

Georgian Railway JSC

**Condensed Consolidated Interim
Financial Statements for the three-month
periods ended 31 March 2015 and 2014**

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

'000GEL	Note	31 March 2015	31 December 2014	31 March 2014	31 December 2013
		Unaudited		Unaudited	
ASSETS					
Non-current assets					
Property, plant and equipment		2,393,366	2,378,228	2,348,068	2,347,187
Deferred tax assets		1,557	1,557	1,557	1,557
Other non-current assets		177,084	170,190	181,364	180,908
Total non-current assets		2,572,007	2,549,975	2,530,989	2,529,652
Current assets					
Inventories		32,086	34,008	37,826	43,059
Current tax assets		11,932	10,924	11,779	11,689
Trade and other receivables		66,816	53,944	53,480	52,402
Prepayments and other current assets		9,530	18,547	22,523	39,429
Cash and cash equivalents		330,007	300,983	217,071	208,996
Total current assets		450,371	418,406	342,679	355,575
Total assets		3,022,378	2,968,381	2,873,668	2,885,227
EQUITY AND LIABILITIES					
Equity					
Share capital		1,052,283	1,052,202	1,050,697	1,050,075
Non-cash owner contribution reserve		34,082	34,214	32,065	31,673
Retained earnings		353,029	476,335	497,972	487,379
Total equity		1,439,394	1,562,751	1,580,734	1,569,127
Non-current liabilities					
Loans and borrowings		1,110,943	929,373	919,292	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		62,174	59,998	60,700	58,436
Total non-current liabilities		1,402,546	1,218,800	1,211,636	1,203,274
Current liabilities					
Loans and borrowings		80,823	87,330	15,448	33,747
Trade and other payables		74,072	78,480	38,813	56,161
Liabilities to Government		8,392	8,467	11,917	11,917
Provisions		6,229	6,447	6,169	6,154
Other current liabilities		10,922	6,106	8,951	4,847
Total current liabilities		180,438	186,830	81,298	112,826
Total liabilities		1,582,984	1,405,630	1,292,934	1,316,100
Total equity and liabilities		3,022,378	2,968,381	2,873,668	2,885,227

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

'000 GEL	Note	Ththree-month period ended 31 March 2015	Ththree-month period ended 31 March 2014
Revenue	5	143,079	107,362
Other income		2,789	3,724
Employee benefits expense		(38,444)	(36,659)
Depreciation and amortization expense		(25,844)	(24,884)
Electricity and materials used	6	(11,191)	(13,232)
Other expenses	7	(20,014)	(15,718)
Results from operating activities		50,375	20,593
Finance income	8	3,854	2,114
Finance costs	8	(174,060)	(8,693)
Net finance (costs)/income		(170,206)	(6,579)
Profit before income tax		(119,831)	14,014
Income tax expense	9	(3,175)	(3,421)
Profit and total comprehensive income for the year		(123,006)	10,593

These consolidated financial statements were approved by the Management Board on 15 May 2015 and were signed on its behalf by:

 Irakli Titvinidze Financial Director		 Tamaz Jgerenaia Chief Accountant
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Georgian Railway JSC
Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

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	-	-	10,593	10,593
Transactions with owners, recorded directly in equity				
Net non-cash contributions by and distributions to owners	622	392	-	1,014
Balance at 31 March 2014	1,050,697	32,065	497,972	1,580,734

Balance at 1 January 2015	1,052,202	34,214	476,335	1,562,751
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	(123,006)	(123,006)
Transactions with owners, recorded directly in equity				
Dividends to equity holders	-	-	(300)	(300)
Net non-cash contributions by and distributions to owners	81	(132)	-	(51)
Cash contributions by and distributions to owners	-	-	-	-
Balance at 31 March 2015	1,052,283	34,082	353,029	1,439,394

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

'000GEL	Note	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014
Cash flows from operating activities			
Cash receipts from customers		130,445	110,496
Cash paid to suppliers and employees		(55,288)	(57,360)
Cash flows from operations before income taxes and interest paid		75,157	53,136
Income tax paid		(2,000)	(1,150)
Net cash from operating activities		73,157	51,986
Cash flows from investing activities			
Acquisition of property, plant and equipment		(37,857)	(10,259)
Interest received		4,117	2,020
Net cash used in investing activities		(33,740)	(8,239)
Cash flows from financing activities			
Interest paid		(39,126)	(36,163)
Dividends paid		(300)	-
Net cash from /(used in) financing activities		(39,426)	(36,163)
Net increase/(decrease) in cash and cash equivalents		(9)	7,584
Cash and cash equivalents at 1 January		300,983	208,996
Effect of exchange rate fluctuations on cash and cash equivalents		29,033	491
Cash and cash equivalents at 31 March		330,007	217,071

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	
	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014
	'000GEL					
External revenues	138,745	102,213	2,981	3,968	141,426	106,181
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	93,133	58,403	(4,878)	(4,706)	88,255	53,697
Reportable segment assets	378,991	362,195	113,443	119,944	492,434	482,139

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

'000GEL	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014
Profit or loss		
Total profit or loss for reportable segments	88,255	53,697
Payroll expenses – infrastructure and headquarters	(15,389)	(14,538)
Depreciation expenses – infrastructure and headquarters	(13,543)	(12,897)
Net finance (costs)/income	(170,206)	(6,579)
Other net unallocated expenses	(8,948)	(5,669)
Consolidated profit before income tax	(119,831)	14,014

5. Revenue

'000GEL	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014
Freight traffic	131,447	94,534
Freight car rental	7,298	7,689
Passenger traffic	2,981	3,796
Other	1,353	1,343
	143,079	107,362

6. Electricity and materials used

'000GEL	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014
Electricity	5,023	5,180
Materials	4,650	6,225
Fuel	1,518	1,827
	11,191	13,232

7. Other expenses

'000GEL	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014
Taxes other than income tax	6,348	5,814
Freight car rental	6,051	2,792
Repairs and maintenance	2,472	2,549
Security	2,155	2,119
Other	2,988	2,444
	20,014	15,718

8. Finance income/Finance costs

'000GEL	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014
Recognised in profit or loss		
Interest income	3,854	2,114
Finance income	3,854	2,114
Impairment loss on trade receivables	(11,240)	(539)
Interest expense on financial liabilities	(14,255)	(3,003)
Net foreign exchange loss	(148,565)	(5,151)
Finance costs	(174,060)	(8,693)
Net finance (costs)/income recognised in profit or loss	(170,206)	(6,579)

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 three-month period ended 31 March 2015 was (3) percent (three-month period ended 31 March 2014: 24 percent). The statutory tax rate is 15 percent.

10. Property, Plant and equipment

three-month period ended 31 March 2014 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 35,983 thousand (31 March 2014: 38,500 thousand).

Capitalised borrowing costs related to the Main Line Modernisation project for the three-month period ended 31 March 2014 amounted of GEL 7,806 thousand (31 March 2014: 14,369 thousand).

11. Dividends

During the three-month period ended 31 March 2014 the Company were declared and paid Dividend amount of GEL 300 thousand.

12. Capital commitments

As at 31 March 2015 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 717,664 thousand (31 March 2014: GEL662,101 thousand) mainly relating to the Main Line Modernization GEL 470,066 thousand (31 March 2014: GEL423,832 thousand) and Tbilisi Bypass projects GEL 204,245 thousand (31 March 2014: GEL172,887 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	Three-month period ended 31 March 2015	Three-month period ended 31 March 2014
Salaries and bonuses	282	272

(c) Other related party transactions

(i) Revenue, purchases and expenses

The Group purchases electricity from a State-owned operator which amounted to GEL 512 thousand for 2014 (31 March 2014: GEL612 thousand). The Group also purchases security services from a state agency which amounted to GEL 2,154 thousand for 2014 (31 March 2014: GEL2,108 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 2015	Three-month period ended 31 March 2014
Liabilities to Government	8,392	11,917

14. Significant subsidiaries

Subsidiary	Country of incorporation	Principal activities	31 March 2015 Ownership/ voting	31 March 2014 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%
Borjomi-Bakuriani Railway LLC	Georgia	Passenger transportation	100%	100%
Georgian Transit LLC	Georgia	transportation	100%	100%
GR Transit line LLC	Georgia	Transportation	100%	100%