

Georgian Railway JSC

**Condensed Consolidated Interim
Financial Statements for the three-month
periods ended 31 March 2016 and 2015**

Contents

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

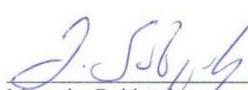
Georgian Railway JSC
Condensed Consolidated Interim Statements of Financial Position (Unaudited)

'000GEL	Note	31 March 2016	31 December 2015	31 March 2015	31 December 2014
		Unaudited		Unaudited	
ASSETS					
Non-current assets					
Property, plant and equipment		2,491,153	2,483,393	2,393,366	2,378,228
Deferred tax assets		1,034	1,094	1,557	1,557
Other non-current assets		175,443	147,998	177,084	170,190
Total non-current assets		2,667,630	2,632,485	2,572,007	2,549,975
Current assets					
Inventories		31,642	34,768	32,086	34,008
Loan receivable		38,914	38,341	-	-
Current tax assets		12,250	10,993	11,932	10,924
Trade and other receivables		74,231	70,645	66,816	53,944
Prepayments and other current assets		5,805	11,901	9,530	18,547
Cash and cash equivalents		234,655	294,784	330,007	300,983
Total current assets		397,497	461,432	450,371	418,406
Total assets		3,065,127	3,093,917	3,022,378	2,968,381
EQUITY AND LIABILITIES					
Equity					
Share capital		1,052,605	1,052,605	1,052,283	1,052,202
Non-cash owner contribution reserve		34,224	34,214	34,082	34,214
Retained earnings		419,386	384,391	353,029	476,335
Total equity		1,506,215	1,471,210	1,439,394	1,562,751
Non-current liabilities					
Loans and borrowings		1,179,848	1,193,301	1,110,943	929,373
Advance received from the Government		221,788	221,788	229,377	229,377
Trade and other payables		52	52	52	52
Deferred tax liabilities		32,964	43,928	62,174	59,998
Total non-current liabilities		1,434,652	1,459,069	1,402,546	1,218,800
Current liabilities					
Loans and borrowings		21,260	44,855	80,823	87,330
Trade and other payables		75,517	89,258	74,072	78,480
Liabilities to Government		8,009	8,009	8,392	8,467
Provisions		8,148	8,325	6,229	6,447
Dividend payable		1,155	2,762	-	-
Other current liabilities		10,171	10,409	10,922	6,106
Total current liabilities		124,260	163,618	180,438	186,830
Total liabilities		1,558,912	1,622,707	1,582,984	1,405,630
Total equity and liabilities		3,065,127	3,093,917	3,022,378	2,968,381

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

'000 GEL	Note	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Revenue	5	107,829	143,079
Other income		4,684	2,789
Employee benefits expense		(34,762)	(38,444)
Depreciation and amortization expense		(26,185)	(25,844)
Electricity and materials used	6	(10,450)	(11,191)
Other expenses	7	(20,325)	(20,014)
Results from operating activities		20,791	50,375
Finance income	8	19,637	3,854
Finance costs	8	(15,676)	(174,060)
Net finance (costs)/income		3,961	(170,206)
Profit before income tax		24,752	(119,831)
Income tax expense	9	10,243	(3,175)
Profit and total comprehensive income for the year		34,995	(123,006)

These consolidated financial statements were approved by the Management Board on 13 May 2016 and were signed on its behalf by:


 Mamuka Bakhtadze
 General Director




 Tamaz Igerenaia
 Chief Accountant

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

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
Balance at 1 January 2016	1,052,605	34,214	384,391	1,471,210
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	34,995	34,995
Transactions with owners, recorded directly in equity				
Dividends to equity holders	-	-	-	-
Net non-cash contributions by and distributions to owners	-	10	-	10
Cash contributions by and distributions to owners	-	-	-	-
Balance at 31 March 2016	1,052,605	34,224	419,386	1,506,215

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

'000GEL	Note	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Cash flows from operating activities			
Cash receipts from customers		102,769	130,445
Cash paid to suppliers and employees		(54,479)	(55,288)
Cash flows from operations before income taxes and interest paid		48,290	75,157
Income tax paid		(1,915)	(2,000)
Net cash from operating activities		46,375	73,157
Cash flows from investing activities			
Acquisition of property, plant and equipment		(62,655)	(37,857)
Interest received		5,860	4,117
Net cash used in investing activities		(56,795)	(33,740)
Cash flows from financing activities			
Interest paid		(46,800)	(39,126)
Dividends paid		(1,607)	(300)
Net cash from / (used in) financing activities		(48,407)	(39,426)
Net increase / (decrease) in cash and cash equivalents		(58,827)	(9)
Cash and cash equivalents at 1 January		294,784	300,983
Effect of exchange rate fluctuations on cash and cash equivalents		(1,302)	29,033
Cash and cash equivalents at 31 March		234,655	330,007

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 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 Partnership Fund JSC, a wholly state-owned company. The ultimate controlling party of the Group is the Government of Georgia.

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 2016	Three-month period ended 31 March 2015	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
'000GEL						
External revenues	103,391	138,745	3,079	2,981	106,470	141,726
Reportable segment profit/(loss) before infrastructure costs, net interest cost and income tax	63,988	93,133	(5,508)	(4,878)	58,480	88,255
Reportable segment assets	346,504	378,991	111,287	113,443	457,791	492,434

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

'000GEL	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Profit or loss		
Total profit or loss for reportable segments	58,480	88,255
Payroll expenses – infrastructure and headquarters	(13,650)	(15,389)
Depreciation expenses – infrastructure and headquarters	(13,903)	(13,543)
Net finance (costs)/income	3,961	(170,206)
Other net unallocated expenses	(10,136)	(8,948)
Consolidated profit before income tax	24,752	(119,831)

5. **Revenue**

'000GEL	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Freight traffic	98,975	131,447
Freight car rental	4,416	7,298
Passenger traffic	3,079	2,981
Other	1,359	1,353
	107,829	143,079

6. **Electricity and materials used**

'000GEL	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Electricity	5,639	5,023
Materials	3,766	4,650
Fuel	1,045	1,518
	10,450	11,191

7. **Other expenses**

'000GEL	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Taxes other than income tax	6,637	6,348
Freight car rental	1,899	6,051
Repairs and maintenance	2,509	2,472
Security	2,261	2,155
Other	7,019	2,988
	20,325	20,014

8. Finance income/Finance costs

'000GEL	Three-month period ended 31 March 2016	Three-month period ended 31 March 2015
Recognised in profit or loss		
Interest income	7,003	3,854
Net foreign exchange gain	12,634	-
Finance income	19,637	3,854
Impairment loss on trade receivables	(2,179)	(11,240)
Interest expense on financial liabilities	(13,497)	(14,255)
Net foreign exchange loss	-	(148,565)
Finance costs	(15,676)	(174,060)
Net finance (costs)/income recognised in profit or loss	3,961	(170,206)

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 2016 was (41) percent (three-month period ended 31 March 2015: (3) percent). The statutory tax rate is 15 percent.

10. Property, Plant and equipment

Three-month period ended 31 March 2016 the Group acquired assets with a cost, excluding capitalised borrowing costs, of GEL 24,113 thousand (31 March 2015: 35,983 thousand).

Capitalised borrowing costs related to the Main Line Modernisation project for the three-month period ended 31 March 2016 amounted of GEL 10,136 thousand (31 March 2015: 7,806 thousand).

11. Dividends

During the three-month period ended 31 March 2016 the Company paid Dividend amount of GEL 1,607 thousand.

12. Capital commitments

As at 31 March 2016 the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 615,252 thousand (31 March 2015: GEL 717,664 thousand) mainly relating to the Main Line Modernization GEL 386,241 thousand (31 March 2015: GEL 470,066 thousand) and Tbilisi Bypass projects GEL 221,133 thousand (31 March 2015: GEL 204,245 thousand).

13. Related party transactions

(a) Parent and ultimate controlling party

At 31 December 2015 and 2014 the immediate and ultimate parent of the Group is Partnership Fund JSC. The ultimate controlling party of the Group is the Government of Georgia. Partnership Fund JSC produces publicly available consolidated financial statements.

(b) Transactions with key management personnel

Key management received the following remuneration during the year, which is included in employee benefits expenses:

'000GEL	<u>Three-month period ended 31 March 2016</u>	<u>Three-month period ended 31 March 2015</u>
Salaries and bonuses	<u>262</u>	<u>282</u>

(c) Other related party transactions

(i) Revenue, purchases and expenses

The Group purchases electricity from a State-owned operator which amounted to GEL 436 thousand for the three-month period ended 31 March 2016 (31 March 2015: GEL 512 thousand). The Group also purchases security services from a state agency which amounted to GEL 2,249 thousand for the three-month period ended 31 March 2016 (31 March 2015: GEL 2,154 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	<u>Three-month period ended 31 March 2016</u>	<u>Three-month period ended 31 March 2015</u>
Liabilities to Government	<u>8,009</u>	<u>8,392</u>

14. Significant subsidiaries

Subsidiary	Country of incorporation	Principal activities	31 March	31 March
			2016	2015
			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%
Borjomi-Bakuriani Railway LLC	Georgia	Passenger Transportation services	100%	100%
Georgia Transit LLC	Georgia	Transportation services	100%	100%
GR Transit line LLC	Georgia	Transportation services	100%	100%
GR Trans Shipment LLC	Georgia	Transportation services	100%	-
Georgian Transit LLC	Georgia	Transportation services	100%	-