

Georgian Railway JSC
(formerly Georgian Railway LLC)

Condensed Consolidated Interim Financial
Statements for the three-month periods
ended 31 March 2014 and 2013

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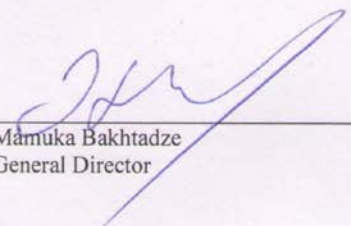
Georgian Railway JSC
Condensed Consolidated Interim Statements of Financial Position (Unaudited)

'000GEL	Note	31 March 2014	31 December 2013	31 March 2013	31 December 2012
		Unaudited		Unaudited	
ASSETS					
Non-current assets					
Property, plant and equipment	11	2,348,068	2,347,187	2,224,671	2,197,235
Deferred tax assets		1,557	1,557	1,557	1,557
Other non-current assets		181,364	180,908	286,103	280,884
Total non-current assets		2,530,989	2,529,652	2,512,331	2,479,676
Current assets					
Inventories		37,826	43,059	30,895	35,571
Current tax assets		11,779	11,689	10,998	-
Trade and other receivables		53,480	52,402	41,929	39,253
Prepayments and other current assets		22,523	39,429	58,168	61,648
Term deposits		-	-	64,252	100,321
Cash and cash equivalents		217,071	208,996	91,771	115,076
Total current assets		342,679	355,575	298,013	351,869
Total assets		2,873,668	2,885,227	2,810,344	2,831,545
EQUITY AND LIABILITIES					
Equity					
Share capital	12	1,050,697	1,050,075	1,049,789	1,049,751
Non-cash owner contribution reserve		32,065	31,673	31,673	31,673
Retained earnings		497,972	487,379	467,722	449,376
Total equity		1,572,734	1,569,127	1,549,184	1,530,800
Non-current liabilities					
Loans and borrowings	13	919,292	913,194	871,557	870,934
Advance received from the Government	12	231,592	231,592	231,592	231,592
Trade and other payables		52	52	52	52
Deferred tax liabilities		60,700	58,436	61,132	57,302
Total non-current liabilities		1,211,636	1,203,274	1,164,333	1,159,880
Current liabilities					
Loans and borrowings	13	15,448	33,747	14,792	33,420
Trade and other payables		38,813	56,161	51,069	81,645
Liabilities to Government	15	11,917	11,917	11,926	12,956
Provisions		6,169	6,154	4,167	4,132
Other taxes payable		-	-	-	-
Current tax liabilities		-	-	-	1,542
Dividends payable		-	-	-	-
Other current liabilities		8,951	4,847	14,873	7,170
Total current liabilities		81,298	112,826	96,827	140,865
Total liabilities		1,292,934	1,316,100	1,261,160	1,300,745
Total equity and liabilities		2,873,668	2,885,227	2,810,344	2,831,545

Georgian Railway JSC
Condensed Consolidated Interim Statements of Comprehensive Income (unaudited)

'000 GEL	Note	Three-month period ended 31 March 2014	Three-month period ended 31 March 2013
Revenue	4	107,362	106,884
Other income		3,724	3,430
Employee benefits expense		(36,659)	(30,458)
Depreciation and amortization expense		(24,884)	(24,645)
Electricity and materials used	5	(13,232)	(12,116)
Other expenses	6	(15,718)	(15,117)
Results from operating activities		20,593	27,978
Finance income	7	2,114	3,318
Finance costs	7	(8,693)	(4,954)
Net finance (costs)/income		(6,579)	(1,636)
Profit before income tax		14,014	26,342
Income tax expense	8	(3,421)	(5,986)
Profit and total comprehensive income for the year		10,593	20,356

These consolidated financial statements were approved by the Management Board on 15 May 2014 and were signed on its behalf by:



 Mamuka Bakhtadze
 General Director



 Tamaz Igerenaia
 Chief Accountant

Georgian Railway JSC
Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

Balance at 1 January 2013	1,049,751	31,673	449,376	1,530,800
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	20,356	20,356
Transactions with owners, recorded directly in equity				
Dividends to equity holders	-	-	-	-
Net non-cash contributions by and distributions to owners	38	-	(2,010)	(1,972)
Cash contributions by and distributions to owners	-	-	-	-
Total transactions with owners, recorded directly in equity	38	-	(2,010)	(1,972)
Balance at 31 March 2013	1,049,789	31,673	467,722	1,549,184

Balance at 1 January 2014	1,050,075	31,673	487,379	1,569,127
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	10,593	10,593
Transactions with owners, recorded directly in equity				
Dividends to equity holders	-	-	-	-
Net non-cash contributions by and distributions to owners	622	392	-	1,014
Cash contributions by and distributions to owners	-	-	-	-
Balance at 31 March 2014	1,050,697	32,065	497,972	1,580,734

*In April 2012, the Company changed its legal form from a Limited Liability Company to a Joint Stock Company.

'000GEL	Note	Three-month period ended 31 March 2014	Three-month period ended 31 March 2013
Cash flows from operating activities			
Cash receipts from customers		110,496	103,888
Cash paid to suppliers and employees		(57,360)	(52,652)
Cash flows from operations before income taxes and interest paid			
		53,136	51,236
Income tax paid		(1,150)	(15,000)
Interest paid		-	-
Net cash from operating activities		51,986	36,236
Cash flows from investing activities			
Acquisition of property, plant and equipment		(10,259)	(63,180)
Proceeds from sale of property, plant and equipment		-	-
Decrease(Increase) in term deposits		-	33,925
Increase in restricted cash		-	-
Interest received		2,020	5,141
Net cash used in investing activities		(8,239)	(24,114)
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayment of borrowings		-	(9)
Interest paid		(36,163)	(35,444)
Dividends paid		-	-
Contribution of cash by owners		-	-
Distribution of cash to owners		-	-
Net cash from /(used in) financing activities		(36,163)	(35,453)
Net increase/(decrease) in cash and cash equivalents		7,584	(23,331)
Cash and cash equivalents at 1 January		208,996	115,076
Effect of exchange rate fluctuations on cash and cash equivalents		491	26
Cash and cash equivalents at 31 March		217,071	91,771
Bank deposits		-	64,252
Restricted Cash			
Total Cash and cash equivalents		217,071	156,023

1. Background

(b) Business environment

The Group's operations are 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 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.

(c) Organisation and operations

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

The Company's 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, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

The Company is wholly owned by the Partnership Fund JSC, a wholly state-owned company. The ultimate controlling party of the Group is the Government of Georgia.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand.

3. Operating segments

	Freight transportation		Passenger transportation		Total	
	Three-month period ended 31 March	Three-month period ended 31 March	Three-month period ended 31 March	Three-month period ended 31 March	Three-month period ended 31 March	Three-month period ended 31 March
	2014	2013	2014	2013	2014	2013
'000GEL						
External revenues	102,213	103,309	3,968	3,412	106,181	106,721
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	58,403	62,871	(4,706)	(5,084)	53,697	57,787
Reportable segment assets	362,195	391,368	119,944	126,842	482,139	518,210

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

'000GEL	Three-month period ended 31 March 2014	Three-month period ended 31 March 2013
Profit or loss		
Total profit or loss for reportable segments	53,697	57,787
Other profit or loss	-	(351)
Payroll expenses – infrastructure and headquarters	(14,538)	(11,604)
Depreciation expenses – infrastructure and headquarters	(12,897)	(12,142)
Net finance (costs)/income	(6,579)	(1,637)
Other net unallocated expenses	(5,669)	(5,711)
Consolidated profit before income tax	14,014	26,342

4. Revenue

'000GEL	Three-month period ended 31 March 2014	Three-month period ended 31 March 2013
Freight traffic	94,534	95,767
Freight car rental	7,689	7,063
Passenger traffic	3,796	3,417
Other	1,343	637
	107,362	106,884

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 and luggage 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.

Effective from 1 February 2012, the Group changed the freight tariff currency from CHF to USD due to the volatility of the exchange rates between the CHF and other currencies and also to better align costs and revenues from its customers, which mainly trade in USD or GEL.

5. Electricity and materials used

'000GEL	Three-month period ended 31 March 2014	Three-month period ended 31 March 2013
Electricity	5,180	5,829
Materials	6,225	4,233
Fuel	1,827	2,054
	13,232	12,116

6. Other expenses

'000GEL	Three-month period ended 31 March 2014	Three-month period ended 31 March 2013
Freight car rental	2,792	5,249
Taxes other than income tax	5,814	5,446
Write off of non-current assets	-	158
Repairs and maintenance	2,549	1,012
Security	2,119	1,794
Other	2,444	1,458
	15,718	15,117

7. Finance income/Finance costs

'000GEL	Three-month period ended 31 March 2014	Three-month period ended 31 March 2013
Recognised in profit or loss		
Interest income	2,114	3,318
Finance income	2,114	3,318
Impairment loss on trade receivables	(539)	(761)
Interest expense on financial liabilities	(3,003)	(2,104)
Net foreign exchange loss	(5,151)	(2,089)
Finance costs	(8,693)	(4,954)
Net finance (costs)/income recognised in profit or loss	(6,579)	(1,636)

8. Income tax expense

Income tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim periods. The Group's consolidated effective tax rate for the three-month period ended 31 March 2014 was 57 percent (three-month period ended 31 March 2013: 23 percent). The statutory tax rate is 15 percent.

9. Dividends

No dividends were declared or paid by the Company during the three-month period ended 31 March 2014.

10. Capital commitments

As at 31 March 2014 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 662,101 thousand (31 March 2013: GEL 620,564 thousand) mainly relating to the Main Line Modernization GEL 423,832 thousand (31 March 2013: GEL 398,150 thousand) and Tbilisi Bypass projects GEL 172,887 thousand (31 March 2013: GEL 150,802 thousand).

11. Related party transactions**(a) Parent and ultimate controlling party**

The Company was wholly owned by the Government of Georgia represented by the Ministry of Economic Development of Georgia as at 30 September 2011. In October 2011, 24%, in May 2012, 1.5% and in August 2012, the remaining 74.5% interest in Georgian Railway JSC was transferred to the Partnership Fund JSC, a wholly state-owned entity. At 31 December 2012 the ultimate parent of the Group is the Partnership Fund JSC. The ultimate controlling party of the Group is the Government of Georgia.

(b) Transactions with key management personnel

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

'000GEL	<u>Three-month period ended 31 March 2014</u>	<u>Three-month period ended 31 March 2013</u>
Salaries and bonuses	247	216

(c) Other related party transactions**(i) Revenue, purchases and expenses**

Until September 2011 the Group purchased most of its electricity from a State-owned operator which amounted to GEL 612 thousand for the year ended 31 March 2014 (31 March 2013: GEL 582 thousand). The Group also purchases security services from a state agency which amounted to GEL 2,108 thousand for the year ended 31 March 2014 (31 March 2013: GEL 1,853 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.

(ii) Liabilities to the Government

'000GEL	<u>Three-month period ended 31 March 2014</u>	<u>Three-month period ended 31 March 2013</u>
Liabilities to Government	11,926	11,917

Liabilities to the Government relate to non-core property, plant and equipment that has been withdrawn but not yet transferred formally to the Government of Georgia. These liabilities are recognised at carrying amount of assets to be transferred to the Government of Georgia.

12. Significant subsidiaries

<u>Subsidiary</u>	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>31 March 2014</u>	<u>31 March 2013</u>
			<u>Ownership/ voting</u>	<u>Ownership/ voting</u>
Georgian Railway Property Management LLC	Georgia	Property management and development	100%	100%
Trans Caucasus Terminals LLC (former Georgian Railway Transcontainer LLC)	Georgia	Container transportation	100%	100%
Georgian Railway Construction JSC	Georgia	Construction and other projects	100%	100%
GR Transit line LLC	Georgia	Transportation	100%	100%
Borjomi-Bakuriani Railway LLC	Georgia	Passenger transportation	100%	100%
Georgian Transit LLC	Georgia	transportation	100%	-