

**Georgian Railway JSC**

**Consolidated Interim Financial  
Statements for the Nine-month periods  
ended 30 September 2015 and 2014**

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Consolidated Interim Statements of Financial Position (Unaudited)

| '000GEL                              | Note | 30 September<br>2015 | 31 December<br>2014 | 30 September<br>2014 | 31 December<br>2013 |
|--------------------------------------|------|----------------------|---------------------|----------------------|---------------------|
|                                      |      | Unaudited            |                     | Unaudited            |                     |
| <b>ASSETS</b>                        |      |                      |                     |                      |                     |
| <b>Non-current assets</b>            |      |                      |                     |                      |                     |
| Property, plant and equipment        | 10   | 2,456,546            | 2,378,228           | 2,386,887            | 2,347,187           |
| Deferred tax assets                  |      | 1,557                | 1,557               | 1,557                | 1,557               |
| Other non-current assets             |      | 153,830              | 170,190             | 190,534              | 180,908             |
| <b>Total non-current assets</b>      |      | <b>2,611,933</b>     | <b>2,549,975</b>    | <b>2,578,978</b>     | <b>2,529,652</b>    |
| <b>Current assets</b>                |      |                      |                     |                      |                     |
| Inventories                          |      | 31,860               | 34,008              | 30,586               | 43,059              |
| Current tax assets                   |      | 11,188               | 10,924              | 5,689                | 11,689              |
| Trade and other receivables          |      | 76,203               | 53,944              | 62,665               | 52,402              |
| Prepayments and other current assets |      | 16,008               | 18,547              | 14,184               | 39,429              |
| Cash and cash equivalents            |      | 289,869              | 300,983             | 252,942              | 208,996             |
| <b>Total current assets</b>          |      | <b>425,128</b>       | <b>418,406</b>      | <b>366,066</b>       | <b>355,575</b>      |
| <b>Total assets</b>                  |      | <b>3,037,061</b>     | <b>2,968,381</b>    | <b>2,945,044</b>     | <b>2,885,227</b>    |
| <b>EQUITY AND LIABILITIES</b>        |      |                      |                     |                      |                     |
| <b>Equity</b>                        |      |                      |                     |                      |                     |
| Share capital                        |      | 1,052,285            | 1,052,202           | 1,052,091            | 1,050,075           |
| Non-cash owner contribution reserve  |      | 34,654               | 34,214              | 34,213               | 31,673              |
| Retained earnings                    |      | 359,690              | 476,335             | 544,894              | 487,379             |
| <b>Total equity</b>                  |      | <b>1,446,629</b>     | <b>1,562,751</b>    | <b>1,631,198</b>     | <b>1,569,127</b>    |
| <b>Non-current liabilities</b>       |      |                      |                     |                      |                     |
| Loans and borrowings                 |      | 1,188,006            | 929,373             | 921,974              | 913,194             |
| Advance received from the Government |      | 221,789              | 229,377             | 229,377              | 231,592             |
| Trade and other payables             |      | 52                   | 52                  | 52                   | 52                  |
| Deferred tax liabilities             |      | 43,045               | 59,998              | 64,475               | 58,436              |
| <b>Total non-current liabilities</b> |      | <b>1,452,892</b>     | <b>1,218,800</b>    | <b>1,215,878</b>     | <b>1,203,274</b>    |
| <b>Current liabilities</b>           |      |                      |                     |                      |                     |
| Loans and borrowings                 |      | 19,770               | 87,330              | 15,532               | 33,747              |
| Trade and other payables             |      | 89,791               | 78,480              | 57,920               | 56,161              |
| Liabilities to Government            |      | 8,638                | 8,467               | 8,346                | 11,917              |
| Provisions                           |      | 6,429                | 6,447               | 7,581                | 6,154               |
| Dividends payable                    |      | 3,685                | -                   | -                    | -                   |
| Other current liabilities            |      | 9,227                | 6,106               | 8,589                | 4,847               |
| <b>Total current liabilities</b>     |      | <b>137,540</b>       | <b>186,830</b>      | <b>97,968</b>        | <b>112,826</b>      |
| <b>Total liabilities</b>             |      | <b>1,590,432</b>     | <b>1,405,630</b>    | <b>1,313,846</b>     | <b>1,316,100</b>    |
| <b>Total equity and liabilities</b>  |      | <b>3,037,061</b>     | <b>2,968,381</b>    | <b>2,945,044</b>     | <b>2,885,227</b>    |



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

|  |                  |               |                |                  |
|--|------------------|---------------|----------------|------------------|
| Balance at 1 January 2014                                    | 1,050,075        | 31,673        | 487,379        | 1,569,127        |
| <b>Total comprehensive income for the year</b>               |                  |               |                |                  |
| Profit and total comprehensive income for the year           | -                | -             | 77,501         | 77,501           |
| <b>Transactions with owners, recorded directly in equity</b> |                  |               |                |                  |
| Dividends to equity holders                                  | -                | -             | (20,000)       | (20,000)         |
| Net non-cash contributions by and distributions to owners    | 2,016            | 2,540         | 14             | 4,570            |
| <b>Balance at 30 September 2014</b>                          | <b>1,052,091</b> | <b>34,213</b> | <b>544,894</b> | <b>1,631,198</b> |

|  |                  |               |                |                  |
|--|------------------|---------------|----------------|------------------|
| Balance at 1 January 2015                                    | 1,052,202        | 34,214        | 476,335        | 1,562,751        |
| <b>Total comprehensive income for the year</b>               |                  |               |                |                  |
| Profit and total comprehensive income for the year           | -                | -             | (91,165)       | (91,165)         |
| <b>Transactions with owners, recorded directly in equity</b> |                  |               |                |                  |
| Dividends to equity holders                                  | -                | -             | (25,537)       | (25,537)         |
| Net non-cash contributions by and distributions to owners    | 83               | 440           | 57             | 580              |
| Cash contributions by and distributions to owners            | -                | -             | -              | -                |
| <b>Balance at 30 September 2015</b>                          | <b>1,052,285</b> | <b>34,654</b> | <b>359,690</b> | <b>1,446,629</b> |

*Georgian Railway JSC*  
*Consolidated Interim Statement of Cash Flows (unaudited)*

| '000GEL   | Note | Nine-month<br>period ended<br>30 September 2015 | Nine-month<br>period ended<br>30 September 2014 |
|---|------|---|---|
| <b>Cash flows from operating activities</b>                             |      |   |   |
| Cash receipts from customers  |      | 417,095   | 372,215   |
| Cash paid to suppliers and employees                                    |      | (197,136)                                       | (170,680)                                       |
| <b>Cash flows from operations before income taxes and interest paid</b> |      | <b>219,959</b>                                  | <b>201,535</b>                                  |
| Income tax paid   |      | (4,311)   | (2,335)   |
| <b>Net cash from operating activities</b>                               |      | <b>215,648</b>                                  | <b>199,200</b>                                  |
| <b>Cash flows from investing activities</b>                             |      |   |   |
| Acquisition of property, plant and equipment                            |      | (108,136)                                       | (71,139)  |
| Interest received   |      | 13,431  | 7,662   |
| <b>Net cash used in investing activities</b>                            |      | <b>(94,705)</b>                                 | <b>(63,477)</b>                                 |
| <b>Cash flows from financing activities</b>                             |      |   |   |
| Repayment of borrowings   |      | (62,514)  | -   |
| Interest paid   |      | (85,731)  | (72,826)  |
| Dividends paid  |      | (21,852)  | (20,000)  |
| <b>Net cash from /(used in) financing activities</b>                    |      | <b>(170,097)</b>                                | <b>(92,826)</b>                                 |
| <b>Net increase/(decrease) in cash and cash equivalents</b>             |      | <b>(49,154)</b>                                 | <b>42,897</b>                                   |
| Cash and cash equivalents at 1 January                                  |      | 300,983   | 208,996   |
| Effect of exchange rate fluctuations on cash and cash equivalents       |      | 38,040  | 1,049   |
| <b>Cash and cash equivalents at 30 September</b>                        |      | <b>289,869</b>                                  | <b>252,942</b>                                  |

## 1. **Basis of accounting**

### (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 consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

### (b) **Organisation and operations**

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

The Company's 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 the Partnership Fund JSC, a wholly state-owned company. The ultimate controlling party of the Group is the Government of Georgia. Related party transactions are disclosed in note 27.

## 2. **Basis of accounting**

### **Statement of compliance**

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

## 3. **Functional and presentation currency**

The national currency of Georgia is the Georgian Lari ("GEL"), which is the 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.

## 4. Operating segments

|  | Freight transportation   |                          | Passenger transportation |                          | Total                    |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|  | Nine- month period ended |
|  | 30 September 2015        | 30 September 2014        | 30 September 2015        | 30 September 2014        | 30 September 2015        | 30 September 2014        |
| '000GEL  |                          |                          |                          |                          |                          |                          |
| External revenues  | 415,806                  | 352,918                  | 12,586                   | 15,773                   | 428,392                  | 368,691                  |
| Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax | 290,254                  | 221,579                  | (12,042)                 | (10,407)                 | 278,212                  | 211,172                  |
| Reportable segment assets  | 370,353                  | 377,635                  | 114,209                  | 116,940                  | 484,563                  | 494,575                  |

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

| '000GEL   | Nine-month period ended 30 September 2015 | Nine-month period ended 30 September 2014 |
|---|---|---|
| <b>Profit or loss</b>                                   |   |   |
| Total profit or loss for reportable segments            | 278,212                                   | 211,172                                   |
| Payroll expenses – infrastructure and headquarters      | (42,919)                                  | (42,673)                                  |
| Depreciation expenses – infrastructure and headquarters | (42,367)                                  | (41,039)                                  |
| Net finance (costs)/income                              | (272,410)                                 | (18,988)                                  |
| Other net unallocated expenses                          | (24,579)                                  | (16,031)                                  |
| Consolidated profit before income tax                   | <b>(104,063)</b>                          | <b>92,441</b>                             |

**5. Revenue**

| '000GEL            | Nine-month period<br>ended 30 September<br>2015 | Nine-month period<br>ended 30 September<br>2014 |
|--------------------|---|---|
| Freight traffic    | 398,535   | 323,937   |
| Freight car rental | 17,271  | 29,060  |
| Passenger traffic  | 12,586  | 15,228  |
| Other              | 4,715   | 3,410   |
|                    | <b>433,107</b>                                  | <b>371,635</b>                                  |

**6. Electricity and materials used**

| '000GEL     | Nine-month period<br>ended 30 September<br>2015 | Nine-month period<br>ended 30 September<br>2014 |
|-------------|---|---|
| Electricity | 14,307  | 14,811  |
| Materials   | 14,019  | 14,589  |
| Fuel        | 4,368   | 5,762   |
|             | <b>32,694</b>                                   | <b>35,162</b>                                   |

**7. Other expenses**

| '000GEL                         | Nine-month period<br>ended 30 September<br>2015 | Nine-month period<br>ended 30 September<br>2014 |
|---------------------------------|---|---|
| Taxes other than income tax     | 19,754  | 18,347  |
| Freight car rental              | 8,656   | 13,691  |
| Repairs and maintenance         | 9,359   | 8,754   |
| Security                        | 6,496   | 6,364   |
| Write off of non-current assets | 18  | (1,723)   |
| Other                           | 18,067  | 9,915   |
|                                 | <b>62,350</b>                                   | <b>55,348</b>                                   |

**8. Finance income/Finance costs**

| '000GEL  | Nine-month period<br>ended 30 September<br>2015 | Nine-month period<br>ended 30 September<br>2014 |
|--|---|---|
| <b>Recognised in profit or loss</b>                            |   |   |
| Interest income  | 13,305  | 7,979   |
| <b>Finance income</b>  | <b>13,305</b>                                   | <b>7,979</b>                                    |
| Impairment loss on trade receivables                           | (20,309)  | (2,468)   |
| Interest expense on financial liabilities                      | (45,127)  | (13,140)  |
| Net foreign exchange loss                                      | (220,279)                                       | (11,359)  |
| <b>Finance costs</b>   | <b>(285,715)</b>                                | <b>(26,967)</b>                                 |
| <b>Net finance (costs)/income recognised in profit or loss</b> | <b>(272,410)</b>                                | <b>(18,988)</b>                                 |

**9. 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 nine-month period ended 30 September 2015 was (12) percent (nine-month period ended 30 September 2014: 16 percent). The statutory tax rate is 15 percent

**10. Property, Plant and equipment**

Nine-month period ended 30 September 2015 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 136,062 thousand (30 September 2014: 62,345 thousand).

Capitalised borrowing costs related to the Main Line Modernisation project for the nine-month period ended 30 September 2015 amounted of GEL 24,274 thousand (30 September 2014: 21,805 thousand).

**11. Dividends**

During the nine-month period ended 30 September 2015 the Company were declared dividend amount of GEL 25,537 thousand. Paid dividend amount of GEL 21,852 thousand.

**12. Capital commitments**

As at 30 September 2015 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 675,872 thousand (30 September 2014: GEL 576,185 thousand) mainly relating to the Main Line Modernization GEL 450,284 thousand (30 September 2014: GEL 383,178 thousand) and Tbilisi Bypass projects GEL 219,883 thousand (30 September 2014: GEL 150,645 thousand).

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

At 31 December 2014 and 2013 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              | Nine-month period<br>ended 30 September<br>2015 | Nine-month period<br>ended 30 September<br>2014 |
|----------------------|---|---|
| Salaries and bonuses | 889   | 848   |

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

The Group purchases electricity from a State-owned operator which amounted to GEL 903 thousand for 30 September 2015 (30 September 2014: GEL 1,240 thousand). The Group also purchases security services from a state agency which amounted to GEL 5,847 thousand for 30 September 2015 (30 September 2014: GEL 6,325 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                   | Nine-month period<br>ended 30 September<br>2015 | Nine-month period<br>ended 30 September<br>2014 |
|---------------------------|---|---|
| Liabilities to Government | 8,638   | 8,346   |

## 14. Significant subsidiaries

| Subsidiary                               | Country of incorporation | Principal activities                | 30<br>September<br>2015<br>Ownership/<br>voting | 30<br>September<br>2014<br>Ownership/<br>voting |
|--|--------------------------|-------------------------------------|---|---|
| Georgian Railway Property Management LLC | Georgia                  | Property management and development | 100%  | 100%  |
| Trans Caucasus Terminals LLC             | Georgia                  | Container transportation            | 100%  | 100%  |
| Georgian Railway Construction JSC        | Georgia                  | Construction and other projects     | 100%  | 100%  |
| Borjomi-Bakuriani Railway LLC            | Georgia                  | Passenger transportation            | 100%  | 100%  |
| Georgia Transit LLC                      | <b>Georgia</b>           | <b>transportation</b>               | <b>100%</b>                                     | 100%  |
| GR Transit line LLC                      | Georgia                  | Transportation                      | 100%  | 100%  |
| GR Trans-shipment LLC                    | Georgia                  | Transportation                      | 100%  | -   |
| Georgian Transit LLC                     | <b>Georgia</b>           | <b>transportation</b>               | <b>100%</b>                                     | -   |