

Georgian Railway JSC

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

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

'000GEL	Note	30 June 2014	31 December 2013	30 June 2013	31 December 2012
		Unaudited		Unaudited	
ASSETS					
Non-current assets					
Property, plant and equipment	9	2,380,539	2,347,187	2,268,056	2,197,235
Deferred tax assets		1,557	1,557	1,557	1,557
Other non-current assets		171,294	180,908	270,357	280,884
Total non-current assets		2,553,390	2,529,652	2,539,970	2,479,676
Current assets					
Inventories		30,755	43,059	47,624	35,571
Current tax assets		10,622	11,689	9,724	-
Trade and other receivables		59,286	52,402	45,577	39,253
Prepayments and other current assets		24,462	39,429	44,520	61,648
Term deposits		-	-	58,780	100,321
Cash and cash equivalents		247,269	208,996	97,939	115,076
Total current assets		372,394	355,575	304,164	351,869
Total assets		2,925,784	2,885,227	2,844,134	2,831,545
EQUITY AND LIABILITIES					
Equity					
Share capital		1,050,697	1,050,075	1,049,789	1,049,751
Non-cash owner contribution reserve		34,212	31,673	31,673	31,673
Retained earnings		501,622	487,379	471,222	449,376
Total equity		1,586,531	1,569,127	1,552,684	1,530,800
Non-current liabilities					
Loans and borrowings		930,654	913,194	868,080	870,934
Advance received from the Government		231,592	231,592	231,592	231,592
Trade and other payables		52	52	52	52
Deferred tax liabilities		58,357	58,436	59,861	57,302
Total non-current liabilities		1,220,655	1,203,274	1,159,585	1,159,880
Current liabilities					
Loans and borrowings		34,029	33,747	31,880	33,420
Trade and other payables		57,215	56,161	69,496	81,645
Liabilities to Government		11,901	11,917	11,926	12,956
Provisions		6,471	6,154	4,201	4,132
Current tax liabilities		-	-	-	1,542
Dividends payable	10	-	-	6,449	-
Other current liabilities		8,982	4,847	7,913	7,170
Total current liabilities		118,598	112,826	131,865	140,865
Total liabilities		1,339,253	1,316,100	1,291,450	1,300,745
Total equity and liabilities		2,925,784	2,885,227	2,844,134	2,831,545


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

'000 GEL	Note	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
Revenue	4	229,761	214,910
Other income		9,436	5,439
Employee benefits expense		(72,826)	(65,876)
Depreciation and amortization expense		(51,041)	(50,305)
Electricity and materials used	5	(24,208)	(21,099)
Other expenses	6	(36,760)	(36,553)
Results from operating activities		54,362	46,516
Finance income	7	4,910	7,374
Finance costs	7	(22,285)	(5,442)
Net finance (costs)/income		(17,375)	1,932
Profit before income tax		36,987	48,448
Income tax expense	8	(2,758)	(6,592)
Profit and total comprehensive income for the year		34,229	41,856

These consolidated financial statements were approved by the Management Board on 13 August 2014 and were signed on its behalf by:


Mamuka Bakhtadze
General Director




Tamaz Jegeriaia
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
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	41,856	41,856
Transactions with owners, recorded directly in equity				
Dividends to equity holders	-	-	(18,000)	(18,000)
Net non-cash contributions by and distributions to owners	38	-	(2,010)	(1,972)
Balance at 30 June 2013	1,049,789	31,673	471,222	1,552,684
Balance at 1 January 2014	1,050,075	31,673	487,379	1,569,127
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	34,229	34,229
Transactions with owners, recorded directly in equity				
Dividends to equity holders	-	-	(20,000)	(20,000)
Net non-cash contributions by and distributions to owners	622	2,539	14	3,175
Balance at 30 June 2014	1,050,697	34,212	501,622	1,586,531

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

'000GEL	Note	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
Cash flows from operating activities			
Cash receipts from customers		231,912	209,737
Cash paid to suppliers and employees		(110,865)	(104,722)
Cash flows from operations before income taxes and interest paid		121,047	105,015
Income tax paid		(1,670)	(15,324)
Net cash from operating activities		119,377	89,691
Cash flows from investing activities			
Acquisition of property, plant and equipment		(32,121)	(106,133)
Purchase of a company share		-	(48)
Increase/ Decrease in term deposits		-	40,781
Interest received		4,706	6,753
Net cash used in investing activities		(27,415)	(58,647)
Cash flows from financing activities			
Repayment of borrowings		-	(17)
Interest paid		(36,163)	(35,444)
Dividends paid		(20,000)	(12,000)
Net cash from /(used in) financing activities		(56,163)	(47,461)
Net increase/(decrease) in cash and cash equivalents		35,799	(16,417)
Cash and cash equivalents at 1 January		208,996	115,076
Effect of exchange rate fluctuations on cash and cash equivalents		2,474	(720)
Cash and cash equivalents at 30 June		247,269	97,939
Bank deposits		-	58,780
Total Cash and cash equivalents at 30 June		247,269	156,719

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	
	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
'000GEL						
External revenues	219,821	199,733	8,090	7,348	227,911	207,081
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	130,048	116,073	(9,237)	(10,128)	120,811	105,945
Reportable segment assets	358,651	408,106	119,717	124,057	478,368	532,163

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

'000GEL	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
Profit or loss		
Total profit or loss for reportable segments	120,811	105,945
Payroll expenses – infrastructure and headquarters	(28,877)	(25,649)
Depreciation expenses – infrastructure and headquarters	(26,882)	(24,816)
Net finance (costs)/income	(17,375)	1,932
Other net unallocated expenses	(10,690)	(8,964)
Consolidated profit before income tax	36,987	48,448

4. Revenue

'000GEL	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
Freight traffic	201,913	191,678
Freight car rental	17,957	14,996
Passenger traffic	7,724	7,012
Other	2,167	1,224
	229,761	214,910

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	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
Electricity	9,708	10,221
Materials	10,775	6,774
Fuel	3,725	4,104
	24,208	21,099

6. Other expenses

'000GEL	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
Taxes other than income tax	12,290	11,081
Freight car rental	8,406	10,931
Repairs and maintenance	6,659	4,130
Security	4,237	3,601
Write off of non-current assets	(33)	172
Other	5,201	6,638
	36,760	36,553

7. Finance income/Finance costs

'000GEL	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
Recognised in profit or loss		
Interest income	4,910	6,488
Net foreign exchange gain	-	886
Finance income	4,910	7,374
Impairment loss on trade receivables	(1,609)	(1,235)
Interest expense on financial liabilities	(6,321)	(4,207)
Net foreign exchange loss	(14,355)	-
Finance costs	(22,285)	(5,442)
Net finance (costs)/income recognised in profit or loss	(17,375)	1,932

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 six-month period ended 30 June 2014 was 7 percent (six-month period ended 30 June 2013: 14 percent). The statutory tax rate is 15 percent.

9. Property, Plant and equipment

During the six-month period ended 30 June 2014 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 38,500 thousand (30 June 2013: 93,640 thousand) and Including of land (GEL 622 thousand) received from the Government.

During the six-month period ended 30 June 2014 assets with a carrying amount of GEL 30,066 thousand were transferred to the Government.

Capitalised borrowing costs related to the Main Line Modernisation project for the six-month period ended 30 June 2014 amounted of GEL 14,369 thousand (30 June 2013: 13,071 thousand) and capitalised borrowing costs related to the Tbilisi Bypass project for the six-month period ended 30 June 2014 amounted of GEL 16,000 thousand (30 June 2013: 16,990 thousand).

10. Dividends

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

11. Capital commitments

As at 30 June 2014 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 649,358 thousand (30 June 2013: GEL 596,096 thousand) mainly relating to the Main Line Modernization GEL 418,731 thousand (30 June 2013: GEL 384,211 thousand) and Tbilisi Bypass projects GEL 166,479 thousand (30 June 2013: GEL 147,070 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	Six-month period ended 30 June 2014	Six-month period ended 30 June 2013
Salaries and bonuses	555	509

(c) Other related party transactions**(i) Revenue, purchases and expenses**

The Group purchased electricity from a State-owned operator which amounted to GEL 800 thousand for the period ended 30 June 2014 (30 June 2013: GEL 787 thousand). The Group also purchases security services from a state agency which amounted to GEL 4,221 thousand for the period ended 30 June 2014 (30 June 2013: GEL 3,713 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 2014	Six-month period ended 30 June 2013
Liabilities to Government	11,901	11,926

13. Significant subsidiaries

Subsidiary	Country of incorporation	Principal activities	30 June 2014	30 June 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	Georgia	transportation	100%	100%
Rail Parking LLC	Georgia	Parking service	-	100%