

**Georgian Railway JSC  
(formerly Georgian Railway LLC)**

**Condensed Consolidated Interim  
Financial Statements for the Nine-month  
periods ended 30 September  
2013 and 2012**

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

'000GEL	Note	30 September 2013	31 December 2012	30 September 2012	31 December 2011
		Unaudited		Unaudited	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Goodwill		46	-	-	-
Property, plant and equipment	11	2,327,230	2,197,235	2,153,700	1,913,195
Investment property		-	-	-	6,838
Deferred tax assets		1,557	1,557	-	-
Other non-current assets		211,080	280,884	300,526	276,039
<b>Total non-current assets</b>		<b>2,539,913</b>	<b>2,479,676</b>	<b>2,454,226</b>	<b>2,196,072</b>
<b>Current assets</b>					
Inventories		47,061	35,571	33,593	23,737
Current tax assets		6,029	-	8,270	511
Trade and other receivables		50,106	39,253	38,271	27,355
Prepayments and other current assets		37,166	61,648	77,807	27,714
Total cash and cash equivalents	12	168,608	215,397	248,707	140,965
<b>Total current assets</b>		<b>308,970</b>	<b>351,869</b>	<b>406,648</b>	<b>220,282</b>
<b>Total assets</b>		<b>2,848,883</b>	<b>2,831,545</b>	<b>2,860,874</b>	<b>2,416,354</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	13	1,049,789	1,049,751	1,049,751	1,000,463
Non-cash owner contribution reserve		31,673	31,673	35,776	38,043
Retained earnings		506,238	449,376	405,847	763,502
<b>Total equity</b>		<b>1,587,700</b>	<b>1,530,800</b>	<b>1,491,374</b>	<b>1,802,008</b>
<b>Non-current liabilities</b>					
Loans and borrowings	14	875,278	870,934	872,237	414,063
Advance received from the Government	13	231,592	231,592	231,592	-
Trade and other payables		52	52	45	45
Deferred tax liabilities		63,222	57,302	61,497	60,925
<b>Total non-current liabilities</b>		<b>1,170,144</b>	<b>1,159,880</b>	<b>1,165,371</b>	<b>475,033</b>
<b>Current liabilities</b>					
Loans and borrowings	14	14,862	33,420	15,992	18,607
Trade and other payables		50,042	81,645	82,180	45,954
Liabilities to Government	15	11,926	12,956	22,090	13,188
Provisions		5,820	4,132	19,857	20,273
Other taxes payable		-	-	37,881	26,867
Current tax liabilities		-	1,542	-	-
Dividends payable		449	-	22,725	-
Other current liabilities		7,940	7,170	3,404	14,424
<b>Total current liabilities</b>		<b>91,039</b>	<b>140,865</b>	<b>204,129</b>	<b>139,313</b>
<b>Total liabilities</b>		<b>1,261,183</b>	<b>1,300,745</b>	<b>1,369,500</b>	<b>614,346</b>
<b>Total equity and liabilities</b>		<b>2,848,883</b>	<b>2,831,545</b>	<b>2,860,874</b>	<b>2,416,354</b>


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

'000 GEL	Note	Nine-month period ended 30 September 2013	Nine-month period ended 30 September 2012
Revenue	6	349,896	351,351
Other income		9,262	19,422
Employee benefits expense		(99,620)	(77,359)
Depreciation and amortization expense		(73,417)	(78,929)
Electricity and materials used	7	(33,271)	(38,745)
Other expenses	8	(56,567)	(58,369)
<b>Results from operating activities</b>		<b>96,283</b>	<b>117,371</b>
Finance income	9	9,150	12,533
Finance costs	9	(14,401)	(59,067)
<b>Net finance (costs)/income</b>		<b>(5,251)</b>	<b>(46,534)</b>
<b>Profit before income tax</b>		<b>91,032</b>	<b>70,837</b>
Income tax expense	10	(14,160)	(11,764)
<b>Profit and total comprehensive income for the year</b>		<b>76,872</b>	<b>59,073</b>

These consolidated financial statements were approved by the Management Board on 8 November 2013 and were signed on its behalf by:

  
Irakli Titvinidze  
Financial Director



  
Tamaz Igerenava  
Chief Accountant

On the basis of Independent Auditors' Report as at 31 December 2012, "Batumi Tower" Disposal is removed from other expenses to Retained earnings (in nine-month period ended 30 September 2012 amount of GEL 33,694 thousand).

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

'000GEL	Share capital/charter capital*	Non-cash owner contribution reserve	Retained earnings	Total equity
Balance at 1 January 2012	1,000,463	38,043	763,502	1,802,008
<b>Total comprehensive income for the year</b>				
Profit and total comprehensive income for the year	-	-	59,073	59,073
<b>Transactions with owners, recorded directly in equity</b>				
Dividends to owners	-	-	(382,317)	(382,317)
non-cash contributions by and distributions to owners	49,288	(2,267)	(31,310)	15,711
Cash contributions by and distributions to owners	-	-	(3,101)	(3,101)
<b>Balance at 30 September 2012</b>	<b>1,049,751</b>	<b>35,776</b>	<b>405,847</b>	<b>1,491,374</b>
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)
Cash contributions by and distributions to owners	-	-	-	-
<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>

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

'000GEL	Note	Nine-month period ended 30 September 2013	Nine-month period ended 30 September 2012
<b>Cash flows from operating activities</b>			
Cash receipts from customers		348,311	368,701
Cash paid to suppliers and employees		(165,890)	(183,330)
<b>Cash flows from operations before income taxes and interest paid</b>		<b>182,421</b>	<b>185,371</b>
Income tax paid		(16,059)	(8,220)
<b>Net cash from operating activities</b>		<b>166,362</b>	<b>177,151</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(134,736)	(322,445)
Proceeds from sale of property, plant and equipment		-	-
Purchase of a company share		(48)	-
Decrease(Increase) in term deposits		59,597	(94,459)
Decrease (Increase) in restricted cash		-	1,854
Interest received		11,648	8,859
<b>Net cash used in investing activities</b>		<b>(63,539)</b>	<b>(406,191)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	396,372
Repayment of borrowings		(26)	(822)
Interest paid		(69,764)	(22,910)
Dividends paid		(18,000)	(128,000)
Contribution of cash by owners		-	-
Distribution of cash to owners		-	(3,101)
<b>Net cash from /(used in) financing activities</b>		<b>(87,790)</b>	<b>241,539</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>15,033</b>	<b>12,499</b>
Cash and cash equivalents at 1 January		115,076	61,553
Effect of exchange rate fluctuations on cash and cash equivalents		437	2,638
<b>Cash and cash equivalents at 30 September</b>		<b>130,546</b>	<b>76,690</b>
Bank deposits		38,062	170,908
Restricted Cash		-	1,109
<b>Total Cash and cash equivalents</b>		<b>168,608</b>	<b>248,707</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 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**

Georgian Railway JSC (the "Company"), formerly incorporated as an LLC, 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 was wholly owned by the Government of Georgia represented by the State Enterprise Management Agency of the Ministry of Economy and Sustainable Development of Georgia as at 30 September 2011. On 25 October 2011, 7 May 2012 and 15 August 2012 24%, 1.5% and 74.5% of the Company's share capital, respectively, were transferred to the Partnership Fund JSC, a wholly state-owned company, which became the 100% shareholder of the Group. The ultimate controlling party of the Group is the Government of Georgia.

## **2. Basis of preparation**

### **(a) Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with consolidated financial statements of the Group as at the end and for the years ended 31 December 2012 and 2011.

### **(b) Basis of measurement**

The condensed consolidated interim 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.

**(d) Use of estimates and judgments**

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

In preparing these condensed interim financial statements, 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 that applied to the consolidated financial statements as at the and for the years ended 31 December 2012 and 2011.

**3. Significant accounting policies**

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at the and for the years ended 31 December 2012 and 2011.

**4. Risk Management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the years ended 31 December 2012 and 2011.



## 5. Operating segments

	Freight transportation		Passenger transportation		Total	
	Nine-month period-ended 30 September 2013	Nine-month period-ended 30 September 2012	Nine-month period-ended 30 September 2013	Nine-month period-ended 30 September 2012	Nine-month period-ended 30 September 2013	Nine-month period-ended 30 September 2012
'000GEL						
External revenues	318,746	335,143	14,575	14,635	333,321	349,778
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	190,949	210,183	(8,237)	(9,154)	182,712	201,029
Reportable segment assets	392,613	417,753	127,268	113,453	519,881	531,206

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

'000GEL	Nine-month period ended 30 September 2013	Nine-month period ended 30 September 2012
<b>Profit or loss</b>		
Total profit or loss for reportable segments	182,712	201,029
Other profit or loss	(873)	(603)
Payroll expenses – infrastructure and headquarters	(39,014)	(28,421)
Depreciation expenses – infrastructure and headquarters	(37,909)	(38,649)
Net finance (costs)/income	(5,251)	(46,534)
Other net unallocated expenses	(8,633)	(15,985)
Consolidated profit before income tax	<b>91,032</b>	<b>70,837</b>

## 6. Revenue

'000GEL	Nine-month period ended 30 September 2013	Nine-month period ended 30 September 2012
Freight traffic	309,471	298,266
Freight car rental	24,553	35,459
Passenger traffic	14,048	13,932
Other	1,824	3,694
	<b>349,896</b>	<b>351,351</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.

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.

**7. Electricity and materials used**

'000GEL	Nine-month period ended 30 September 2013	Nine-month period ended 30 September 2012
Electricity	15,452	17,228
Materials	11,769	14,655
Fuel	6,050	6,862
	<b>33,271</b>	<b>38,745</b>

**8. Other expenses**

'000GEL	Nine-month period ended 30 September 2013	Nine-month period ended 30 September 2012
Freight car rental	16,223	18,048
Taxes other than income tax	16,765	14,954
Write off of non-current assets	165	3,639
Repairs and maintenance	5,993	4,586
Security	5,682	5,418
Other	11,739	11,724
	<b>56,567</b>	<b>58,369</b>

**9. Foreign currency exchange rate fluctuations**

'000 GEL	Nine-month period 30 September 2013	Nine-month period 30 September 2012
<b>Recognised in profit or loss</b>		
Interest income	9,150	11,236
Net foreign exchange gain	-	1,297
Finance income	<b>9,150</b>	<b>12,533</b>
Impairment loss on trade receivables	(3,973)	(7,762)
Law provisions	(1,642)	-
Interest expense on financial liabilities	(6,032)	(10,127)
loss on Eurobond buy-back	-	(41,178)
Net foreign exchange loss	(2,754)	-
Finance costs	<b>(14,401)</b>	<b>(59,067)</b>
<b>Net finance (costs)/income recognised in profit or loss</b>	<b>(5,251)</b>	<b>(46,534)</b>

**10. 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

2013 was 16 percent (nine-month period ended 30 September 2012: 17 percent). The statutory tax rate is 15 percent.

## 11. Property, plant and equipment

- (a) During the year ended 31 December 2010 the Group started two large capital projects (included in construction in progress): the Main Line Modernization and the Tbilisi Bypass and started to incur expenditures for the projects in September 2010 and November 2010 respectively. To partly finance the projects the Group issued unsecured bonds in 2010. In 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes
- (b) During the nine-month period ended 30 September 2013 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 160,059 thousand (30 September 2012: 303,530 thousand).
- (c) Capitalised borrowing costs related to the Main Line Modernisation project for the nine-month period ended 30 September 2013 amounted of GEL 19,952 thousand (30 September 2012: 18,338 thousand) and capitalised borrowing costs related to the Tbilisi Bypass project for the nine-month period ended 30 September 2013 amounted of GEL 25,715 thousand (30 September 2012: 15,328 thousand).
- (d) During the nine-month period ended 30 September 2013 assets with a carrying amount of GEL 3,615 thousand were transferred to the Government (30 September 2012: GEL 15,142 thousand; GEL 13,408 thousand out of this sum refer to Batumi Tower transfer).

## 12. Cash and cash equivalents

'000 GEL	Nine-month period ended 30 September 2013	Nine-month period ended 30 September 202
Current accounts in banks	130,424	77,566
Bank deposits	38,062	170,908
Petty cash	122	233
<b>Total Cash and cash equivalents</b>	<b>168,608</b>	<b>248,707</b>

## 13. Equity and liabilities to the Government

### (a) Share capital

In April 2012 the Company changed its legal form from a limited liability company, whose charter capital is not divided into shares, to a joint stock company with an authorised and issued share capital of 1,049,751,200 shares having a par value of GEL 1 per share.

### (b) Dividends

Dividends payable includes the dividend of GEL 449 thousand declared by the newly acquired subsidiary Georgian Transit LLC. In accordance with the Sales-Purchase Agreement the above-mentioned dividend should be paid to subsidiary's former owner out of the pre-acquisition retained earnings.

## 14. Loans and borrowings

Loans and borrowings of the Company mainly comprise of USD 500 million 2012 Eurobond issue and the remaining part of USD 250 million 2010 Eurobond issue (USD 27.52 million). Current loans and borrowings comprise of interest accrued on these loan amounts.

## 15. Capital commitments

As at 30 September 2013 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 619,071 thousand (30 September 2012: GEL 747,528 thousand) mainly relating to the Main Line Modernization GEL 399,851 thousand (30 September 2012: GEL 440,179 thousand) and Tbilisi Bypass projects GEL 157,509 thousand (30 September 2012: GEL 200,250 thousand).

## 16. 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 2013	Nine-month period ended 30 September 2012
Salaries and bonuses	<u>810</u>	<u>776</u>

### (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 1,139 thousand for the year ended 30 September 2013 (30 September 2012: GEL 1,326 thousand). The Group also purchases security services from a state agency which amounted to GEL 5,783 thousand for the year ended 30 September 2013 (30 September 2012: GEL 5,600 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 2013	Nine-month period ended 30 September 2012
Liabilities to Government	11,926	22,090

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.

**17. Significant subsidiaries**

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

**18. Subsequent events**

In October 2013, Georgian Railway JSC has declared a dividend payment of GEL 3,000 thousand. The dividend is paid in October.