



**Georgian Railway JSC**

**Condensed Consolidated Interim  
Financial Statements for the nine-month  
periods ended 30 september 2012 and 2011**

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**Georgian Railway JSC**  
Condensed Consolidated Interim Statements of Financial Position

'000 GEL	Note	30 September 2012	31 December 2011	30 September 2011	31 December 2010
		Unaudited		Unaudited	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	11	2,153,700	1,913,195	1,818,451	1,725,633
Investment property	11	-	6,838	6,838	9,926
Other non-current assets	11	300,526	276,039	230,088	136,375
<b>Total non-current assets</b>		<b>2,454,226</b>	<b>2,196,072</b>	<b>2,055,377</b>	<b>1,871,934</b>
<b>Current assets</b>					
Inventories		33,593	23,737	30,917	17,992
Current tax assets		8,270	511	6,621	-
Trade and other receivables		38,271	27,355	23,472	26,913
Prepayments and other current assets		77,807	27,714	68,061	42,665
Cash and cash equivalents	13	77,799	64,516	199,246	335,855
Bank deposits		170,908	76,449	54,098	38,021
<b>Total current assets</b>		<b>406,648</b>	<b>220,282</b>	<b>382,415</b>	<b>461,446</b>
<b>Total assets</b>		<b>2,860,874</b>	<b>2,416,354</b>	<b>2,437,792</b>	<b>2,333,380</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
	12				
Share capital		1,049,751	1,000,463	1,009,447	985,376
Non-cash owner contribution reserve		35,776	38,043	35,404	35,404
Retained earnings		405,846	763,502	734,072	612,261
<b>Total equity</b>		<b>1,491,373</b>	<b>1,802,008</b>	<b>1,778,923</b>	<b>1,633,041</b>
<b>Non-current liabilities</b>					
Loans and borrowings	13	872,237	414,063	411,474	438,383
Trade and other payables		45	45	45	45
Deferred tax liabilities		61,497	60,925	63,686	66,521
<b>Total non-current liabilities</b>		<b>933,779</b>	<b>475,033</b>	<b>475,205</b>	<b>504,949</b>
<b>Current liabilities</b>					
Loans and borrowings	13	15,992	18,607	8,496	19,259
Trade and other payables		82,180	45,954	100,471	61,886
Liabilities to the owners	14	22,090	13,188	14,968	29,241
Provisions		19,857	20,273	22,376	21,597
Other taxes payable		37,881	26,867	30,749	27,236
Other current liabilities		3,405	14,424	6,604	15,018
Dividends payable		254,317			
Current tax liabilities		-	-	-	21,153
<b>Total current liabilities</b>		<b>435,722</b>	<b>139,313</b>	<b>183,664</b>	<b>195,390</b>
<b>Total liabilities</b>		<b>1,369,501</b>	<b>614,346</b>	<b>658,869</b>	<b>700,339</b>
<b>Total equity and liabilities</b>		<b>2,860,874</b>	<b>2,416,354</b>	<b>2,437,792</b>	<b>2,333,380</b>


The condensed consolidated interim statements of financial position are to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 7 to 13.

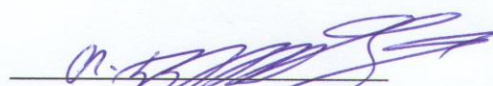
**Georgian Railway JSC**

*Condensed Consolidated Interim Statements of Comprehensive Income for the nine-month periods ended 30 September*

'000 GEL	Note	2012	2011
		Unaudited	Unaudited
Revenue	6	351,351	358,990
Other income		19,422	9,699
Employee benefits expense		(77,359)	(78,928)
Depreciation and amortization expense		(78,929)	(67,806)
Electricity and materials used	7	(38,745)	(33,345)
Other expenses	8	(92,064)	(59,472)
<b>Results from operating activities</b>		<b>83,676</b>	<b>129,138</b>
Finance income	9	12,533	29,499
Finance costs	9	(59,067)	(7,523)
<b>Net finance income/(costs)</b>		<b>(46,534)</b>	<b>21,976</b>
<b>Profit before income tax</b>		<b>37,142</b>	<b>151,114</b>
Income tax expense	10	(11,764)	(6,571)
<b>Profit and total comprehensive income for the period</b>		<b>25,378</b>	<b>144,543</b>

These condensed consolidated interim financial statements were approved by the Management Board on 12 November 2012 and were signed on its behalf by:

  
 Giorgi Gagnidze  
 Acting General Director

  
 Tamaz Jgerehaia  
 Chief Accountant

'000 GEL	Charter capital	Non-cash owner contribution reserve	Retained earnings	Total equity
Balance at 1 January 2011	<b>985,376</b>	<b>35,404</b>	<b>612,261</b>	<b>1,633,041</b>
<b>Total comprehensive income for the period</b>				
Profit and total comprehensive income for the period (unaudited)	-	-	144,543	144,543
<b>Transactions with owners, recorded directly in equity</b>				
Non-cash contributions by and distributions to owners (unaudited)	4,071	-	(22,732)	(18,661)
Cash contributions by owners (unaudited)	20,000	-	-	20,000
<b>Balance at 30 September 2011 (unaudited)</b>	<b>1,009,447</b>	<b>35,404</b>	<b>734,072</b>	<b>1,778,923</b>
Balance at 1 January 2012	<b>1,000,463</b>	<b>38,043</b>	<b>763,502</b>	<b>1,802,008</b>
<b>Total comprehensive income for the period</b>				
Profit and total comprehensive income for the period (unaudited)	-	-	25,378	25,378
<b>Transactions with owners, recorded directly in equity</b>				
Dividends to owners (unaudited)	-	-	(382,317)	(382,317)
Non-cash contributions by and distributions to owners (unaudited)	49,288	(2,267)	(717)	46,304
<b>Balance at 30 September 2012 (unaudited)</b>	<b>1,049,751</b>	<b>35,776</b>	<b>405,846</b>	<b>1,491,373</b>

'000 GEL	2012	2011
	Unaudited	Unaudited
<b>Cash flows from operating activities</b>		
Cash receipts from customers	368,701	369,759
Cash paid to suppliers and employees	(183,330)	(160,312)
<b>Cash flows from operations before income taxes and interest paid</b>	<b>185,371</b>	<b>209,447</b>
Income tax paid	(8,220)	(30,259)
<b>Net cash from operating activities</b>	<b>177,151</b>	<b>179,188</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(322,445)	(279,002)
Increase/Decrease in term deposits	(94,459)	(16,077)
Increase/Decrease in restricted cash	1,854	11,912
Interest received	8,859	6,124
<b>Net cash used in investing activities</b>	<b>(406,191)</b>	<b>(277,043)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	396,372	989
Repayment of borrowings	(822)	-
Interest paid	(22,910)	(43,058)
Dividends paid	(128,000)	-
Cash contribution by owner	-	20,000
Cash distribution to the owner	(3,101)	-
<b>Net cash from/(used in) financing activities</b>	<b>241,539</b>	<b>(22,069)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>12,499</b>	<b>(119,924)</b>
Cash and cash equivalents at 1 January	61,553	323,943
Effect of exchange rate fluctuations on cash and cash equivalents	2,638	( 4,773)
<b>Cash and cash equivalents at 30 September</b>	<b>76,690</b>	<b>199,246</b>
Bank deposits	170,908	54,098
Restricted Cash	1,109	-
<b>Total Cash and cash equivalents</b>	<b>248,707</b>	<b>253,344</b>

## **1 Background**

### **(a) Business environment**

#### **Georgian 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 conflict between Georgia and the Russian Federation has created additional uncertainty in the environment. 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 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) Reporting entity**

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 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 State of Georgia represented by the State Enterprise Management Agency of the Ministry of Economy and Sustainable Development of Georgia. On 25 October 2011 24% of the Company's charter capital was transferred to Partnership Fund JSC which is wholly owned by the State of Georgia. Pursuant to Government Resolution No. 789 of 30 April 2012 on "Contributing the Shares of JSC "Georgian Railway" owned by the State into the capital of JSC Partnership Fund", on 7 May 2012 the State transferred additional shares in the Company representing 1.5 per cent. of the Company's authorised capital, by way of capital contribution, to the JSC Partnership Fund.

On the basis of GoG Resolution No. 326 dated August 2012 the State of Georgia has transferred all of its remaining shares in the Company comprising the 74.5 per cent of the Company's share capital (directly held by the State and controlled by the Ministry of Economy and Sustainable Development of Georgia through Enterprise Management Agency) to JSC Partnership Fund. Following registration of the transfer, JSC Partnership Fund holds 100 per cent of the Company's share capital.

## **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*. These do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the years ended 31 December 2011 and 2010.

**(b) 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 condensed consolidated interim financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand.

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

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

In preparing these condensed consolidated 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 and for the years ended 31 December 2011 and 2010.

**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 and for the years ended 31 December 2011 and 2010.

**4 Financial 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 2011 and 2010.

**5 Operating segments**

*Information about reportable segments as at and for the nine-month periods ended 30 September (unaudited)*

'000 GEL	Freight transportation		Passenger transportation		Total	
	2012	2011	2012	2011	2012	2011
External revenues	335,143	341,280	14,635	13,690	349,778	354,970
Reportable segment profit/(loss) before infrastructure costs, central overheads, net finance income or costs and income tax	210,183	227,315	(9,154)	(7,075)	201,029	220,240
Reportable segment assets	417,753	369,648	113,453	87,438	531,206	457,086



*Reconciliation of reportable segment profit or loss for the nine-month periods ended 30 September (unaudited)*

<b>'000 GEL</b>	<b>2012</b>	<b>2011</b>
Total profit or loss for reportable segments	201,029	220,240
Other profit or loss	(603)	(2,298)
Payroll expenses – infrastructure and	(28,421)	(38,323)
Depreciation expenses – infrastructure and	(38,649)	(33,785)
Net finance income/(costs)	(46,534)	21,976
Other net unallocated expenses	(49,680)	(16,696)
Consolidated profit before income tax	<b>37,142</b>	<b>151,114</b>

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2011 and 31 December 2010.

## **6 Revenue**

<b>'000 GEL</b>	<b>2012</b>	<b>2011</b>
Freight traffic	298,266	308,751
Freight car rental	35,459	32,512
Passenger traffic	13,932	11,744
Other	3,694	5,983
	<b>351,351</b>	<b>358,990</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 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.

## 7 Electricity and materials used

'000 GEL	2012	2011
Electricity	17,228	17,901
Materials	14,655	7,917
Fuel	6,862	7,527
	<b>38,745</b>	<b>33,345</b>

## 8 Other expenses

'000 GEL	2012	2011
Freight car rental	18,048	17,508
Taxes other than income tax	14,954	12,233
Provision for EBRD		
Loan cancellation fee	-	2,517
Security	5,418	5,748
Repairs and maintenance	4,586	10,718
Write off of non-current assets	3,639	4,094
Other	11,724	6,654
Batumi Tower Disposal	33,695	-
	<b>92,064</b>	<b>59,472</b>

## 9 Foreign currency exchange rate fluctuations

Included in finance income for the nine-month period ended 30 September 2012 is a net foreign exchange gain of GEL 1,297 thousand mainly as a result of GEL appreciation against the U.S. Dollar ("USD") as the Group's loans and borrowing were denominated in USD during the nine-month period ended 30 September 2012. Included in finance income for the nine-month period ended 30 September 2011 is a net foreign exchange gain of GEL 23,343 thousand mainly as a result of GEL depreciating 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 nine-month period ended 30 September 2011.

## 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 2012 was 32 percent (nine-month period ended 30 September 2011: 4 percent). The statutory tax rate is 15 percent

## **11 Property, plant and equipment and other non-current assets**

### **(a) Acquisitions and disposals of property, plant and equipment**

During the nine-month period ended 30 September 2012 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 303,530 thousand.

Capitalised borrowing costs related to the Main Line Modernisation project for the nine-month period ended 30 September 2012 amounted to GEL 17,394 thousand (30 September 2011: 18,508 thousand ) and capitalised borrowing costs related to the Tbilisi Bypass project for the nine-month period ended 30 September 2012 amounted to GEL 12,845 thousand (30 September 2011: 13,016 thousand).

During the nine-month period ended 30 September 2012 assets with a carrying amount of GEL 15,142 (GEL 13,408 thousand out of this sum refer to Batumi Tower transfer) thousand were transferred to the owner (30 September 2011: GEL 24,004 thousand).

### **(b) Investment property**

In March 2012 the decision was made to transfer the Tbilisi Central Station building to the Government of Georgia. In the nine month period ended 30 September 2012, Investment property of 6,838 thousand, mainly relating to the Tbilisi Central Station, was reclassified to Property, plant and equipment.

### **(c) Other non-current assets**

Increase in other non-current assets is mainly related to prepayments made and materials and equipment purchased for the Main Line Modernisation and Tbilisi Bypass projects.

### **(d) Capital commitments and major projects**

As at 30 September 2012 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 747,528 thousand mainly relating to the Main Line Modernization (GEL 440,179 thousand) and Tbilisi Bypass projects (GEL 200,250 thousand). (30 September 2011: GEL 1,074,243 thousand), excluding prepayments made for the contracts.

## **12 Equity**

### **Dividends**

During the nine-month period ended 30 September 2012 the Company made a dividend payment in the amount of GEL 128 million (nine-month period ended 30 September 2011: nil).

Part of declared dividends in the amount of GEL 28 million were paid in April-May 2012.

In July, 2012 Georgian Railway JSC has declared a total dividend payment of GEL 331.6 million out of consolidated profit and total comprehensive income for prior periods ended 31 December

2011. The dividend declaration was approved by an extraordinary general meeting of the shareholders of the Company and the Government of Georgia (the GoG). From the GEL 247.0 million of dividend to be paid to the State of Georgia in respect of its holding of 74.5% of shares in the Company, GEL 231.6 million have been applied, pursuant to the terms of the Tbilisi Bypass Project Memorandum of Understanding, to reimburse the Company for expenses incurred by it in connection with the Tbilisi Bypass Project. This application of dividends otherwise payable to the State of Georgia has satisfied the GoG's reimbursement obligation in full under such Memorandum of Understanding. Remaining part of declared dividends in the amount of GEL 100 million were paid in August 2012.

On September 25, 2012, the Company received a letter from the shareholder according to which Georgian Railway JSC had to pay an additional dividend of GEL 22.7 million by October 10, 2012. As at the moment of preparation of these statements, no actual dividend payment has been made

### **13 Loans and borrowings**

In July 2012 the Company carried out issuance, placement and registration (listing) of the Notes Denominated in Foreign Currency and the redemption of the U.S.\$250,000,000 9.875% Notes due 2015 issued by the Company on July 20, 2010 (the 2010 Notes). As a result of the above transaction the company has issued U.S.\$500,000,000 7.75% Notes due 2022 and bought back 88.99% of the 2010 Notes in the amount of USD 222 million. In order to refinance the existing 2015 Notes, the Company had to pay premium on the notes, which amounted to USD 25 million for the total buy-back amount.

### **14 Related parties**

#### **(a) Parent and ultimate controlling party**

The Company was wholly owned by the State of Georgia represented by the State Enterprise Management Agency of the Ministry of Economy and Sustainable Development of Georgia as at 31 March 2011. On 25 October 2011 24% of the Company's charter capital was transferred to Partnership Fund JSC which is wholly owned by the State of Georgia. Pursuant to Government Resolution No. 789 of 30 April 2012 on "Contributing the Shares of JSC "Georgian Railway" owned by the State into the capital of JSC Partnership Fund", on 7 May 2012 the State transferred additional shares in the Company representing 1.5 per cent. of the Company's authorised capital, by way of capital contribution, to the JSC Partnership Fund.

#### **(b) Transactions with key management personnel**

Key management received the following remuneration during the nine-month periods ended 30 September 2012 and 2011, which is included in employee benefits expenses:

<b>'000 GEL</b>	<b>2012</b>	<b>2011</b>
Salaries and bonuses	<b>828</b>	<b>920</b>

**(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 1,326 thousand for the nine-month period ended 30 September 2012 (30 September 2011: GEL 13,200 thousand). In September 2011, the Company signed an agreement for the purchase and sale of electricity from another provider. The Group also purchases security services from a state agency which amounted to GEL 5,600 thousand for the nine-month period ended 30 September 2012 (30 September 2011: GEL 5,725 thousand). During the nine-month period ended 30 September 2012 the Group purchased goods of GEL 1,720 thousand from a State owned company (30 September 2011: GEL 1,669 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) Other balances**

'000 GEL	30 September 2012	31 December 2011	30 September 2011	31 December 2010
Liabilities to the owners	22,090	13,188	14,968	29,241

Liabilities to the owners 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 the carrying amount of assets to be transferred to the Government of Georgia.

## **15 Subsequent events**

In October 2012, Director General of the Company has appealed to the Supervisory Board with the statement of resignation, which was satisfied. Final appointment of new Director General has not taken place as of the date of preparation of these financial statements. Duties of Director General are currently being undertaken by former Deputy Director General.

On November 5, 2012, Georgian Railway JSC has received a notification that its guarantee has paid its obligations regarding the loan. Subsequently, the provision which has been made in 2010 in the amount of GEL 15.5 million should be reversed and added-back to the net profit of the Group in annual financial statements for 2012.