised cost	(418)	(268)
Interest expense on financial liabilities measured at amortised cost *	(32,720)	(30,084)
<b>Finance costs</b>	<b>(33,294)</b>	<b>(30,426)</b>
Net foreign exchange loss	(63,951)	(193,184)
<b>Net finance costs recognised in profit or loss</b>	<b>(92,443)</b>	<b>(219,748)</b>

\* As disclosed in note 10 (b) capitalisation of borrowing costs on a qualifying asset was suspended in 2020 and 2021.

## 10. Property, plant and equipment

### (a) Acquisitions and disposals

During the three months ended 31 March 2021, the Group acquired property plant and equipment with a cost, of GEL 6,915 thousand (three months ended 31 March 2020: GEL 8,183 thousand)

Assets with a carrying amount of GEL 658 thousand were disposed of during the three months ended 31 March 2021 (three months ended 31 March 2020: GEL 839 thousand).

### (b) 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 15).

No borrowing costs were capitalized during the three months ended 31 March 2021 due to significant slowdown of the works performed on Modernization project, mainly linked with COVID-19 pandemic situation in Georgia (three months ended 31 March 2020: nil).

### (c) Impairment of property, plant and equipment

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.

As at 31 March 2021, the Management analyzed impairment, as well as impairment reversal indicators (external and internal) according to IAS 36 and concluded that there is no indication of additional impairment or reversal of previously recognized impairment losses, respectively no detailed impairment test has been conducted at 31 March 2021.

No event or change in circumstances occurred which would result in a reversal of the provision related to Tbilisi Bypass Project during the three months ended 31 March 2021.

**(d) Security**

At 31 March 2021, property with a carrying amount of GEL 72,052 thousand (31 December 2020: GEL 72,494 thousand) is pledged in respect of the secured loan (See Note 15).

**(e) Capital commitment**

As at 31 March 2021, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 356,477 thousand (31 December 2020: GEL 367,643 thousand) mainly relating to the Main Line Modernization project of GEL 61,711 thousand (31 December 2020: GEL 65,369 thousand) and Tbilisi Bypass project of GEL 294,766 thousand (31 December 2020: GEL 301,993 thousand, decreased only due to CHF 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.

## 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 17.

'000 GEL	31 March 2021	31 December 2020
<i>Non-current assets</i>		
Parent company	-	30,336
	<u>-</u>	<u>30,336</u>
<i>Current assets</i>		
Parent company	32,347	-
	<u>32,347</u>	<u>-</u>

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

Terms and conditions of outstanding loans were as follows:

'000 GEL	Currency	Nominal interest rate	Year of maturity	31 March 2021		31 December 2020	
				Face value	Carrying amount	Face value	Carrying amount
Parent company	USD	9.75%	2022	32,347	32,347	30,336	30,336
<b>Total interest-bearing assets</b>				<u>32,347</u>	<u>32,347</u>	<u>30,336</u>	<u>30,336</u>

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. Trade and other receivables

<b>'000 GEL</b>	<b>31 March 2021</b>	<b>31 December 2020</b>
Trade receivables	263,175	253,070
Impairment allowance on trade receivables	(233,141)	(229,789)
	<b>30,034</b>	<b>23,281</b>
Other receivables	287	298
	<b>30,321</b>	<b>23,579</b>

The Group's exposure to credit and currency risks related to trade and other receivables are disclosed in Note 17.

## 13. Cash and cash equivalents

<b>'000 GEL</b>	<b>31 March 2021</b>	<b>31 December 2020</b>
Current accounts in banks	42,792	124,622
Call deposits	276,721	198,687
Petty cash	21	-
Provision for cash and cash equivalents	(469)	(323)
<b>Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows</b>	<b>319,065</b>	<b>322,986</b>

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 17.

## 14. Equity

### (a) Share capital

<i>Number of shares</i>	<b>Ordinary shares</b>	
	<b>31 March 2021</b>	<b>31 December 2020</b>
In issue, fully paid	1,053,936,024	1,053,936,024
Authorised shares - par value	1	1

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

### (b) 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.

## 15. 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 17.

'000 GEL	31 March 2021	31 December 2020
<b>Non-current liabilities</b>		
Secured loan	68,724	65,546
Unsecured bonds	1,705,144	1,637,434
	<b>1,773,868</b>	<b>1,702,980</b>
<b>Current liabilities</b>		
Secured loan	15,382	14,453
Current portion of unsecured bonds	28,664	59,903
	<b>44,046</b>	<b>74,356</b>
	<b>1,817,914</b>	<b>1,777,336</b>

### (a) Terms and debt repayment schedule

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

'000 GEL	Currency	Nominal interest rate	Year of maturity	31 March 2021		31 December 2020	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds	USD	7.75%	2022	1,733,808	1,733,808	1,697,337	1,697,337
Secured loan	USD	Libor +1.25%	2026	84,106	84,106	79,999	79,999
<b>Total interest-bearing liabilities</b>				<b>1,817,914</b>	<b>1,817,914</b>	<b>1,777,336</b>	<b>1,777,336</b>

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 72,052 thousand as at 31 March 2021 (31 December 2020: GEL 72,494 thousand) (See Note 10 (d)).

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 March 2021 and 31 December 2020.

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

'000 GEL	2021	2020
<b>Balance at 1 January</b>	<b>1,777,336</b>	<b>1,565,631</b>
Interest paid	(63,992)	(55,637)
<b>Total change from financing cash flows</b>	<b>(63,992)</b>	<b>(55,637)</b>
<b>The effect of changes in foreign exchange rates</b>	<b>71,850</b>	<b>222,467</b>
<b>Other changes</b>		
Interest expense recognised in finance costs	32,720	30,084
<b>Total liability-related other changes</b>	<b>32,720</b>	<b>30,084</b>
<b>Balance at 31 March</b>	<b>1,817,914</b>	<b>1,762,545</b>

## 16. Trade and other payables

'000 GEL	<u>31 March 2021</u>	<u>31 December 2020</u>
<i>Current</i>		
Payables for non-current assets	40,764	37,380
Trade payables	27,210	26,122
Advances received from customers	<u>15,785</u>	<u>18,829</u>
	<b><u>83,759</u></b>	<b><u>82,331</u></b>
<i>Non-current</i>		
Payables for non-current assets	<u>49,977</u>	<u>53,535</u>
	<b><u>49,977</u></b>	<b><u>53,535</u></b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 17.

## 17. Financial instruments and risk management

The Group has determined fair values of financial assets and liabilities using valuation techniques disclosed in the last annual consolidated financial statements.

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.

The Group's financial risk management objectives and policies are consistent with those disclosed in the last annual consolidated financial statements.

### *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. Credit risk is consistent with those disclosed in the last annual consolidated financial statements and the Group has not faced a significant financial loss during the three months period ended 31 March 2021.

### *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 March 2021, the Group maintains committed unused credit lines of GEL 66,118 thousand maturing in 2022 with the local banks (31 December 2020: GEL 64,766 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 March 2021

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	84,106	93,562	8,111	8,054	15,929	46,439	15,029
Unsecured bonds	1,733,808	1,970,315	66,104	66,104	1,838,107	-	-
Trade payables	117,951	128,532	67,644	3,998	31,886	25,004	-
	<b>1,935,865</b>	<b>2,192,409</b>	<b>141,859</b>	<b>78,156</b>	<b>1,885,922</b>	<b>71,443</b>	<b>15,029</b>

#### 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	-
	<b>1,894,373</b>	<b>2,106,196</b>	<b>134,442</b>	<b>71,584</b>	<b>1,808,233</b>	<b>77,504</b>	<b>14,433</b>

As at the date these condensed consolidated interim 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. 3.5%) 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. The management is evaluating various alternatives for the refinancing.

### 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 optimizing the return.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

### 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	<u>USD -denominated 31 March 2021</u>	<u>USD -denominated 31 December 2020</u>
Cash and cash equivalents	169,603	194,823
Loan receivable	32,347	30,336
Trade receivables	22,072	18,549
Secured loan	(84,106)	(79,999)
Unsecured bonds	(1,733,808)	(1,697,337)
Trade and other payables	(7,871)	(5,468)
<b>Net exposure</b>	<b><u>(1,601,763)</u></b>	<b><u>(1,539,096)</u></b>

The following significant exchange rates applied during the year:

in GEL	Average rate		<u>Reporting date spot rate</u>	
	three months ended	three months ended	31 March	31 December
	<u>31 March 2021</u>	<u>31 March 2020</u>	<u>2021</u>	<u>2020</u>
USD 1	3.3142	2.9267	3.4118	3.2766

### *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.

## 18. Related parties

### (a) Transactions with key management personnel

#### (i) *Key management remuneration*

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

'000 GEL	<u>For the three months ended 31 March</u>	
	2021	2020
Salaries and bonuses	<u>248</u>	<u>227</u>

### (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 2,342 thousand for three months ended 31 March 2021 (31 March 2020: GEL 2,295 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 three months ended 31 March		Outstanding balance	
	2021	2020	31 March 2021	31 December 2020
<b>Loans issued:</b>				
Parent company	-	-	32,347	30,336

During the three months ended 31 March 2021, interest income of GEL 748 thousand (three months ended 31 March 2020: GEL 615 thousand) was recognised in profit or loss in respect of a related party loan.

## 19. Change in accounting policies

A number of new standards and amendments to standards are effective from annual periods beginning after 1 January 2021, however their application did not have an impact on the Groups' consolidated financial statements.

The significant accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group's last annual consolidated financial statements.

## 20. Prior period misstatement

As part of preparing the current period condensed consolidated interim financial statements, Management identified errors in the condensed consolidated interim financial statements as at and for the three-month period ended 31 March 2020 that were approved for issuance on 15 May 2020. Management restated the condensed consolidated interim statements of comprehensive income changes in equity and cash flows for the three-month period ended 31 March 2020 in accordance with International Financial Reporting Standard IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in these condensed consolidated interim financial statements to adjust for those errors. This has resulted in the following changes in the amounts reported previously.

The corrections have no effect on the consolidated financial statement as at and for the year ended 31 December 2020.

The following tables summarise the impacts on the Group's financial statements:

### Condensed consolidated interim statement of profit or loss and other comprehensive income

'000 GEL	Impact of correction of error		
	As previously reported	Adjustments	As restated
<b>For the three-month period ended 31 March 2020</b>			
Revenue	122,764	(740)	122,024
Other income	708	2,674	3,382
Depreciation and amortization expense	(20,189)	(190)	(20,379)
Electricity, consumables and maintenance costs	(11,697)	164	(11,533)
Impairment loss on trade receivables	(1,301)	942	(359)
Other expenses	(15,195)	(332)	(15,527)
Net finance costs	(198,149)	(21,599)	(219,748)
<b>Loss for the three-month period</b>	<b>(163,510)</b>	<b>(19,081)</b>	<b>(182,591)</b>
<b>Total comprehensive loss for the three-month period</b>	<b>(163,510)</b>	<b>(19,081)</b>	<b>(182,591)</b>

The effect of corrections to the total equity as at 31 March 2020 amounted to GEL 19,081 thousand, out of which GEL 17,106 thousand relates to the suspension of capitalised borrowing costs on the Modernization project (see Note 10(b)) during three-month period ended 31 March 2020 which were previously capitalised to property, plant and equipment.

**Condensed consolidated interim statement of cash flows**

'000 GEL For the three-month period ended 31 March 2020	Impact of correction of error		
	As previously reported	Adjustments	As restated
Net cash from operating activities	58,148	(1,771)	56,377
Net cash used in investing activities	(10,498)	1,771	(8,727)

There is no impact on the financing cash flows for the three-month period ended 31 March 2020.

**21. 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 and 2021.

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 and again restored from March 2021. See Note 6.
- The Group temporarily suspended capitalization of borrowing costs due to suspension on infrastructural projects. See note 10 (b).
- The slow-down of the economy affected the disposable income and the spending patterns of businesses.
- The local currency devaluation against US dollar 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 2020 and three months ended 31 March 2021.
- 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.