

**Georgian Railway JSC  
(formerly Georgian Railway LLC)**

**Condensed Consolidated Interim  
Financial Statements for the Six-month  
periods ended 30 June 2013 and 2012**

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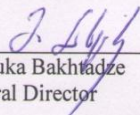
**Georgian Railway JSC**  
*Condensed Consolidated Interim Statements of Financial Position (Unaudited)*

'000GEL	Note	30 June 2013	31 December 2012	30 June 2012	31 December 2011
		Unaudited		Unaudited	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Goodwill		46	-	-	-
Property, plant and equipment	11	2,268,056	2,197,235	2,108,555	1,913,195
Investment property		-	-	-	6,838
Deferred tax assets		1,557	1,557	-	-
Other non-current assets		270,311	280,884	228,002	276,039
<b>Total non-current assets</b>		<b>2,539,970</b>	<b>2,479,676</b>	<b>2,336,557</b>	<b>2,196,072</b>
<b>Current assets</b>					
Inventories		47,624	35,571	26,973	23,737
Current tax assets		9,724	-	-	511
Trade and other receivables		45,577	39,253	33,341	27,355
Prepayments and other current assets		44,520	61,648	70,122	27,714
Term deposits		58,780	100,321	8,725	76,449
Cash and cash equivalents		97,939	115,076	54,479	64,516
<b>Total current assets</b>		<b>304,164</b>	<b>351,869</b>	<b>193,640</b>	<b>220,282</b>
<b>Total assets</b>		<b>2,844,134</b>	<b>2,831,545</b>	<b>2,530,197</b>	<b>2,416,354</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	12	1,049,789	1,049,751	1,049,751	1,000,463
Non-cash owner contribution reserve		31,673	31,673	35,776	38,043
Retained earnings		471,222	449,376	772,920	763,502
<b>Total equity</b>		<b>1,552,684</b>	<b>1,530,800</b>	<b>1,858,447</b>	<b>1,802,008</b>
<b>Non-current liabilities</b>					
Loans and borrowings	13	868,080	870,934	408,304	414,063
Advance received from the Government	12	231,592	231,592	-	-
Trade and other payables		52	52	45	45
Deferred tax liabilities		59,861	57,302	62,174	60,925
<b>Total non-current liabilities</b>		<b>1,159,585</b>	<b>1,159,880</b>	<b>470,523</b>	<b>475,033</b>
<b>Current liabilities</b>					
Loans and borrowings	13	31,880	33,420	17,927	18,607
Trade and other payables		69,496	81,645	94,807	45,954
Liabilities to Government	15	11,926	12,956	22,291	13,188
Provisions		4,201	4,132	19,694	20,273
Other taxes payable		-	-	38,814	26,867
Current tax liabilities		-	1,542	1,059	-
Dividends payable		6,449	-	-	-
Other current liabilities		7,913	7,170	6,635	14,424
<b>Total current liabilities</b>		<b>131,865</b>	<b>140,865</b>	<b>201,227</b>	<b>139,313</b>
<b>Total liabilities</b>		<b>1,291,450</b>	<b>1,300,745</b>	<b>671,750</b>	<b>614,346</b>
<b>Total equity and liabilities</b>		<b>2,844,134</b>	<b>2,831,545</b>	<b>2,530,197</b>	<b>2,416,354</b>

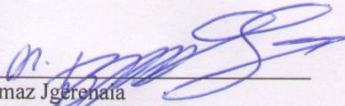
**Georgian Railway JSC**  
Condensed Consolidated Interim Statements of Comprehensive Income (unaudited)

'000 GEL	Note	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
Revenue	6	214,910	225,130
Other income		5,439	12,333
Employee benefits expense		(65,876)	(50,186)
Depreciation and amortization expense		(50,305)	(52,675)
Electricity and materials used	7	(21,099)	(24,553)
Other expenses	8	(36,553)	(30,373)
<b>Results from operating activities</b>		<b>46,516</b>	<b>79,676</b>
Finance income	9	7,374	11,229
Finance costs	9	(5,442)	(6,248)
<b>Net finance (costs)/income</b>		<b>1,932</b>	<b>4,981</b>
<b>Profit before income tax</b>		<b>48,448</b>	<b>84,657</b>
Income tax expense	10	(6,592)	(13,544)
<b>Profit and total comprehensive income for the year</b>		<b>41,856</b>	<b>71,113</b>

These consolidated financial statements were approved by the Management Board on 15 August 2013 and were signed on its behalf by:

  
Mamuka Bakhvadze  
General Director



  
Tamaz Jgerenata  
Chief Accountant

On the basis of Independent Auditors' Report as at 31 December 2012, "Batumi Tower" Disposal is removed from other expenses to Retained earnings. (in six-month period ended 30 June 2012 amount of GEL 33, 694 thousand).

'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
<b>Total comprehensive income for the year</b>				
Profit and total comprehensive income for the year	-	-	71,113	71,113
<b>Transactions with owners, recorded directly in equity</b>				
Dividends to owners	-	-	(28,000)	(28,000)
non-cash contributions by and distributions to owners	49,288	(2,267)	(30,594)	16,427
Cash contributions by and distributions to owners	-	-	(3,101)	(3,101)
<b>Balance at 30 June 2012</b>	<b>1,049,751</b>	<b>35,776</b>	<b>772,920</b>	<b>1,858,447</b>
Balance at 1 January 2013	1,049,751	31,673	449,376	1,530,800
<b>Total comprehensive income for the year</b>				
Profit and total comprehensive income for the year	-	-	41,856	41,856
<b>Transactions with owners, recorded directly in equity</b>				
Dividends to equity holders	-	-	(18,000)	(18,000)
Net non-cash contributions by and distributions to owners	38	-	(2,010)	(1,972)
Cash contributions by and distributions to owners	-	-	-	-
<b>Balance at 30 June 2013</b>	<b>1,049,789</b>	<b>31,673</b>	<b>471,222</b>	<b>1,552,684</b>

\*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	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
<b>Cash flows from operating activities</b>			
Cash receipts from customers		209,737	237,040
Cash paid to suppliers and employees		(104,722)	(107,930)
<b>Cash flows from operations before income taxes and interest paid</b>		<b>105,015</b>	<b>129,110</b>
Income tax paid		(15,324)	-
Interest paid		-	-
<b>Net cash from operating activities</b>		<b>89,691</b>	<b>129,110</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(106,133)	(161,432)
Proceeds from sale of property, plant and equipment		-	-
Purchase of a company share		(48)	-
Decrease(Increase) in term deposits		40,781	67,723
Increase in restricted cash		-	(219)
Interest received		6,753	6,385
<b>Net cash used in investing activities</b>		<b>(58,647)</b>	<b>(87,543)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	190
Repayment of borrowings		(17)	(489)
Interest paid		(35,444)	(20,660)
Dividends paid		(12,000)	(28,000)
Contribution of cash by owners		-	-
Distribution of cash to owners		-	(3,101)
<b>Net cash from /(used in) financing activities</b>		<b>(47,461)</b>	<b>(52,060)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(16,417)</b>	<b>(10,493)</b>
Cash and cash equivalents at 1 January		115,076	61,553
Effect of exchange rate fluctuations on cash and cash equivalents		(720)	238
<b>Cash and cash equivalents at 30 June</b>		<b>97,939</b>	<b>51,298</b>
Bank deposits		58,780	8,725
Restricted Cash		-	3,181
<b>Total Cash and cash equivalents</b>		<b>156,719</b>	<b>63,204</b>

## **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	
	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
'000GEL						
External revenues	199,733	215,409	7,348	8,221	207,081	223,630
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	116,073	136,106	(10,128)	(6,582)	105,945	129,524
Reportable segment assets	408,106	375,576	124,057	114,291	532,163	489,867

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

'000GEL	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
<b>Profit or loss</b>		
Total profit or loss for reportable segments	105,945	129,524
Other profit or loss	(567)	(420)
Payroll expenses – infrastructure and headquarters	(25,649)	(18,717)
Depreciation expenses – infrastructure and headquarters	(24,816)	(25,943)
Net finance (costs)/income	1,932	4,981
Other net unallocated expenses	(8,397)	(4,768)
Consolidated profit before income tax	<b>48,448</b>	<b>84,657</b>

**6. Revenue**

'000GEL	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
Freight traffic	191,678	189,794
Freight car rental	14,996	25,258
Passenger traffic	7,012	7,502
Other	1,224	2,576
	<b>214,910</b>	<b>225,130</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 (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	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
Electricity	10,221	11,578
Materials	6,774	8,480
Fuel	4,104	4,495
	<b>21,099</b>	<b>24,553</b>

**8. Other expenses**

'000GEL	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
Freight car rental	10,931	9,497
Taxes other than income tax	11,081	9,810
Write off of non-current assets	172	-
Repairs and maintenance	4,130	1,929
Security	3,601	3,636
Other	6,638	5,501
	<b>36,553</b>	<b>30,373</b>

**9. Foreign currency exchange rate fluctuations**

'000 GEL	Six-month period 30 June 2013	Six-month period 30 June 2012
<b>Recognised in profit or loss</b>		
Interest income	6,488	5,877
Net foreign exchange gain	886	5,352
Finance income	<b>7,374</b>	<b>11,229</b>
Impairment loss on trade receivables	(1,235)	(6,213)
Prepaid finance costs written off	(-)	(-)
Interest expense on financial liabilities	(4,207)	(35)
Premium on the early redemption of issued bonds	(-)	(-)
Finance costs	<b>(5,442)</b>	<b>(6,248)</b>
<b>Net finance (costs)/income recognised in profit or loss</b>	<b>1,932</b>	<b>4,981</b>

**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 six-month period ended 30 June 2013 was 14 percent (six-month period ended 30 June 2012: 16 percent). 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 six-month period ended 30 June 2013 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 93,640 thousand (30 June 2012: 235,385 thousand).
- (c) Capitalised borrowing costs related to the Main Line Modernisation project for the six-month period ended 30 June 2013 amounted of GEL 13,071 thousand (30 June 2012: 12,103 thousand) and capitalised borrowing costs related to the Tbilisi Bypass project for the six-month period ended 30 June 2013 amounted of GEL 16,990 thousand (30 June 2012: 8,485 thousand).
- (d) During the six-month period ended 30 June 2013 assets with a carrying amount of GEL 3,612 thousand were transferred to the Government (30 June 2012: GEL 14,235 thousand; GEL 13,408 thousand out of this sum refer to Batumi Tower transfer).

## 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

Dividends payable includes the dividend of GEL 449 thousand declared by the newly acquired subsidiary Georgian Transit LLC. In accordance with the Sales-Purchase Agreement the above-mentioned dividend should be paid to subsidiary's former owner out of the pre-acquisition retained earnings. Dividends payable also include GEL 6000 thousand payable by Georgian Railway JSC. According to the decision of board of directors, in six month period ended 30 June, 2013, a total of GEL 18000 thousand were declared as dividends, while GEL 12000 thousand were paid in cash. The remaining GEL 6000 thousand were paid in July 2013.

## 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 30 June 2013 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 596,096 thousand (30 June 2012: GEL 735,663 thousand) mainly relating to the Main Line Modernization GEL 384,211 thousand (30 June 2012: GEL 435,423 thousand) and Tbilisi Bypass projects GEL 147,070 thousand (30 June 2012: GEL 237,141 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	Six-month period ended 30 June 2013	Six-month period ended 30 June 2012
Salaries and bonuses	509	535

## 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 787 thousand for the year ended 30 June 2013 (30 June 2012: GEL 1,012 thousand). The Group also purchases security services from a state agency which amounted to GEL 3,713 thousand for the year ended 30 June 2013 (30 June 2012: GEL 3,752 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 2013	Six-month period ended 30 June 2012
Liabilities to Government	<b>11,926</b>	<b>22,291</b>

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	30 June 2013 Ownership/ voting	30 June 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%	-
Georgian Transit LLC	<b>Georgia</b>	<b>transportation</b>	<b>100%</b>	-
Borjomi Bakuriani Railway LLC	Georgia	Passenger transportation	100%	100%
Rail Parking LLC	Georgia	Parking service	100%	100%