

**Georgian Railway JSC**

**Consolidated Interim Financial  
Statements for the Six-month periods  
ended 30 June 2015 and 2014**

## **Contents**

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

Consolidated Interim Statements of Financial Position (Unaudited)

'000GEL	Note	30 June 2015	31 December 2014	30 June 2014	31 December 2013
		Unaudited		Unaudited	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	2,417,305	2,378,228	2,380,539	2,347,187
Deferred tax assets		20,954	1,557	1,557	1,557
Other non-current assets		174,002	170,190	171,294	180,908
<b>Total non-current assets</b>		<b>2,612,261</b>	<b>2,549,975</b>	<b>2,553,390</b>	<b>2,529,652</b>
<b>Current assets</b>					
Inventories		30,938	34,008	30,755	43,059
Current tax assets		12,112	10,924	10,622	11,689
Trade and other receivables		65,861	53,944	59,286	52,402
Prepayments and other current assets		25,166	18,547	24,462	39,429
Cash and cash equivalents		370,421	300,983	247,269	208,996
<b>Total current assets</b>		<b>504,498</b>	<b>418,406</b>	<b>372,394</b>	<b>355,575</b>
<b>Total assets</b>		<b>3,116,759</b>	<b>2,968,381</b>	<b>2,925,784</b>	<b>2,885,227</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital		1,052,283	1,052,202	1,050,697	1,050,075
Non-cash owner contribution reserve		34,074	34,214	34,212	31,673
Retained earnings		386,760	476,335	501,622	487,379
<b>Total equity</b>		<b>1,473,117</b>	<b>1,562,751</b>	<b>1,586,531</b>	<b>1,569,127</b>
<b>Non-current liabilities</b>					
Loans and borrowings		1,121,414	929,373	930,654	913,194
Advance received from the Government		229,377	229,377	231,592	231,592
Trade and other payables		52	52	52	52
Deferred tax liabilities		57,912	59,998	58,357	58,436
<b>Total non-current liabilities</b>		<b>1,408,755</b>	<b>1,218,800</b>	<b>1,220,655</b>	<b>1,203,274</b>
<b>Current liabilities</b>					
Loans and borrowings		104,997	87,330	34,029	33,747
Trade and other payables		80,735	78,480	57,215	56,161
Liabilities to Government		7,677	8,467	11,901	11,917
Provisions		6,395	6,447	6,471	6,154
Dividends payable		25,237	-	-	-
Other current liabilities		9,846	6,106	8,982	4,847
<b>Total current liabilities</b>		<b>234,887</b>	<b>186,830</b>	<b>118,598</b>	<b>112,826</b>
<b>Total liabilities</b>		<b>1,643,642</b>	<b>1,405,630</b>	<b>1,339,253</b>	<b>1,316,100</b>
<b>Total equity and liabilities</b>		<b>3,116,759</b>	<b>2,968,381</b>	<b>2,925,784</b>	<b>2,885,227</b>

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

'000 GEL	Note	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
Revenue	5	288,340	229,761
Other income		6,212	9,436
Employee benefits expense		(73,188)	(72,826)
Depreciation and amortization expense		(52,596)	(51,041)
Electricity and materials used	6	(21,461)	(24,208)
Other expenses	7	(36,926)	(36,760)
<b>Results from operating activities</b>		<b>110,381</b>	<b>54,362</b>
Finance income	8	8,492	4,910
Finance costs	8	(202,799)	(22,285)
<b>Net finance (costs)/income</b>		<b>(194,307)</b>	<b>(17,375)</b>
<b>Profit before income tax</b>		<b>(83,926)</b>	<b>36,987</b>
Income tax expense	9	19,888	(2,758)
<b>Profit and total comprehensive income for the year</b>		<b>(64,038)</b>	<b>34,229</b>

These consolidated financial statements were approved by the Management Board on 07 August 2015 and were signed on its behalf by:





Irakli Titvinidze  
 Financial Director

Tamaz Jgerenaia  
 Chief Accountant

**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	-	-	34,229	34,229
<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	622	2,539	14	3,175
<b>Balance at 30 June 2014</b>	<b>1,050,697</b>	<b>34,212</b>	<b>501,622</b>	<b>1,586,531</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	-	-	(64,038)	(64,038)
<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	81	(140)	-	(59)
Cash contributions by and distributions to owners	-	-	-	-
<b>Balance at 30 June 2015</b>	<b>1,052,283</b>	<b>34,074</b>	<b>386,760</b>	<b>1,473,117</b>

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

'000GEL	Note	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
<b>Cash flows from operating activities</b>			
Cash receipts from customers		281,797	231,912
Cash paid to suppliers and employees		(137,543)	(110,865)
<b>Cash flows from operations before income taxes and interest paid</b>		<b>144,254</b>	<b>121,047</b>
Income tax paid		(2,776)	(1,670)
<b>Net cash from operating activities</b>		<b>141,478</b>	<b>119,377</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(72,088)	(32,121)
Interest received		8,720	4,706
<b>Net cash used in investing activities</b>		<b>(63,368)</b>	<b>(27,415)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(39,126)	(36,163)
Dividends paid		(300)	(20,000)
<b>Net cash from /(used in) financing activities</b>		<b>(39,426)</b>	<b>(56,163)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>38,684</b>	<b>35,799</b>
Cash and cash equivalents at 1 January		300,983	208,996
Effect of exchange rate fluctuations on cash and cash equivalents		30,754	2,474
<b>Cash and cash equivalents at 30 June</b>		<b>370,421</b>	<b>247,269</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	
	Six-month period ended	Six-month period ended	Six-month period ended	Six-month period ended	Six-month period ended	Six-month period ended
	30 June 2015	30 June 2014	30 June 2015	30 June 2014	30 June 2015	30 June 2014
<b>'000GEL</b>						
External revenues	279,268	219,821	6,093	8,090	285,361	227,911
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	195,434	130,048	(9,602)	(9,237)	185,832	120,811
Reportable segment assets	384,999	358,651	112,061	119,717	497,060	478,368

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

<b>'000GEL</b>	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
<b>Profit or loss</b>		
Total profit or loss for reportable segments	185,832	120,811
Payroll expenses – infrastructure and headquarters	(28,957)	(28,877)
Depreciation expenses – infrastructure and headquarters	(27,612)	(26,882)
Net finance (costs)/income	(194,307)	(17,375)
Other net unallocated expenses	(18,882)	(10,690)
Consolidated profit before income tax	<b>(83,926)</b>	<b>36,987</b>



**5. Revenue**

'000GEL	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
Freight traffic	268,014	201,913
Freight car rental	11,255	17,957
Passenger traffic	6,093	7,724
Other	2,978	2,167
	<b>288,340</b>	<b>229,761</b>

**6. Electricity and materials used**

'000GEL	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
Electricity	9,196	9,708
Materials	9,387	10,775
Fuel	2,878	3,725
	<b>21,461</b>	<b>24,208</b>

**7. Other expenses**

'000GEL	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
Taxes other than income tax	12,514	12,290
Freight car rental	7,081	8,406
Repairs and maintenance	4,987	6,659
Security	4,254	4,237
Write off of non-current assets*	(2,698)	(33)
Other	10,788	5,201
	<b>36,926</b>	<b>36,760</b>

\* Including realization of non-current assets

**8. Finance income/Finance costs**

'000GEL	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
<b>Recognised in profit or loss</b>		
Interest income	8,492	4,910
<b>Finance income</b>	<b>8,492</b>	<b>4,910</b>
Impairment loss on trade receivables	(18,355)	(1,609)
Interest expense on financial liabilities	(30,349)	(6,321)
Net foreign exchange loss	(154,095)	(14,355)
<b>Finance costs</b>	<b>(202,799)</b>	<b>(22,285)</b>
<b>Net finance (costs)/income recognised in profit or loss</b>	<b>(194,307)</b>	<b>(17,375)</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 six-month period ended 30 June 2015 was 24 percent (six-month period ended 30 June 2014: 7 percent). The statutory tax rate is 15 percent

**10. Property, Plant and equipment**

Six-month period ended 30 June 2015 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 79,531 thousand (30 June 2014: 38,500 thousand).

Capitalised borrowing costs related to the Main Line Modernisation project for the six-month period ended 30 June 2015 amounted of GEL 15,866 thousand (30 June 2014: 14,369 thousand).

**11. Dividends**

During the six-month period ended 30 June 2015 the Company were declared dividend amount of GEL 25,537 thousand. Paid dividend amount of GEL 300 thousand.

**12. Capital commitments**

As at 30 June 2015 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 725,257 thousand (30 June 2014: GEL 649,358 thousand) mainly relating to the Main Line Modernization GEL 475,629 thousand (30 June 2014: GEL 418,731 thousand) and Tbilisi Bypass projects GEL 215,504 thousand (30 June 2014: GEL 166,479 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	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
Salaries and bonuses	586	555

#### (c) Other related party transactions

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

The Group purchases electricity from a State-owned operator which amounted to GEL 660 thousand for 30 June 2015 (30 June 2014: GEL 800 thousand). The Group also purchases security services from a state agency which amounted to GEL 4,274 thousand for 30 June 2015 (30 June 2014: GEL 4,221 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	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
Liabilities to Government	7,677	11,901

**14. Significant subsidiaries**

<b>Subsidiary</b>	<b>Country of incorporation</b>	<b>Principal activities</b>	<b>30 June</b>	<b>30 June</b>
			<b>2015</b>	<b>2014</b>
			<b>Ownership/ voting</b>	<b>Ownership/ voting</b>
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%
Georgian Transit LLC	<b>Georgia</b>	<b>transportation</b>	<b>100%</b>	100%
GR Transit line LLC	Georgia	Transportation	100%	100%

**15. Subsequent event**

In July 2015, Georgian Railway JSC paid dividend amount of GEL 21,552 thousand.