

**Georgian Railway JSC**

**Condensed Consolidated Interim  
Financial Statements for the Nine-month  
periods ended 30 September 2014 and  
2013**

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'000GEL	Note	30 September 2014	31 December 2013	30 September 2013	31 December 2012
		Unaudited		Unaudited	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	2,386,887	2,347,187	2,327,230	2,197,235
Deferred tax assets		1,557	1,557	1,557	1,557
Other non-current assets		190,534	180,908	211,126	280,884
<b>Total non-current assets</b>		<b>2,578,978</b>	<b>2,529,652</b>	<b>2,539,913</b>	<b>2,479,676</b>
<b>Current assets</b>					
Inventories		30,586	43,059	47,061	35,571
Current tax assets		5,689	11,689	6,029	-
Trade and other receivables		62,665	52,402	50,106	39,253
Prepayments and other current assets		14,184	39,429	37,166	61,648
Term deposits		-	-	-	100,321
Cash and cash equivalents		252,942	208,996	168,608	115,076
<b>Total current assets</b>		<b>366,066</b>	<b>355,575</b>	<b>308,970</b>	<b>351,869</b>
<b>Total assets</b>		<b>2,945,044</b>	<b>2,885,227</b>	<b>2,848,883</b>	<b>2,831,545</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital		1,052,091	1,050,075	1,049,789	1,049,751
Non-cash owner contribution reserve		34,213	31,673	31,673	31,673
Retained earnings		544,894	487,379	506,238	449,376
<b>Total equity</b>		<b>1,631,198</b>	<b>1,569,127</b>	<b>1,587,700</b>	<b>1,530,800</b>
<b>Non-current liabilities</b>					
Loans and borrowings		921,974	913,194	875,278	870,934
Advance received from the Government		229,377	231,592	231,592	231,592
Trade and other payables		52	52	52	52
Deferred tax liabilities		64,475	58,436	63,222	57,302
<b>Total non-current liabilities</b>		<b>1,215,878</b>	<b>1,203,274</b>	<b>1,170,144</b>	<b>1,159,880</b>
<b>Current liabilities</b>					
Loans and borrowings		15,532	33,747	14,862	33,420
Trade and other payables		57,920	56,161	50,042	81,645
Liabilities to Government		8,346	11,917	11,926	12,956
Provisions		7,581	6,154	5,820	4,132
Current tax liabilities		-	-	-	1,542
Dividends payable	10	-	-	449	-
Other current liabilities		8,589	4,847	7,940	7,170
<b>Total current liabilities</b>		<b>97,968</b>	<b>112,826</b>	<b>91,039</b>	<b>140,865</b>
<b>Total liabilities</b>		<b>1,313,846</b>	<b>1,316,100</b>	<b>1,261,183</b>	<b>1,300,745</b>
<b>Total equity and liabilities</b>		<b>2,945,044</b>	<b>2,885,227</b>	<b>2,848,883</b>	<b>2,831,545</b>

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

'000 GEL	Note	Nine-month	Nine-month
		period ended	period ended
		30 September 2014	30 September 2013
Revenue	4	371,635	349,896
Other income		15,315	9,262
Employee benefits expense		(107,347)	(99,620)
Depreciation and amortization expense		(77,664)	(73,417)
Electricity and materials used	5	(35,162)	(33,271)
Other expenses	6	(55,348)	(56,567)
Results from operating activities		111,429	96,283
Finance income	7	7,979	9,150
Finance costs	7	(26,967)	(14,401)
Net finance (costs)/income		(18,988)	(5,251)
Profit before income tax		92,441	91,032
Income tax expense	8	(14,940)	(14,160)
Profit and total comprehensive income for the year		77,501	76,872

These consolidated financial statements were approved by the Management Board on 14 November 2014 and were signed on its behalf by:

  
 \_\_\_\_\_  
 Irakli Titvinidze  
 Financial Director

  
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 Tamaz Jgerenaia  
 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
<b>Total comprehensive income for the year</b>				
Profit and total comprehensive income for the year	-	-	76,872	76,872
<b>Transactions with owners, recorded directly in equity</b>				
Dividends to equity holders	-	-	(18,000)	(18,000)
Net non-cash contributions by and distributions to owners	38	-	(2,010)	(1,972)
<b>Balance at 30 September 2013</b>	<b>1,049,789</b>	<b>31,673</b>	<b>506,238</b>	<b>1,587,700</b>
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>

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

'000GEL	Note	Nine-month period ended 30 September 2014	Nine-month period ended 30 September 2013
<b>Cash flows from operating activities</b>			
Cash receipts from customers		372,215	348,311
Cash paid to suppliers and employees		(170,680)	(165,890)
<b>Cash flows from operations before income taxes and interest paid</b>		<b>201,535</b>	<b>182,421</b>
Income tax paid		(2,335)	(16,059)
<b>Net cash from operating activities</b>		<b>199,200</b>	<b>166,362</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(71,139)	(134,736)
Purchase of a company share		-	(48)
Increase/ Decrease in term deposits		-	59,597
Interest received		7,662	11,648
<b>Net cash used in investing activities</b>		<b>(63,477)</b>	<b>(63,539)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		-	(26)
Interest paid		(72,826)	(69,764)
Dividends paid		(20,000)	(18,000)
<b>Net cash from /(used in) financing activities</b>		<b>(92,826)</b>	<b>(87,790)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>42,897</b>	<b>15,033</b>
Cash and cash equivalents at 1 January		208,996	115,076
Effect of exchange rate fluctuations on cash and cash equivalents		1,049	437
<b>Cash and cash equivalents at 30 September</b>		<b>252,942</b>	<b>130,546</b>
Bank deposits		-	38,062
<b>Total Cash and cash equivalents at 30 September</b>		<b>252,942</b>	<b>168,608</b>

## **1. Background**

### **(a) 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.

### **(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, 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	
	Nine-month Period ended 30 September 2014	Nine-month Period ended 30 September 2013	Nine-month Period ended 30 September 2014	Nine-month Period ended 30 September 2013	Nine-month Period ended 30 September 2014	Nine-month Period ended 30 September 2013
'000GEL						
External revenues	352,918	318,746	15,773	14,575	368,691	333,321
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	221,579	190,949	(10,407)	(8,237)	211,172	182,712
Reportable segment assets	377,635	392,613	116,940	127,268	494,575	519,881

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

'000GEL	Nine-month period ended 30 September 2014	Nine-month period ended 30 September 2013
<b>Profit or loss</b>		
Total profit or loss for reportable segments	211,172	182,712
Payroll expenses – infrastructure and headquarters	(42,673)	(39,014)
Depreciation expenses – infrastructure and headquarters	(41,039)	(37,909)
Net finance (costs)/income	(18,988)	(5,251)
Other net unallocated expenses	(16,031)	(9,506)
Consolidated profit before income tax	<b>92,441</b>	<b>91,032</b>



**4. Revenue**

'000GEL	Nine-month period ended 30 September 2014	Nine-month period ended 30 September 2013
Freight traffic	323,937	309,471
Freight car rental	29,060	24,553
Passenger traffic	15,228	14,048
Other	3,410	1,824
	<b>371,635</b>	<b>349,896</b>

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.

**5. Electricity and materials used**

'000GEL	Nine-month period ended 30 September 2014	Nine-month period ended 30 September 2013
Electricity	14,811	15,452
Materials	14,589	11,769
Fuel	5,762	6,050
	<b>35,162</b>	<b>33,271</b>

**6. Other expenses**

'000GEL	Nine-month period ended 30 September 2014	Nine-month period ended 30 September 2013
Taxes other than income tax	18,347	16,765
Freight car rental	13,691	16,223
Repairs and maintenance	8,754	5,993
Security	6,364	5,682
Write off of non-current assets	(1,723)	165
Other	9,915	11,739
	<b>55,348</b>	<b>56,567</b>

**7. Finance income/Finance costs**

'000GEL	Nine-month period ended 30 September 2014	Nine-month period ended 30 September 2013
<b>Recognised in profit or loss</b>		
Interest income	7,979	9,150
Net foreign exchange gain	-	-
<b>Finance income</b>	<b>7,979</b>	<b>9,150</b>
Impairment loss on trade receivables	(2,468)	(3,973)
Law provisions *	-	(1,642)
Interest expense on financial liabilities	(13,140)	(6,032)
Net foreign exchange loss	(11,359)	(2,754)
<b>Finance costs</b>	<b>(26,967)</b>	<b>(14,401)</b>
<b>Net finance (costs)/income recognised in profit or loss</b>	<b>(18,988)</b>	<b>(5,251)</b>

\* On the basis of Independent Auditors' Report as at 31 December 2013 Law provision in 2014 Year is in a other expenses (30 September 2014: 1,125 thousand).

**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 nine-month period ended 30 September 2014 was 16 percent (nine-month period ended 30 September 2013: 16 percent). The statutory tax rate is 15 percent.

**9. Property, Plant and equipment**

During the nine-month period ended 30 September 2014 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 62,345 thousand (30 September 2013: 160,059 thousand) and Including of land GEL 669 thousand received from the Government.

During the nine-month period ended 30 September 2014 assets with a carrying amount of GEL 2,378 thousand were transferred to the Government.

Capitalised borrowing costs related to the Main Line Modernisation project for the nine-month period ended 30 September 2014 amounted of GEL 21,805 thousand (30 September 2013: 19,952 thousand) and capitalised borrowing costs related to the Tbilisi Bypass project for the nine-month period ended 30 September 2014 amounted of GEL 20,000 thousand (30 September 2013: 25,715 thousand).

**10. Dividends**

During the nine-month period ended 30 September 2014 the Company were declared and paid Dividend amount of GEL 20,000 thousand.

## 11. Capital commitments

As at 30 September 2014 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 576,185 thousand (30 September 2013: GEL 619,071 thousand) mainly relating to the Main Line Modernization GEL 383,178 thousand (30 September 2013: GEL 399,851 thousand) and Tbilisi Bypass projects GEL 150,645 thousand (30 September 2013: GEL 157,509 thousand).

## 12. 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	Nine-month period ended 30 September 2014	Nine-month period ended 30 September 2013
Salaries and bonuses	848	810

### (c) Other related party transactions

#### (i) Revenue, purchases and expenses

The Group purchased electricity from a State-owned operator which amounted to GEL 1,240 thousand for the period ended 30 September 2014 (30 September 2013: GEL 1,139 thousand). The Group also purchases security services from a state agency which amounted to GEL 6,325 thousand for the period ended 30 September 2014 (30 September 2013: GEL 5,783 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 ended 30 September 2014	Nine-month period ended 30 September 2013
Liabilities to Government	8,346	11,926

## 13. Significant subsidiaries

Subsidiary	Country of incorporation	Principal activities	30	30
			September 2014	September 2013
			Ownership/ voting	Ownership/ 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%
GR Transit line LLC	Georgia	Transportation	100%	100%
Borjomi-Bakuriani Railway LLC	Georgia	Passenger transportation	100%	100%
Georgian Transit LLC	<b>Georgia</b>	<b>transportation</b>	<b>100%</b>	100%
Rail Parking LLC	Georgia	Parking service	-	100%