JSC Georgian Railway

Condensed Consolidated Interim Financial Statements as at 30 June 2021 and for the six-month periods ended 30 June 2021 and 30 June 2020

Contents

000 GEL	**Note**	**30 June 2021**	**31 December 2020**
Assets			
Property, plant and equipment	10	1,813,433	1,829,561
Loans receivable	11	30,697	30,336
Other non-current assets		95,123	99,131
Non-current assets		**1,939,253**	**1,959,028**
Inventories		33,992	38,399
Loans receivable	11	-	-
Tax assets		-	1,830
Prepayments and other current assets		9,519	1,942
Trade and other receivables	12	20,303	23,579
Cash and cash equivalents	13	184,270	322,986
Current assets		**248,084**	**388,736**
Total assets		**2,187,337**	**2,347,764**
Equity			
Share capital	14 (a)	1,053,936	1,053,936
Non-cash owner contribution reserve		100,322	100,322
Accumulated losses		(827,006)	(794,972)
Total equity		**327,252**	**359,286**
Liabilities			
Loans and borrowings	15	1,634,584	1,702,980
Advance received from the Government		46,594	46,594
Payables for non-current assets	16	42,186	53,535
Non-current liabilities		**1,723,364**	**1,803,109**
Loans and borrowings	15	16,203	74,356
Trade and other payables	16	86,819	82,331
Liabilities to the Government		4,734	4,734
Provisions		19,553	16,551
Tax liabilities		234	-
Other current liabilities		9,178	7,397
Current liabilities		**136,721**	**185,369**
Total liabilities		**1,860,085**	**1,988,478**
Total equity and liabilities		**2,187,337**	**2,347,764**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 19.

'000 GEL	Note	For the six months ended 30 June 2021	2020 Restated
Revenue	6	277,627	245,332
Other income		3,495	4,922
Employee benefits expense		(84,626)	(82,810)
Depreciation and amortization expense		(34,999)	(39,667)
Electricity, consumables and maintenance costs	7	(21,644)	(20,720)
Impairment loss on trade receivables		(485)	(1,902)
Other expenses	8	(46,153)	(32,553)
Results from operating activities		**93,215**	**72,602**
Finance income	9	11,600	8,983
Finance costs	9	(184,236)	(61,972)
Net foreign exchange loss	9	47,685	(85,112)
Net finance costs		**(124,951)**	**(138,101)**
Loss before income tax		**(31,736)**	**(65,499)**
Income tax expense		(298)	(337)
Loss and total comprehensive loss for the period		**(32,034)**	**(65,836)**

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 13 August 2021 and were signed on its behalf by:

David Peradze
General Director

Irakli Titvinidze
Chief Financial Officer

The condensed consolidated interim statements of profit or loss and other comprehensive income are to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 19.

'000 GEL	Share capital	Non-cash owner contribution reserve	Accumulated losses	Total equity
Balance at 1 January 2021	1,053,936	100,322	(794,972)	359,286
Loss and total comprehensive loss for the period	-	-	(32,034)	(32,034)
Balance at 30 June 2021	**1,053,936**	**100,322**	**(827,006)**	**327,251**
Balance at 1 January 2020	1,053,371	100,322	(630,328)	523,365
Loss and total comprehensive loss for the period, restated	-	-	(65,836)	(65,836)
Balance at 30 June 2020, restated	**1,053,371**	**100,322**	**(696,164)**	**457,529**

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

The condensed consolidated interim statements of changes in equity are to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 19.

		For the six months ended 30 June	
’000 GEL	**Note**	**2021**	**2020**
Cash flows from operating activities			
Cash receipts from customers		270,700	232,047
Cash paid to suppliers and employees		(144,148)	(134,731)
Cash flows from operations before income taxes paid		**126,552**	**97,316**
Income tax paid		-	-
Net cash from operating activities		**126,552**	**97,316**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(21,361)	(31,716)
Proceeds from sale of property, plant and equipment		4,651	2,436
Interest received		10,082	7,564
Net cash used in investing activities		**(6,628)**	**(21,716)**
Cash flows from financing activities			
Proceeds from borrowings		1,577,389	-
Repayment of borrowings		(1,583,072)	(6,990)
Payment for debt issue cost		(115,686)	-
Interest paid	15 (b)	(121,271)	(57,207)
Net cash used in financing activities		**(242,640)**	**(64,197)**
Net decrease in cash and cash equivalents		**(122,716)**	**11,403**
Cash and cash equivalents at 1 January		322,986	257,975
Effect of exchange rate fluctuations on cash and cash equivalents		(15,976)	9,566
Effect of movements in ECL on cash and cash equivalents		(24)	157
Cash and cash equivalents at 30 June	13	**184,270**	**279,101**

The condensed consolidated interim statements of cash flows are to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 19.

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 six months ended 30 June

	Freight transportation		Passenger transportation		Total	
'000 GEL	**2021**	**2020 Restated**	**2021**	**2020 Restated**	**2021**	**2020 Restated**
External revenues	257,775	237,017	3,892	5,163	261,667	242,180
Depreciation and amortization	(6,538)	(10,779)	(5,740)	(3,155)	(12,278)	(13,934)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	188,560	165,637	(12,786)	(9,714)	175,774	155,924
Capital expenditure and other additions to non-current assets	4,237	1,261	213	2,268	4,451	3,529
	30-Jun-21	**31-Dec-20**	**30-Jun-21**	**31-Dec-20**	**30-Jun-21**	**31-Dec-20**
Reportable segment assets	169,915	183,949	116,300	127,784	286,215	311,733

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

	For the six months ended 30 June	
'000 GEL	**2021**	**2020 Restated**
Revenues		
Total revenue for reportable segments	261,667	242,180
Other revenue	15,958	3,152
Consolidated revenue	**277,625**	**245,332**
Profit or loss		
Total profit for reportable segments before infrastructure costs, net impairment, interest cost and income tax	175,774	155,924
Employee benefits expense – infrastructure and headquarters	(36,494)	(35,203)
Depreciation expenses – infrastructure and headquarters	(22,721)	(25,733)
Net finance costs	(124,949)	(138,101)
Other net unallocated expenses*	(23,346)	(22,385)
Consolidated loss before income tax	**(31,736)**	**(65,498)**

* Other net unallocated expenses include logistic services expense of GEL 16,515 thousand (6 months ended 30 June 2020: GEL 8,009 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.

	For the six months ended 30 June	
'000 GEL	**2021**	**2020 Restated**
Freight traffic	217,549	196,664
Logistic services	34,291	28,931
Freight car cross-border charge	5,151	6,999
Rent of wagons and other rental income	2,406	5,838
Passenger traffic*	3,892	5,163
Other	14,338	1,737
	277,627	**245,332**

* 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

	For the six months ended 30 June	
'000 GEL	**2021**	**2020 Restated**
Electricity	11,769	10,186
Materials	5,530	4,774
Fuel	2,861	3,380
Repair and maintenance	1,484	2,380
	21,644	**20,720**

8. Other expenses

	For the six months ended 30 June	
'000 GEL	**2021**	**2020 Restated**
Logistic services	16,515	8,009
Property and land tax	11,944	12,097
Freight car cross-border charge	2,627	1,925
Security	4,846	4,971
Other	10,222	5,551
	46,154	**32,553**

9. Finance income and finance costs

	For the six months ended 30 June	
’000 GEL	**2021**	**2020 Restated**
Recognised in profit or loss		
Interest income under the effective interest method	11,600	8,826
Impairment gain on other financial assets	-	157
Finance income	**11,600**	**8,983**
Impairment loss on other financial assets	(26)	(12)
Unwinding of discount on provisions and financial liabilities measured at amortised cost	(418)	-
Interest expense on financial liabilities measured at amortised cost *	(183,791)	(61,959)
Finance costs	**(184,236)**	**(61,972)**
Net foreign exchange loss	47,686	(85,112)
Net finance costs recognised in profit or loss	**(124,950)**	**(138,101)**

10. Property, plant and equipment

(a) Construction in progress

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

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

The Group commenced the initiation of the above projects in September 2010 and November 2010, respectively. The Group issued unsecured bonds in 2010 to partly finance the projects above. During 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see Note 15).

No borrowing costs were capitalized during the six months ended 30 June 2021 due to significant slowdown of the works performed on Modernization project, mainly linked with COVID-19 pandemic situation in Georgia (six months ended 30 June 2020: nil).

(b) 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 30 June 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 30 June 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 30 June 2021.

(c) Security

At 30 June 2021, property with a carrying amount of GEL 71,266 thousand (31 December 2020: GEL 72,494 thousand) is pledged in respect of the secured loan (See Note 15).

(d) Capital commitment

As at 30 June 2021, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 340,220 thousand (31 December 2020: GEL 367,643 thousand) mainly relating to the Main Line Modernization project of GEL 55,204 thousand (31 December 2020: GEL 65,369 thousand) and Tbilisi Bypass project of GEL 279,228 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	**30 June 2021**	**31 December 2020**
Non-current assets		
Parent company	30,697	30,336
	30,697	**30,336**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				30 June 2021		**31 December 2020**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Parent company	USD	9.75%	2023	30,697	30,697	30,336	30,336
Total interest-bearing assets				**30,697**	**30,697**	**30,336**	**30,336**

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

'000 GEL	**30 June 2021**	**31 December 2020**
Trade receivables	247,430	253,070
Impairment allowance on trade receivables	(227,448)	(229,789)
	19,982	**23,281**
Other receivables	321	298
	20,303	**23,579**

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

'000 GEL	**30 June 2021**	**31 December 2020**
Current accounts in banks	42,075	124,622
Call deposits	142,493	198,687
Petty cash	49	-
Provision for cash and cash equivalents	(347)	(323)
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	**184,270**	**322,986**

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

Number of shares	**Ordinary shares**	
	30 June 2021	**31 December 2020**
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	**30 June 2021**	**31 December 2020**
Non-current liabilities		
Secured loan	57,195	65,546
Unsecured bonds	1,577,389	1,637,434
	1,634,584	**1,702,980**
Current liabilities		
Secured loan	13,921	14,453
Current portion of unsecured bonds	2,282	59,903
	16,203	**74,356**
	1,650,787	**1,777,336**

(a) Terms and debt repayment schedule

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

				30 June 2021		**31 December 2020**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	4%	2028	1,579,671	1,579,671	1,697,337	1,697,337
Secured loan	USD	Libor +1.25%	2026	71,116	71,116	79,999	79,999
Total interest-bearing liabilities				**1,650,787**	**1,650,787**	**1,777,336**	**1,777,336**

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 71,266 thousand as at 30 June 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**
Balance at 1 January	**1,777,336**	**1,565,631**
Proceeds from borrowings	1,577,389	
Repayment of borrowings	1,583,072	6,990
Payment for debt issue cost	115,686	-
Interest paid	121,271	57,207
Total change from financing cash flows	**242,640**	**64,197**
The effect of changes in foreign exchange rates	**67,700**	**98,863**
Other changes		
Interest expense recognised in finance costs	183,791	61,959
Total liability-related other changes	**183,791**	**61,959**

’000 GEL	**2021**	**2020**
Balance at 30 June	**1,650,787**	**1,662,256**

16. Trade and other payables

’000 GEL	**30 June 2021**	**31 December 2020**
Current		
Payables for non-current assets	-	37,380
Trade payables	67,058	26,122
Advances received from customers	19,761	18,829
	86,819	**82,331**
Non-current		
Payables for non-current assets	42,186	53,535
	42,186	**53,535**

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 six months period ended 30 June 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 six 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 30 June 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.

30 June 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	71,116	79,151	7,460	7,399	14,651	42,705	6,935
Unsecured bonds	1,579,671	2,019,831	31,603	31,603	63,206	284,427	1,608,992
Trade payables	109,244	115,693	58,886	340	25,791	30,675	-
	1,760,031	**2,214,675**	**97,959**	**39,342**	**103,648**	**357,807**	**1,615,927**

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**

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	USD -denominated 30 June 2021	USD -denominated 31 December 2020
Cash and cash equivalents	41,190	194,823
Loan receivable	30,697	30,336
Trade receivables	19,003	18,549
Secured loan	(71,116)	(79,999)
Unsecured bonds	(1,579,671)	(1,697,337)
Trade and other payables	(5,885)	(5,468)
Net exposure	**(1,565,782)**	**(1,539,096)**

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate	
	six months ended 30 June 2021	six months ended 30 June 2020	30 June 2021	31 December 2020
USD 1	3.3102	2.98	3.1603	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:

	For the six months ended 30 June	
’000 GEL	2021	2020
Salaries and bonuses	**482**	**456**

(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 4,705 thousand for six months ended 30 June 2021 (30 June 2020: GEL 4,847 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 six months ended 30 June**		**Outstanding balance**	
	2021	**2020**	**30 June 2021**	**31 December 2020**
Loans issued:				
Parent company	-	-	30,697	30,336

During the six months ended 30 June 2021, interest income of GEL 1,518 thousand (six months ended 30 June 2020: GEL 1,261 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 six-month period ended 30 June 2020 that were approved for issuance on 15 May 2020. Management restated the condensed consolidated interim statements of comprehensive income changes in equity for the six-month period ended 30 June 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**		
For the six-month period ended 30 June 2020	**As previously reported**	**Adjustments**	**As restated**
Revenue	245,018	314	245,332
Other income	4,883	38	4,992
Electricity, consumables and maintenance costs	(20,368)	(352)	(20,720)
Net finance costs	(103,618)	(34,483)	(138,101)
Loss for the six-month period	(31,016)	(34,483)	(65,499)
Total comprehensive loss for the three-month period	(31,352)	(34,483)	(65,836)

The effect of corrections to the total equity as at 30 June 2020 amounted to GEL 34,483 thousand, out of which relates to the suspension of capitalised borrowing costs on the Modernization project during six-month period ended 30 June 2020 which were previously capitalised to property, plant and equipment.

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.