

Georgian Railway JSC
(formerly Georgian Railway LLC)

Condensed Consolidated Interim
Financial Statements for the three-month
periods ended 31 March 2013 and 2012

Contents

Condensed Consolidated Interim Statements of Financial Position	3
Condensed Consolidated Interim Statements of Comprehensive Income	4
Condensed Consolidated Interim Statements of Changes in Equity	5
Condensed Consolidated Interim Statements of Cash Flows	6
Notes to the Condensed Consolidated Interim Financial Statements	7

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

'000GEL	Note	31 March 2013	31 December 2012	31 March 2012	31 December 2011
		Unaudited		Unaudited	
ASSETS					
Non-current assets					
Property, plant and equipment	11	2,224,671	2,197,235	1,979,521	1,913,195
Investment property		-	-	-	6,838
Deferred tax assets		1,557	1,557	-	-
Other non-current assets		286,103	280,884	227,795	276,039
Total non-current assets		2,512,331	2,479,676	2,207,316	2,196,072
Current assets					
Non-current assets held for distribution		-	-	33,033	-
Inventories		30,895	35,571	23,053	23,737
Current tax assets		10,998	-	-	511
Trade and other receivables		41,929	39,253	31,821	27,355
Prepayments and other current assets		58,168	61,648	57,387	27,714
Term deposits		64,252	100,321	87,196	76,449
Cash and cash equivalents		91,771	115,076	42,110	64,516
Total current assets		298,013	351,869	274,600	220,282
Total assets		2,810,344	2,831,545	2,481,916	2,416,354
EQUITY AND LIABILITIES					
Equity					
Share capital	12	1,049,789	1,049,751	990,545	1,000,463
Non-cash owner contribution reserve		31,673	31,673	38,031	38,043
Retained earnings		467,722	449,376	768,606	763,502
Total equity		1,549,184	1,530,800	1,797,182	1,802,008
Non-current liabilities					
Loans and borrowings	13	871,557	870,934	411,756	414,063
Advance received from the Government	12	231,592	231,592	-	-
Trade and other payables		52	52	45	45
Deferred tax liabilities		61,132	57,302	59,550	60,925
Total non-current liabilities		1,164,333	1,159,880	471,351	475,033
Current liabilities					
Loans and borrowings	13	14,792	33,420	8,320	18,607
Trade and other payables		51,069	81,645	81,195	45,954
Liabilities to Government	15	11,926	12,956	22,291	13,188
Provisions		4,167	4,132	19,834	20,273
Other taxes payable		-	-	33,389	26,867
Current tax liabilities		-	1,542	7,486	-
Dividends payable		-	-	28,000	-
Other current liabilities		14,873	7,170	12,868	14,424
Total current liabilities		96,827	140,865	213,383	139,313
Total liabilities		1,261,160	1,300,745	684,734	614,346
Total equity and liabilities		2,810,344	2,831,545	2,481,916	2,416,354

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

'000 GEL	Note	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
Revenue	6	106,884	105,798
Other income		3,430	5,717
Employee benefits expense		(30,458)	(23,846)
Depreciation and amortization expense		(24,645)	(24,765)
Electricity and materials used	7	(12,116)	(12,346)
Other expenses	8	(15,117)	(14,703)
Results from operating activities		27,978	35,855
Finance income	9	3,318	10,425
Finance costs	9	(4,954)	(6,559)
Net finance (costs)/income		(1,636)	3,866
Profit before income tax		26,342	39,721
Income tax expense	10	(5,986)	(6,617)
Profit and total comprehensive income for the year		20,356	33,104

These consolidated financial statements were approved by the Management Board on 15May2013 and were signed on its behalf by:

M. Bakhtadze
Mamuka Bakhtadze
General Director



T. Jgerenata
Tamaz Jgerenata
Chief Accountant

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
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	33,104	33,104
Transactions with owners, recorded directly in equity				
Dividends to owners	-	-	(28,000)	(28,000)
non-cash contributions by and distributions to owners	(9,918)	(12)		(9,930)
Balance at 31 March 2012	990,545	38,031	768,606	1,797,182
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

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

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

'000GEL	Note	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
Cash flows from operating activities			
Cash receipts from customers		103,888	101,042
Cash paid to suppliers and employees		(52,652)	(50,362)
Cash flows from operations before income taxes and interest paid		51,236	50,680
Income tax paid		(15,000)	-
Interest paid		-	-
Net cash from operating activities		36,236	50,680
Cash flows from investing activities			
Acquisition of property, plant and equipment		(63,180)	(49,581)
Proceeds from sale of property, plant and equipment		-	-
Decrease(Increase) in term deposits		34,754	(10,747)
Increase in restricted cash		(35)	(101)
Interest received		5,141	4,733
Net cash used in investing activities		(23,320)	(55,696)
Cash flows from financing activities			
Proceeds from borrowings		-	190
Repayment of borrowings		(9)	-
Interest paid		(35,444)	(20,647)
Dividends paid		-	-
Contribution of cash by owners		-	-
Distribution of cash to owners		-	-
Net cash from /(used in) financing activities		(35,453)	(20,457)
Net increase/(decrease) in cash and cash equivalents		(22,537)	(25,473)
Cash and cash equivalents at 1 January		115,076	61,553
Effect of exchange rate fluctuations on cash and cash equivalents		26	2,966
Cash and cash equivalents at 31 December		91,771	39,046
Bank deposits		64,252	87,196
Restricted Cash		-	3,064
Total Cash and cash equivalents		156,023	129,306

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	
	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
'000GEL						
External revenues	103,309	101,101	3,412	4,105	106,721	105,206
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	62,871	60,752	(5,084)	(2,226)	57,787	58,526
Reportable segment assets	391,368	359,081	126,842	108,382	518,210	467,463

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

'000GEL	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
Profit or loss		
Total profit or loss for reportable segments	57,787	58,526
Other profit or loss	(351)	(321)
Payroll expenses – infrastructure and headquarters	(11,604)	(8,044)
Depreciation expenses – infrastructure and headquarters	(12,142)	(12,622)
Net finance (costs)/income	(1,637)	3,866
Other net unallocated expenses	(5,711)	(1,684)
Consolidated profit before income tax	26,342	39,721

6. Revenue

'000GEL	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
Freight traffic	95,767	87,276
Freight car rental	7,063	13,789
Passenger traffic	3,417	3,694
Other	637	1,039
	106,884	105,798

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	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
Electricity	5,829	6,114
Materials	4,233	3,953
Fuel	2,054	2,279
	12,116	12,346

8. Other expenses

'000GEL	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
Freight car rental	5,249	4,995
Taxes other than income tax	5,446	4,992
Write off of non-current assets	158	-
Repairs and maintenance	1,012	1,641
Security	1,794	1,842
Other	1,458	1,233
	15,117	14,703

9. Foreign currency exchange rate fluctuations

Included in finance costs for the three-month period ended 31 March 2013 is a net foreign exchange loss of GEL 2,089 thousand mainly as a result of GEL depreciation against the U.S. Dollar (“USD”) as the Group’s loans and borrowing were denominated in USD during the three-month period ended 31 March 2013 and appreciation of GEL against Swiss Franc (“CHF”) as significant part of Company’s receivables are denominated in CHF.

Included in finance income for the three-month period ended 31 March 2012 is a net foreign exchange gain of GEL 6,426 thousand mainly as a result of the GEL depreciation against the Swiss Franc (“CHF”) and GEL appreciation against the U.S. Dollar (“USD”) as the Group held a significant part of its bank balances in CHF and the Group’s loans and borrowing were denominated in USD during the three-month period ended 31 March 2012

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 three-month period ended 31 March 2013 was 23percent (three-month period ended 31 March 2012: 17percent). 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 three-month period ended 31March2013 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 40,135 thousand (31March 2012: 83,333 thousand).
- (c) Capitalised borrowing costs related to the Main Line Modernisation project for the three-month period ended 31 March 2013 amounted to GEL 6,402 thousand (31 March 2012: 6,056 thousand) and capitalised borrowing costs related to the Tbilisi Bypass project for the three-month period ended 31 March 2013 amounted to GEL 8,380 thousand (31 March 2012: 4,254 thousand).
- (d) During the three-month period ended 31March 2013 assets with a carrying amount of GEL 3,612 thousand were transferred to the Government (31March2012: GEL 827 thousand).

12. 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

No dividends were declared or paid by the Company during the three-month period ended 31 March 2013 (three-month period ended 31 March 2012: declared GEL 28,000 thousand).

13. 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.

14. Capital commitments

As at 31 March 2013 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 620,564 thousand (31 March 2012: GEL 854,646 thousand) mainly relating to the Main Line Modernization GEL 398,150 thousand (31 March 2012: GEL 534,288 thousand) and Tbilisi Bypass projects GEL 150,802 thousand (31 March 2012: GEL 277,815 thousand).

15. 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	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
Salaries and bonuses	216	247

(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 582 thousand for the year ended 31 March 2013 (31 March 2012: GEL 675 thousand). The Group also purchases security services from a state agency which amounted to GEL

1,853 thousand for the year ended 31 March 2013 (31 March 2012: GEL 1,902 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	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
Liabilities to Government	11,926	22,291

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.

16. Significant subsidiaries

Subsidiary	Country of incorporation	Principal activities	31 March 2013 Ownership/ voting	31 March 2012 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%	-
Borjomi-Bakuriani Railway LLC	Georgia	Passenger transportation	100%	100%
Rail Parking LLC	Georgia	Parking service	100%	100%

17. Subsequent Event

In May 2013, JSC Georgian Railway declared dividend of Gel 48,609 thousand (50% of consolidated net profit for the year ended 31 December 2012).

In April 2013 Georgian Railway JSC acquired 100 per cent share of Georgian Transit LLC to get extra profitability from liquids transportation thus consolidating its own profit margin with the freight forwarder company's profitability. The acquisition price was of GEL 48 thousand.