Georgian Railway LLC

Consolidated Financial Statements
For the Year Ended 31 December 2008

GEORGIAN RAILWAY LLC

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GEORGIAN RAILWAY LLC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Georgian Railways LLC and its subsidiaries (collectively, the "Group").

Management is responsible for the preparation of the consolidated financial statements that presents fairly in all material respects the consolidated financial position of the Group as at 31 December 2008, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Georgia;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

The accompanying consolidated financial statements of the Group as at 31 December 2008 and for the year then ended are the responsibility of the Group's management.

The consolidated financial statements for the year ended 31 December 2008 were authorised for issue on 7 December 2009 by the Group's Management Board:

On behalf of the Management Board

General Director Irakli Ezugbaia	Acting Chief Accountant Amiran Tevzadze

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the owners of Georgian Railway LLC:

We have audited the accompanying consolidated financial statements of Georgian Railway LLC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2008 and the related consolidated income statement, consolidated statements of changes in equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as discussed in the basis for qualified opinion, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Basis for qualified opinion

We did not observe the counting of physical inventories as of 31 December 2006, since this date was prior to the time we were initially engaged as auditors for the Group. Owing to the nature of accounting records of the Group, we were not able to satisfy ourselves as to the inventory quantities by other audit procedures. As a result, we were also unable to satisfy ourselves to the accuracy and completeness of the related materials of GEL 24,662 thousand and fuel of GEL 9,530 thousand included in raw materials and consumables used and their associated tax effects including such taxes as refundable VAT included in prepayments and other current assets and income tax expense/benefit in the income statement or current income tax payable in the balance sheet as of and for the years ended 31 December 2007.

Qualified opinion

In our opinion, except for the effects on the corresponding amounts, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Georgian Railway LLC and its subsidiaries (the "Group") as of 31 December 2008, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matters

Without qualifying our opinion further, we draw your attention to Note 4 which explains the key source of uncertainty in the valuation for tax purposes of de-installed equipment in the amount of GEL 26,005 thousand as of 31 December 2008 and GEL 14,585 thousand as of 31 December 2007.

Without qualifying our opinion further, we draw your attention to Note 16 which explains why Chitakhevi-Borjomi JSC is no longer considered an associate of the Group under IAS 28 "Investment in Associates" and as a result is recorded as "Investments" on the balance sheet at cost in the amount GEL 2,021 thousand.

Deloitte & Touche

7 December 2009
Tbilisi, Georgia

GEORGIAN RAILWAY LLC

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2008
(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CONTINUING OPERATIONS			
Revenue	5	311,379	307,457
Investment revenue	6	29,509	19,698
Other gains and losses, net	7	6,475	2,182
Employee benefit expense	8	(108,747)	(105,307)
Depreciation and amortisation expenses	8	(98,885)	(106,658)
Raw materials and consumables used	9	(45,887)	(52,384)
Other expenses	10	(37,671)	(40,242)
Movement in provision	8	(11,998)	(2,476)
Finance costs	11	(1,800)	(792)
PROFIT BEFORE TAX		**42,375**	**21,478**
Income tax (expense)/benefit	12	(8,063)	17,706
PROFIT FOR THE YEAR		**34,312**	**39,184**

On behalf of the Management Board:

General Director
Irakli Ezugbaia

Acting Chief Accountant
Amiran Tevzadze

The notes on pages 9 - 45 are an integral part of these consolidated financial statements.

GEORGIAN RAILWAY LLC

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008
(in Georgian Lari and in thousands)

	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,635,482	1,635,190
Investment property	14	13,287	13,247
Other non-current assets	15	12,433	7,288
Investments	16	2,021	2,021
Total non-current assets		1,663,223	1,657,746
Current assets			
Cash and cash equivalents	17	3,196	4,211
Restricted cash	18	-	9,868
Trade and other receivables, net	19	19,220	7,968
Prepayments and other current assets	20	28,555	33,178
Inventories	21	33,734	27,858
Total current assets		84,705	83,083
TOTAL ASSETS		**1,747,928**	**1,740,829**
LIABILITIES AND EQUITY			
Capital and reserves			
Charter capital	22	933,635	935,588
Land Fund	22	33,752	9,397
Retained earnings		558,644	484,332
Total Equity		1,526,031	1,429,317
Non-current liabilities			
Deferred tax payable	12	99,496	106,526
Long-term loan	25	3,701	7,068
Total non-current liabilities		103,197	113,594

The notes on pages 9 - 45 are an integral part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2008
(in Georgian Lari and in thousands)

	Notes	31 December 2008	31 December 2007
Current liabilities			
Liability to the owners	26	25,881	32,389
Short-term borrowings and current portion of long term loan	25	18,379	3,832
Provisions	27	7,904	7,414
Trade payables and advances received	28	41,877	32,711
Current income tax payable	30	3,941	2,201
Other taxes payable	29	14,226	13,466
Other liabilities	31	6,492	105,905
Total current liabilities		118,700	197,918
Total liabilities		221,897	311,512
TOTAL EQUITY AND LIABILITIES		**1,747,928**	**1,740,829**

On behalf of the Management Board:

General Director
Irakli Ezugbaia

Acting Chief Accountant
Amiran Tevzadze

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GEORGIAN RAILWAY LLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

(inGgeorgian Lari and in thousands)

	Notes	Charter capital	Land fund	Retained earnings	Total
Balance as at 1 January 2007		**586,481**	**-**	**572,904**	**1,159,385**
Profit for the period		-	-	39,184	39,184
Net Contribution to capital	22	333,451	9,397	-	342,848
Retained earnings capitalisation	24	15,656	-	(15,656)	-
Dividends declared	23	-	-	(112,100)	(112,100)
Balance as at 31 December 2007		**935,588**	**9,397**	**484,332**	**1,429,317**
Profit for the period		-	-	34,312	34,312
Net contribution to capital	22	(1,953)	24,355	-	22,402
Decrease of dividends declared by Board decree	23	-	-	40,000	40,000
Balance as at 31 December 2008		**933,635**	**33,752**	**558,644**	**1,526,031**

In 2008 the Group decreased previously declared dividends by GEL 40,000 thousand and paid GEL 60,000 dividends to the Government, therefore dividends payable to the State as of 31 December 2008 amounted to GEL 0 in comparison with GEL 112,100 thousand as of 31 December 2007.

On behalf of the Management Board:

General Director
Irakli Ezugbaia

Acting Chief Accountant
Amiran Tevzadze

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GEORGIAN RAILWAY LLC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(in Georgian Lari and in thousands)

	Year ended 31 December 2008	Year ended 31 December 2007
OPERATING ACTIVITIES:		
Cash receipts from customers	353,934	338,572
Cash paid to suppliers and employees	(222,799)	(209, 881)
Cash generated by operations	131,135	128,691
Income tax paid	(13,661)	(32,161)
Interest paid	(1,913)	(934)
Net cash generated by operating activities	115,561	95,596
INVESTING ACTIVITIES:		
Proceeds from investments	-	2,634
Interest received	-	1,658
Dividends received	387	181
Purchase of property, plant and equipment	(78,021)	(95,846)
Net cash used in investing activities	(77,634)	(91,373)
FINANCING ACTIVITIES:		
Decrease/(Increase) in restricted cash	9,868	(5,795)
Dividends paid	(60,000)	(12,450)
Proceeds from borrowings	24,014	-
Repayment of borrowings	(12,891)	(3,749)
Net cash from financing activities	(39,009)	(21,994)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,082)	(17,771)
CASH AND CASH EQUIVALENTS, beginning of the year	4,211	21,557
Effects of exchange rate changes on the balance of cash held in foreign currencies	67	425
CASH AND CASH EQUIVALENTS, end of the year	3,196	4,211

On behalf of the Management Board:

General Director
Irakli Ezugbaia

Acting Chief Accountant
Amiran Tevzadze

The notes on pages 9 - 45 are an integral part of these consolidated financial statements.

(in Georgian Lari and in thousands)

1. GENERAL INFORMATION AND DESCRIPTION OF THE BUSINESS

These consolidated financial statements include financial statements of Georgian Railways LLC (the "Company") and its subsidiaries (collectively, the "Group").

Limited Liability Company "Georgian Railway" was created in December 1998 by the Decree of President of Georgia # 929 as entity engaged in provision of railway transportation services in Georgia.

The legal address of the Company is: 15 Queen Tamar Avenue, Tbilisi 0112, Georgia.

The Company is fully owned by the State of Georgia represented by the State Enterprise Management Agency.

The Company operates the nationwide railway system providing freight and passenger traffic, maintenance of railway infrastructure and construction of railway lines within Georgia.

The Company controls a number of the entities operating in Georgia as at 31 December 2008. These entities are consolidated subsidiaries for the purposes of reporting under International Financial Reporting Standards ("IFRS").

These entities as at 31 December 2008 and 2007 were as follows:

Name	Legal form	Nature of business	Ownership interest	
			2008	**2007**
Railway Telecom	LLC	Communication	100%	100%
Sak Rkinigza Project	LLC	Construction	100%	100%
Refrigerated and Isothermal Transportation Company	LLC	Transportation	-	100%

The Group employed approximately 15 thousand employees in 2008 and 2007.

Pricing policy

Railroad transportations in Georgia is a natural monopoly, however the pricing policy is not subject to government regulation: according to the 64^{th} clause (came into force on 1st July 2005) of Railway Code of Georgia, government of Georgia has delegated "Georgian Railway" LLC to set up the pricing policy independently for all types of services provided, including freight transportation, freight transportation related additional services, passenger and luggage transportation.

A. <u>Tariffs for freight transportation and related additional services</u>

Tariffs for freight transportation are based on the International Rail Transit Tariff. Georgian Railway is the co-signatory of Tariff Agreement (concluded on 17 February 1993) together with CIS, Latvian and Estonian railways. The member parties of the agreement hold annual conferences to work out the tariff policy for the next year: each party declares tariffs denominated in Swiss Francs for railway transportation and states general rules that apply to and modify tariffs. Mentioned tariffs indicate maximum level. Based on the shared information and decisions made on the conference Georgian Railway establishes the pricing policy for the next year that is published on the official web site of the Company.

According the pricing policy of the company local and international freight (import, export, transit) transportation tariffs and related additional service fees are based on unified base parameters.

During 2007 base tariffs for freight transportation and related additional services (except fees for station service above 24 hour, that were stated in Georgian Lari and annual revenue of which amounts to 5% of total freight revenue) were stated in US Dollar by converting Swiss Franc at the last three months CHF/USD average exchange rate of the previous year.
Starting May 2008 the Company changed pricing policy and set all tarrifs (except fees for station services above 24 hour) in Swiss Francs.

According to the Georgian Legislation, residents of the country must pay in national currency – Georgian Lari, but non-residents are allowed to pay in foreign currencies: USD, Euro, Pound Sterling or Swiss Franc. Georgian resident clients of the company pay in national currency at the actual USD/GEL, and starting from May 2008 at the actual CHF/GEL exchange rate established by the National Bank of Georgia every business day.

B. Tariffs for transportation of passengers and luggage

Pricing policy for passenger transportation and luggage as well as for freight transportation fees is not subject to government regulation.

Tariffs for domestic transportation of passengers and luggage

Tariffs for domestic transportation of passengers and luggage are prescribed by Decrees approved by the General Director of the Georgian Railway,

Tariffs are denominated in Georgian Lari.

Tariffs for international transportation of passengers and luggage

International tariff base for CIS countries are determined by the CIS Rail Transport Tariffs Conference; tariffs for non-CIS countries (”East-West” tariffs) are determined by specific international agreements.

All tariffs are denominated in Swiss Franc.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and interpretations in issue not yet adopted – At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 3 (Revised) Business Combinations (effective for annual periods beginning on or after 1 July 2009);
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009);
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013);
- IAS 1 (Revised) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009);
- IAS 23 (Revised) Borrowing Costs (effective for annual periods beginning on or after 1 January 2009);
- IAS 24 (Revised) Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011);
- IAS 27 (Revised) Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 15: Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009)

- IFRIC 17: Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)
- IFRIC 18: Transfer of Assets from Customers (effective for annual periods beginning on or after 1 July 2009)

The management is considering effect of the adoption of these Standards and Interpretations in future periods on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost and accrual basis. The principal accounting policies are set out below.

The Group maintains its accounting records in accordance with the Georgian tax code. Georgian tax code accounting principles differ from IFRS. Accordingly, the accompanying consolidated financial statements, which have been prepared from the Group's accounting records, reflect adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their deemed cost, less any subsequent accumulated depreciation. Depreciation on buildings is charged to profit or loss. Freehold land is not depreciated.

Properties in the course of construction for production or for purposes not yet determined, are carried at cost. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The following depreciation rates are used:

Group of assets	Useful life, years
Buildings and construction	15 – 100
Rail Track infrastructure	20 – 90
Transport, machinery, equipment and other	5 – 40

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment property

Investment property, which is property held to earn rentals, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Intangible Assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated income statement, unless the relevant asset is carried at a revalue amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalue amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Equity investments

Equity investments represented by investments in subsidiaries and associate are carried in the balance sheet at cost, less any impairment in the value of individual investments.

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policies decisions of the investee but is not control or joint control over those policies.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the most appropriate to the particular class of inventory, being valued on first-in-first-out ("FIFO") basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at bank. Cash equivalents include all highly liquid investments with original maturity of three months or less at the time of purchase.

Restricted cash

Restricted cash represent funded letter of credits arrangements and are separately noted in the consolidated financial statements of the Group.

Financial instruments

The Group recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognised using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets and financial liabilities are only offset and the net amounts are reported in the balance sheet when the Group has a legally enforceable right to set-off the recognised amounts and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets of the Group are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method - The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Loans and receivables – Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets – Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets – The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Classification as debt or equity – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Other financial liabilities – Other financial liabilities, including trade and other payables, borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities – The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Equity

Inputs and withdrawals of capital are based upon the decrees of the Government. They are in the form of property, plant and equipment, inventory, and investments in subsidiaries. The value of the input or withdrawal of the capital is based upon the net book value of assets given or withdrawn or the net assets of subsidiaries given or withdrawn

Dividends

Dividends are declared and paid based upon the decree from the Government. The Dividend decrees occur throughout the year based upon the Government policy

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Corporate taxes

Income tax

Income tax expense is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated in accordance with the tax regulations of Georgia by applying the statutory tax rate of 15%. Current tax is recognised as an expense or benefit in the Statement of Operations, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in consolidated income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Value added tax

Value added tax (“VAT”) payable represents VAT related to sales payable to tax authorities upon collection of receivables from customers net of VAT on purchases which have been settled at the balance sheet date. In addition, VAT related to sales which have not been settled at the balance sheet date (VAT deferred) is also included in VAT payable. Where allowance has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

VAT recoverable relates to purchases which have not been settled at the balance sheet date. VAT recoverable is reclaimable against sales VAT upon payment for the purchases.

The tax authorities permit the settlement of sales and purchases VAT on a net basis.

Commitments and contingencies

Commitments and contingencies are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenues can be measured reliably.

Revenue is accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the statement of operations in the period to which they relate.

Revenue related to international freight and passenger transportations is recognised when the border of Georgia is been crossed.

For the services related to freight transportation, revenue is recognised upon completion of the respective services.

Revenue is measured at the fair value of the consideration received or receivable.

When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and charged on a straight-line basis over the lease term.

The Group as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

Foreign currencies

The functional and presentation currency of these consolidated financial statements of the Group is the Georgian Lari ("GEL"). These consolidated financial statements are presented in thousands of Georgian Lari, unless otherwise indicated. Transactions in currencies other than functional currency of the Group are treated as transactions in foreign currencies. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Exchange differences are recognised in consolidated income statement in the period in which they arise.

The exchange rates at the year-end used by the Group in the preparation of the consolidated financial statements were as follows:

	31 December 2008	**31 December 2007**
Georgian Lari/1 US Dollar	1.6670	1.5916
Georgian Lari/1 Euro	2.3648	2.3315
Georgian Lari/1 Swiss franc	1.5849	1.4029

Average exchange rates for the year ended 31 December 2008 and 2007 were as follows:

	Average for 2008	**Average for 2007**
Georgian Lari/1 US Dollar	1.4902	1.6703
Georgian Lari/1 Euro	2.1886	2.2862
Georgian Lari/1 Swiss franc	1.3785	1.3920

Reclassifications

Certain reclassifications were made in the notes to the comparative information in the 2007 consolidated financial statements to conform to the 2008 presentation.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

Useful lives of property, plant and equipment

The most significant estimates relate to the estimation of useful lives of property, plant and equipment, assessment of impairment of financial assets and assessment of provisions.

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to future depreciation rates.

As described in Note 3 above, the Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in profit or loss.

Impairment provision for accounts receivable

The impairment provision for accounts receivable and other receivables is based on the Group's assessment of the collectability of specific customer accounts. If there is deterioration in a major customers' creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

If the Group determines that no objective evidence exists that impairment has incurred for individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

(in Georgian Lari and in thousands)

For the purposes of a collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Taxes – de-installed equipment

As part of the operations of the Group, old used equipment is often de-installed. Equipment that is subsequently found to be re-usable is transferred to inventory class "other" and carried at a nominal value of GEL 1 for IFRS purposes. However as per the ruling of the Georgian Tax Authorities, for tax purposes the inventory should be valued at fair value. As a result the Group hired a local audit company to evaluate de-installed inventory as of 31 December 2008. Valuation of the de-installed inventory was determined to be GEL 26,005 thousand for tax purposes, with a subsequent resulting deferred tax asset of GEL 3,900 thousand for financial statement purposes. However, the tax authorities reserve the right to re-determine this valuation at the time of their tax inspection, with the result that future adjustments may be appropriate.

Critical judgements in applying accounting policy

The following are the critical judgments that the management has made in the process of applying the entity's accounting policies and that have the significant effect on the amounts recognised in consolidated financial statements.

Accounting for non-production property, plant and equipment

Included in property, plant and equipment are social infrastructure and other non-production assets, such as hostels, residencies etc. Management believes that expenditures incurred in respect of acquisition or construction of such assets qualify for the recognition as an asset on the premises that such expenditures are capable of contributing indirectly to the flow of cash and cash equivalents to the Group through a reduction of cash outflows related primarily to wages and salaries expenses. This is driven by the fact that such non-production assets are employed by the Group to provide in-kind benefits to its employees, which replace cash outflows on wages and salaries.

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	Year ended 31 December 2008	**Year ended 31 December 2007**
Freight traffic	294,764	290,292
Passenger traffic	16,615	17,165
Total	**311,379**	**307,457**

(in Georgian Lari and in thousands)

6. INVESTMENT REVENUE

	Year ended 31 December 2008	Year ended 31 December 2007
Operating lease rental revenue:		
Carriages	16,590	11,520
Investment properties	1,738	1,682
Other	1,304	1,408
Buildings	467	688
	20,099	15,298
Interest revenue:		
Bank deposits	-	1,669
	-	1,669
Revenue from services provided by Railway Telecom:		
Revenue from internet services	4,697	1,578
Revenue from fibre operating lease	4,019	1,153
Other	694	-
	9,410	2,731
Total	**29,509**	**19,698**

7. OTHER GAINS AND LOSSES, NET

	Year ended 31 December 2008	Year ended 31 December 2007
Other gains	5,267	1, 399
Net foreign exchange gain	1,168	208
Gain on investment property revaluation	40	41
Gain on sale of investments in shares	-	534
Total	**6,475**	**2,182**

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

8.1 Employee benefit expense

	Year ended 31 December 2008	Year ended 31 December 2007
Salary and bonuses expenses	(103,977)	(99,725)
Other related expenses	(4,770)	(5,582)
Total	**(108,747)**	**(105,307)**

(in Georgian Lari and in thousands)

8.2 Depreciation and amortisation

	Year ended 31 December 2008	Year ended 31 December 2007
Depreciation of Property, Plant and Equipment	(98,875)	(106,649)
Amortisation of intangible assets	(10)	(9)
Total	**(98,885)**	**(106,658)**

8.3 Movement in provision for impairment

	Year ended 31 December 2008	Year ended 31 December 2007
Movement of provisions for impairment	(11,998)	(2,476)
Total	**(11,998)**	**(2,476)**

9. RAW MATERIALS AND CONSUMABLES USED

	Year ended 31 December 2008	Year ended 31 December 2007
Electricity	(22,319)	(18,192)
Fuel	(11,793)	(9,530)
Materials	(11,775)	(24,662)
Total	**(45,887)**	**(52,384)**

10. OTHER EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Freight car rental	(10,746)	(9,371)
Repair and maintenance	(10,573)	(12,323)
Security	(6,238)	(6,857)
Taxes other than income tax	(3,633)	(7,527)
Internet expense	(3,227)	-
Cable lease expense	(1,844)	-
Passenger transportation cost	(848)	(732)
Other provision	(479)	(1,999)
Tax fines	(83)	(1,433)
Total	**(37,671)**	**(40,242)**

(in Georgian Lari and in thousands)

11. FINANCE COSTS

	Year ended 31 December 2008	Year ended 31 December 2007
Interest on bank loans	(1,800)	(792)
Total	**(1,800)**	**(792)**

12. INCOME TAXES

The corporate income tax rate decreased from 20% for the year ended 31 December 2007 to 15% for the year ended 31 December 2008. The main components of the income tax for the years ended 31 December 2008 and 2007 were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Current income tax expense	(15,093)	(22,324)
Deferred tax benefit	7,030	40,030
Total	**(8,063)**	**17,706**

The reconciliation between profit before tax multiplied by the statutory tax rate and income tax expense for the years ended 31 December 2008 and 2007 were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before income tax	**42,375**	**21,478**
Theoretical income tax expense at the tax rate of 15% (2007: 20%)	(6,356)	(4,296)
Tax effect of:		
Effect of revaluations of assets for taxation purposes and non-deductable expenses	(1,739)	(14,403)
Non-taxable income	32	151
Effect of change in income tax rate from 20% to 15%	-	36,254
Income tax expense	**(8,063)**	**17,706**

(in Georgian Lari and in thousands)

As of 31 December 2008 and 2007 deferred tax assets and liabilities were as follows:

	31 December 2008	**31 December 2007**
Temporary differences resulting in deferred tax assets, due to:		
Allowance for irrecoverable accounts receivables	62,313	53,377
Inventory	26,179	16,843
Contingency provisions	7,904	7,414
Allowance for inventory obsolescence	2,818	2,722
Allowance for impairment of investment	202	-
Other current assets	31	3,131
Other short-term liabilities	-	2,503
Allowance for other non-current assets	-	448
Total difference resulting in deferred tax assets	99,447	86,438
Temporary differences resulting in deferred tax liabilities, due to:		
Property, plant and equipment and investment property	(761,925)	(796,594)
Trade Receivables	(830)	-
Other receivables	-	(17)
Total difference resulting in deferred tax liabilities	(762,755)	(796,611)
Total temporary difference, net	**(663,308)**	**(710,173)**
Deferred tax liability at 15%	**(99,496)**	**(106,526)**

Movement in carrying amount of deferred tax liabilities for the years ended 31 December 2008 and 2007 were as follows:

	2008	**2007**
Deferred tax liability as of beginning of the year	**(106,526)**	**(146,556**
Decrease in deferred tax liability	7,030	40,030
Deferred tax liability as of end of the year	**(99,496)**	**(106,526)**

(in Georgian Lari and in thousands)

13. PROPERTY, PLANT AND EQUIPMENT

The movement on property, plant and equipment for the year ended 31 December 2008 was as follows:

	Land	Buildings and construction	Rail track infrastructure	Transport, machinery, equipment and other	Capital Construction in progress	Total
Cost						
Deemed cost as at 1 January 2007	**45,445**	**129,457**	**639,114**	**397,742**	**54,132**	**1,265,890**
Additions	373,005	30	71	20,073	77,274	470,453
Additions to land fund	9,384	-	-	-	-	9,384
Disposals	-	(54)	(44)	(50)	-	(148)
Transfer to investment property	-	(3,740)	-	-	-	(3,740)
Balance 31 December 2007	**427,834**	**125,693**	**639,141**	**417,765**	**131,406**	**1,741,839**
Additions	2,776	447	1	3,648	70,945	77,817
Additions to land fund	24,355	-	-	-	-	24,355
Disposals	(152)	(2,129)	(78)	(829)	-	(3,188)
Transfers from construction in progress	-	10,798	16,690	35,250	(62,738)	-
Balance 31 December 2008	**454,813**	**134,809**	**655,754**	**455,834**	**139,613**	**1,840,823**
Accumulated depreciation						
Balance as at 1 January 2007	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation charge for the year	-	(3,748)	(36,631)	(66,270)	-	(106,649)
Balance 31 December 2007	**-**	**(3,748)**	**(36,631)**	**(66,270)**	**-**	**(106,649)**
Depreciation charge for the year	-	(3,930)	(36,251)	(58,694)	-	(98,875)
Eliminated on disposals of assets	-	129	7	47	-	183
Balance 31 December 2008	**-**	**(7,549)**	**(72,875)**	**(124,917)**	**-**	**(205,341)**
Carrying amount as at 31 December 2007	**427,834**	**121,945**	**602,510**	**351,495**	**131,406**	**1,635,190**
Carrying amount as at 31 December 2008	**454,813**	**127,260**	**582,879**	**330,917**	**139,613**	**1,635,482**

On the 1 January 2007 GR became a first time adopter of IFRS. As such GR elected, as allowed under IFRS 1 “First-time Adoption of International Financial Reporting Standards”, to use the fair value, as derived at 31 December as deemed cost as at the 1 January 2007.

The revaluation of the Group's property, plant and equipment was performed as at 31 December 2006 by an independent appraiser Grant Thornton Amyot LLC according to International Valuation Standards.

The fair value was determined using a depreciated replacement cost approach for buildings and constructions, rail track infrastructure and machinery. Equipment was revalued using market value approach. Transport, consisting of wagons and locomotives, and land are revalued using sales comparison method.

(in Georgian Lari and in thousands)

14. INVESTMENT PROPERTY

	31 December 2008	31 December 2007
Balance as at the beginning of the year	13,247	9,466
Transfer from property, plant and equipment	-	3,740
Gain from fair value adjustment	40	41
Balance as at the end of the year	**13,287**	**13,247**

The fair value of the Group's investment property as at 31 December 2008 has been arrived at on the basis of a valuation carried out at that date by Grant Thornton Amyot LLC, independent appraiser that is not related to the Group. The valuation, which conforms to International Valuation Standards, was arrived at by reference to discounted cash flows of lease agreements.

Investment properties of the Group are land and buildings that are leased to LLC Tbilisi Central till the year 2055 and to JSC Elit Electronics till the year 2056 and container terminal leased to LLC Intertrans till year 2016.

The cost of investment property as at 31 December 2008 and 2007 is GEL 13,206 thousand.

15. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Advances paid for acquisition of non-current assets	18,082	7,710
Intangible assets	10	26
	18,092	7,736
Less: allowance for irrecoverable amounts	(5,659)	(448)
Total	**12,433**	**7,288**

16. INVESTMENTS

	31 December 2008	31 December 2007
Investments in shares	2,021	2,021
Total	**2,021**	**2,021**

(in Georgian Lari and in thousands)

Investments as at 31 December 2008 and 31 December 2007 were as follows:

	Nature of business	Ownership interest in 2008	31 December 2008	Ownership interest in 2007	31 December 2007
Chitakhevi-Borjomi JSC	Energy	25%	2,021	25%	2,021
Absolute Bank JSC	Banking	-	159	-	159
			2,180		2,180
Less: allowance for impairment			(159)		(159)
Total			**2,021**		**2,021**

As at 31 December 2008 Chitakhevi-Borjomi JSC is not associated to the Group, as in November 2007 year Energo-Pro Georgia JSC purchased 71% of share of Chitakhevi-Borjomi JSC and the Group has lost significant influence over Chitakhevi-Borjomi JSC. The investment in Absolute Bank JSC was fully impaired as at 31 December 2008.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Cash at banks	3,025	3,905
Cash on hand	171	306
Total	**3,196**	**4,211**

18. RESTRICTED CASH

	31 December 2008	31 December 2007
Restricted Cash	-	9,868
Total	**-**	**9,868**

The Group had restricted cash in the form of funded letters of credit with TBC Bank as of 31 December 2007.

19. TRADE AND OTHER RECEIVABLES, NET

Trade and other receivables as at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
Trade receivables	73,358	57,803
Other receivables	8,964	4,330
	82,322	62,133
Less: allowance for irrecoverable amounts	(63,102)	(54,165)
Total	**19,220**	**7,968**

(in Georgian Lari and in thousands)

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The largest part of the Group's sales of cargo and passenger transportation services provided in 2008 year is made on prepayment basis, therefore it's not usual practice to have trade receivables as of the end of the year. Trade receivables of the Group mainly consist of sales recognised before 2005 year and accounts receivables due from other railways. Due to inability of the Group to write off uncollectable receivables as a result of being government entity, the most part of these receivables was impaired and allowance for estimated irrecoverable amounts was recognised by the Group, except for receivables from other railways and other trade and other receivables that management believes are recoverable.

Allowances for doubtful debts are recognised against all trade receivables over 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the debt settlements by the individual counterparty and an analysis of the counterparty's current financial position.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due as at the end of the reporting period but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Ageing of past due but not impaired trade and other receivables as at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	**31 December 2007**
From 6 months to 1 year	4,088	2,236
More than 1 year	6,416	4,555
Total	**10,504**	**6,791**

Movement in the allowance for doubtful debts for the years ended 31 December 2008 and 31 December 2007 were as follows:

	Year ended 31 December 2008	**Year ended 31 December 2007**
Balance as at beginning of the year	(54,165)	(52,530)
Accrued during the year	(8,937)	(1,635)
Balance as at end of the year	**(63,102)**	**(54,165)**

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

(in Georgian Lari and in thousands)

Impaired trade accounts receivable in light of maturity date as at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
Up to 3 months	1,760	1,572
From 3 months to 6 months	647	1,239
From 6 months to 1 year	2,968	1,960
More than 1 year	57,727	49,394
Total	**63,102**	**54,165**

20. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as at 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Refundable VAT	37,165	35,600
Advances paid to suppliers	10,688	17,272
Prepaid taxes other than income tax	4,377	6,911
Other current assets	12	20
	52,242	59,803
Less: allowance for irrecoverable amounts	(23,687)	(26,625)
Total	**28,555**	**33,178**

21. INVENTORIES

Inventories as at 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Materials	22,343	25,240
Rails	10,527	1,396
Fuel	3,076	3,548
Other	606	396
	36,552	30,580
Less: allowance for inventory obsolescence	(2,818)	(2,722)
Total	**33,734**	**27,858**

(in Georgian Lari and in thousands)

22. CHARTER CAPITAL

The charter capital contributed by the State of Georgia was equal to GEL 933,635 thousand and GEL 935,588 thousand as at 31 December 2008 and 2007, respectively:

	Capital	Description
Balance as at 1 January 2007	586,481	
Contribution of land	372,994	Charter capital increased
Withdrawal of Property, plant and equipment	10,910	Charter capital increased
Withdrawal of investment	(34,797)	Charter capital decreased
Balance as at 31 December 2007	**935,588**	
Contribution of land	1,240	Charter capital increased
Contribution of property, plant and equipment	1,205	Charter capital increased
Withdrawal of property, plant and equipment	(3,834)	Charter capital decreased
Withdrawal of investment	(564)	Charter capital decreased
Balance as at 31 December 2008	**933,635**	

During year 2008 the State of Georgia, the 100% owner, withdrew from Georgia Railways investments and property, plant and equipment by decree of the State Property Management Agency.

Land Fund

During 2008 the Group received from the government plots of land nominally valued at GEL 1,240 thousand (2007: GEL 372,994 thousand), which were subsequently valued at fair value by normative cost and market value approach. The gain after valuation at the amount of GEL 24,355 thousand (2007: GEL 9,397 thousand) was transferred to land fund.

23. DIVIDENDS DECLARED AND PAID

Minister of Finance and Minister of Economic Development are liable for distribution of net profit of State-owned entities according to the Order of Ministry of Finance and Ministry of Economic Development # 589, N1-1/91 as of 14-15 September, 2004.

According to the Government Order # 7 between Minister of Finance and Minister of Economic Development as of 18 July 2008, amount of dividends declared in year 2007 was decreased by GEL 40,000 thousands and dividends amounted to GEL 60,000 thousands were paid to the Government in year 2008, therefore dividends payable to the State as of 31 December 2008 amounted to GEL 0 in comparison with GEL 100,000 thousand as of 31 December 2007. For the year ended 31 December 2007 the Group paid dividends in the amount of GEL 12,450 thousand.

24. RETAINED EARNINGS CAPITALISATION

As a result of a decree by the government, in 2007 retained earnings of the Company, as per local accounting standards, were capitalised into charter capital in the amount of GEL 15,656 thousand. There was no retained earnings capitalisation for the year ended 31 December 2008.

(in Georgian Lari and in thousands)

25. BORROWINGS

Bank borrowings as at 31 December 2008 and 31 December 2007 were as follows:

Loans		Currency	Rate	As at 31 December 2008 Outstanding balance, original currency	As at 31 December 2008 Outstanding balance, GEL	As at 31 December 2008 Outstanding balance with accrued expenses, GEL	As at 31 December 2007 Outstanding balance, original currency	As at 31 December 2007 Outstanding balance, GEL	As at 31 December 2007 Outstanding balance with accrued expenses, GEL
EBRD	(i)	USD	LIBOR +1%	4,441	7,402	7,527	6,663	10,604	10,900
Bank of Georgia	(ii)	GEL	15.25%	6,492	6,492	6,535	-	-	-
Bank of Georgia	(iii)	GEL	17%	8,000	8,000	8,018	-	-	-
Total					**21,894**	**22,080**		**10,604**	**10,900**
Long-term portion of loans and borrowings						**3,701**		**7,068**	**7,068**
Current portion of loans and borrowings						**18,193**		**3,536**	**3,832**

Group's loans and borrowings as at 31 December 2008 and 31 December 2007 are repayable as follows:

	31 December 2008	31 December 2007
Due within three months	6,678	2,064
Due from three to six months	-	-
Due from six to twelve months	11,701	1,767
Total current portion repayable in one year	**18,379**	**3,832**
Due in second year	3,701	3,534
Due thereafter	-	3,534
Total long term portion	**3,701**	**7,068**
Grand total, in thousands	**22,080**	**10,900**

(i) **EBRD.** A long-term USD denominated loan obtained by the Group under a non-revolving credit line agreement signed with the European Bank for Reconstruction and Development ("EBRD") on 22 December 1998 and ratified by the Parliament of Georgia on 30 July 1999. The total amount of the credit line was equal to USD 20 million.

The repayment schedule set forth under the loan agreement requires payment of semi-annual equal instalments of USD 1,110 thousand. The final instalment is due in August 2010.

The interest rate is LIBOR + 1%. The loan is secured by a guarantee from the State of Georgia represented by the Ministry of Finance.

The carrying amount of long-term bank borrowings is considered to be a reasonable estimate of their fair value as the nominal interest rate on long-term bank borrowings is considered to be a reasonable approximation of the fair market rate with reference to loans with similar credit risk level and maturity period as at the reporting date.

According to the abovementioned loan agreement, the Group has to comply with the following financial covenants at all times beginning from the year of 2000: "debt service coverage ratio" at a minimum of 1.5, "working ratio" at a maximum of 0.9, and "borrower's debtor days" at a maximum of 90 days. The Group complies with all the financial covenants as at 31 December 2008 and 31 December 2007.

Calculation of compliance with covenants is presented below:

	31 December 2008		31 December 2007	
Covenant	**Required**	**Actual**	**Required**	**Actual**
Debt to Service Coverage Ratio	At least 1.50	9.77	At least 1.50	27.26
Working Ratio	Maximum 0.90	0.59	Maximum 0.90	0.62
Borrower's Debtor Days	Maximum 90 days	69	Maximum 90 days	74

(in Georgian Lari and in thousands)

(ii) **Bank of Georgia.** GEL denominated loan with initial amount of GEL 15,000 thousand obtained according to the agreement #447732 as of 13 February 2008. Interest rate is 15.25% per annum. The loan is unsecured. The loan was repayable by the Group on demand and was due on 13 February 2009. Subsequently to the balance sheet date credit line was prolonged till 13 May 2009 and fully repaid as of the date of issuance of these financial statements.

(iii) **Bank of Georgia.** GEL denominated credit line with maximum limit of 8,000 thousands obtained according to the agreement # 662244 as of 26 December 2008. Interest rate is 17% per annum. The loan is unsecured. The loan is repayable by the Group on demand due on 31 December 2009.

26. LIABILITY TO THE OWNERS

Liability to the owners as at 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Liability to the owner	25,881	32,389
Total	**25,881**	**32,389**

During year 2008 liability to the owner decreased due to the fact that the Group transferred part of property, plant and equipment and investments not formally transferred to government as at 31 December 2007 and therefore accrued as a liability to owners as at 31 December 2007. The decrease in liability is mainly represented by withdrawal of the Presidents' helicopter (GEL 7,415 thousand). There were no Government decisions on material items of property or investments for the year ended 31 December 2008, total amount of fixed assets withdrawal was GEL 3,834 thousand, for details refer to Note 22.

27. PROVISIONS

Litigation and employee disability provisions accrued as at 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Employee disability benefits	3,402	4,142
Litigations	4,502	3,272
Total	**7,904**	**7,414**

As at 31 December 2008 provision for litigation at the amount of GEL 4,502 thousand (2007: GEL 3,272 thousand) consists of court cases that management believes that it is probable that they will not successfully defend.

(in Georgian Lari and in thousands)

28. TRADE PAYABLES AND ADVANCES RECEIVED

	31 December 2008	31 December 2007
Trade payables	31,820	24,563
Advances received from customers	10,057	8,148
Total	**41,877**	**32,711**

Trade payables as of 31 December 2008 and 2007 are mainly denominated in GEL.

The average credit period on purchasing of majority of inventories and substantial portion of services is 20 days. In rare cases trade accounts payable are due more than 20 days and usually related to purchasing of non-current assets or special kinds of services.

As at 31 December 2008 advances received from customers mainly relate to advances received for freight transportation in the amount of GEL 9,215 thousand.

Trade payables consist of the following as at 31 December 2008 and 2007:

	31 December 2008	31 December 2007
Current trade payables	31,444	23,739
Balance of settlement accounts with other railways	376	824
Total	**31,820**	**24, 563**

Ageing of trade payables and advances received as at 31 December 2008 and 2007 was as follows:

	31 December 2008	31 December 2007
Up to 3 months	31,028	19,017
3 month to 6 month	1,343	7,532
6 month to 1 year	1,242	2,852
More then 1 year	8,264	3,310
Total	**41,877**	**32,711**

29. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Provision for tax liability	8,802	9,406
Property tax Liability	3,328	3,303
Personal income tax withheld	1,967	394
Other tax	129	363
Total	**14,226**	**13,466**

(in Georgian Lari and in thousands)

30. CURRENT INCOME TAX PAYABLE

	31 December 2008	31 December 2007
Current income tax payable	3,941	2,201
Total	**3,941**	**2,201**

31. OTHER LIABILITIES

Other liabilities as at 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Salaries payable	5,907	5,579
Other short-term liabilities	585	326
Dividends payable	-	100,000
Total	**6,492**	**105,905**

32. PENSIONS AND RETIREMENT PLANS

Employees of the Group receive pension benefits from the State in accordance with the laws and regulations of Georgia. No post-employment benefit liabilities exist for the Group.

33. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties or transactions with related parties, as defined by IAS 24 “Related Party Disclosures”, represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group; have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;
(b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) Joint ventures in which the Group is a venturer;
(d) Members of key management personnel of the Group or its parent
(e) Close members of the family of any individuals referred to in (a) or (d)
(f) Parties are entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(in Georgian Lari and in thousands)

The following companies are considered to be related parties to the Group:

Name of the related party	Nature of relation	Nature of business
State-owned companies	Companies under common control	Companies under control of the Enterprise Management Agency
Government bodies	Government authorities under common control	Ministries and other government bodies

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following balances outstanding as of 31 December 2008 and 31 December 2007 and transactions for the year ended 31 December 2008 and 31December 2007 with state-owned companies and government bodies:

	State-owned companies and government bodies	
	31 December 08	**31 December 07**
Balances:		
Trade and other receivables, net	816	954
Prepayments and other current assets	37	304
Trade payables and advances received	653	3,640
Transactions:		
Cargo and passenger revenues	1,251	1,014
Electricity, maintenance and other services purchased	3,378	12,805
Dividends paid, refer to note 23	60,000	11,450
Settlement of liabilities by the entity on behalf of another party	1,788	2,558
Transfers of FA and other assets with Enterprise Management Agency :		
Balances:		
Accounts payables for property transferred to Enterprise Management Agency, refer to note 27	25,881	32,389
Dividends payable	-	100,000
Transactions:		
Receipt of land and property, plant and equipment, refer to note 22	2,445	383,904
Disposal of property, refer to note 22	2,527	1,604
Transfer of investment, refer to note 22	564	38,145
Uzufruct (gratuitous assignment)	545	545

Compensation of key management personnel

Total key management remuneration for the years ended 31 December 2008 and 31 December 2007 comprised short-term compensation amounted to GEL 617,115 and GEL 325,976 respectively, and was included into Employee benefit expense.

(in Georgian Lari and in thousands)

Dividends

Dividends payable to the State as of 31 December 2008 amounted to GEL 0 in comparison with GEL 100,000,000 as of 31 December 2007. The Group paid GEL 60,000,000 for the year ended 31 December 2008 and Government decreased amount of dividends to be paid on GEL 40,000,000.

34. FINANCIAL RISK MANAGEMENT

Management of risk is fundamental to the Group's business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Foreign currency risk
- Interest rate risk
- Credit risk
- Liquidity risk

The Group recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to manage risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks.

Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. In addition, the Group is subject to externally imposed capital requirements under the loan covenants, which are used for capital monitoring. There were no changes in the objectives, policies and processes during year 2008.

Major categories of financial instruments - The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables, cash and cash equivalents, restricted cash.

The Group's major financial assets and liabilities as of 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
Financial assets		
Trade and other receivable, net	19,220	7,968
Cash and cash equivalents	3,196	4,211
Restricted cash	-	9,868
Total financial assets	**22,416**	**22,047**
Financial liabilities		
Trade payables	(31,820)	(24,563)
Short-term borrowings and current portion of long term loan	(18,379)	(3,806)
Other liabilities	(6,492)	(105,905)
Long-term loan	(3,701)	(7,068)
Total financial liabilities	**(60,392)**	**(141,342)**

(in Georgian Lari and in thousands)

Total net position	**(37,976)**	**(119,295)**

The main risks arising from the Group's financial instruments are foreign currency, interest rate, credit and liquidity risks.

Foreign currency risk – Currency risk is the risk that the fair value or future cash flows of a financial instrument of the Group will fluctuate because of changes in foreign exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group is trying to mitigate such risk by managing monetary assets and liabilities in foreign currency at the same (more or less stable) level.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2008 were as follows (in original currency):

	GEL	USD	EUR	CHF	RUR
Financial assets					
Trade and other accounts receivable, net	7,368	316	12	7,128	-
Cash and cash equivalents	1,274	541	431	-	-
Restricted cash	-	-	-	-	-
Total financial assets	**8,642**	**857**	**443**	**7,128**	**-**
Financial liabilities					
Trade accounts payable	(30,740)	(403)	(16)	(151)	(2,317)
Short-term borrowings and current portion of long term loan	(14,553)	(2,295)	-	-	-
Other liabilities	(6,492)	-	-	-	-
Long term loan	-	(2,220)	-	-	-
Total financial liabilities	**(51,785)**	**(4,918)**	**(16)**	**(151)**	**(2,317)**
Total net position	**(43,143)**	**(4,061)**	**427**	**6,977**	**(2,317)**

The carrying amounts of the Entity's foreign currency denominated monetary assets and liabilities as at 31 December 2007 were as follows (in original currency):

	GEL	USD	EUR	CHF
Financial assets				
Trade and other accounts receivable, net	5,542	-	-	3,369
Restricted cash	-	6,200	-	-
Cash and cash equivalents	1,083	1,756	-	45
Total financial assets	**6,625**	**7,956**	**-**	**3,414**
Financial liabilities				
Trade accounts payable	(22,231)	-	(1,064)	(587)
Other liabilities	(4,045)	-	-	-
Current portion of borrowings	-	(2,222)	-	-
Long term loan	-	(4,441)	-	-
Total financial liabilities	**(26,276)**	**(6,663)**	**(1,064)**	**(587)**
Total net position	**(19,651)**	**1,293**	**(1,064)**	**2,827**

(in Georgian Lari and in thousands)

The following table details the Group's Sensitivity to a 10% increase and decrease in the foreign currency against the GEL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

Impact on net profit and equity based on net position of assets and liabilities as at 31 December 2008 and 31 December 2007 was as follows:

	2008		**2007**	
	GEL/USD -10%	**GEL/USD +10%**	**GEL/USD -10%**	**GEL/USD +10%**
Profit or (loss)	406	(406)	129	(129)
	2008		**2007**	
	GEL/EUR -10%	**GEL/EUR +10%**	**GEL/EUR -10%**	**GEL/EUR +10%**
Profit or (loss)	(43)	43	(106)	106
	2008		**2007**	
	GEL/CHF -10%	**GEL/CHF +10%**	**GEL/CHF -10%**	**GEL/CHF +10%**
Profit or (loss)	(698)	698	283	(283)
	2008		**2007**	
	GEL/RUR -10%	**GEL/RUR +10%**	**GEL/RUR -10%**	**GEL/RUR +10%**
Profit or (loss)	232	(232)	-	-

Interest rate risk – Interest rate risk arises from the possibility that changes in market interest rates will affect the fair value or future cash flows of the financial instruments. The Group borrows on both a fixed and variable rate basis. The primary source of the Group's loan on variable basis is tied to LIBOR interest rate.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on reasonably possible changes in the risk variable. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

	2008		**2007**	
	Interest rate + 5%	**Interest rate – 5%**	**Interest rate + 5%**	**Interest rate – 5%**
Profit or (loss)	(376)	376	(530)	530

Limitations of sensitivity analysis - The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs.

(in Georgian Lari and in thousands)

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Credit risk – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Cash held in banks and bank deposits are considered to have minimal risk of default. Financial assets, which are potential subject of the Group to credit risk, consist principally of trade and other accounts receivable. The carrying amount of these financial assets, net of allowance for estimated irrecoverable amounts, represents the maximum amount exposed to credit risk.

The largest part of the Group's sales of cargo and passenger transportation services provided in 2008 is made on prepayment basis. Accordingly, the Group's trade receivables mainly consist of sales recognised before 2005 and accounts receivables due from other railways. Due to inability of the Group to write off uncollectable receivables as a result of being government entity, the most part of these receivables was impaired and allowance for estimated irrecoverable amounts was recognised by the Group, except receivables from other railways.

Maximum Exposure – The Group's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

Maximum exposure as of 31 December 2008 and 2007 were as follows:

	Note	2008	2007
Cash and cash equivalents	17	3,196	4,211
Trade and other accounts receivable, net	19	19,220	7,968
Restricted cash	18	-	9,868
		22,416	**22,047**

The financial assets and other credit exposures of the Group are not rated i.e. do not have a rating issued by internationally recognised rating agencies.

The Group's ten largest customers in terms of sales for the year ended 31 December 2008:

	Sales for 2008	31 December 2008 outstanding balance
Georgia Transit	79,260	(1,751)
Pace Georgia	32,183	(874)
BSI Trans	26,545	(890)
Rail Trans Group	14,581	(181)
KavkasiaTrans	9,472	(437)
Energy Invest	8,577	(37)
Barvil Georgia	7,567	(86)
Mika Georgia	7,222	(236)
Sokar Georgia Petroleum	6,541	64
Apaven	4,977	(360)
	196,925	**(4,788)**

(in Georgian Lari and in thousands)

The Group's ten largest customers in terms of sales for the year ended 31 December 2007:

	Sales for 2007	**31 December 2007 outstanding balance**
Georgia Transit	99,233	62
Pace Georgia	27,204	(1,182)
International Railway Expedition	8,794	44
Rail Trans Group	6,784	(475)
Mika Georgia	6,574	(256)
Intertrans	5,300	(150)
Castor Nautical Trading	5,036	(198)
Apaven	5,014	(396)
Energy Invest	4,846	(255)
Mezhtrans Service	3,569	(1)
	172,354	**(2,807)**

The summary below shows outstanding balances and the turnover of top five counterparties as at 31 December 2008

	31 December 2008 Outstanding balance	**2008 Sales**
Railway of Turkmenistan	6,831	3,809
Haidelberg Caucasus	3,512	9,775
Railway of Azerbaidjan	1,747	4,099
Tbilisi Central LLC	1,683	746
Railway of Uzbekistan	1,490	477
	15,263	**18,906**

The summary below shows outstanding balances and the turnover of top five counterparties as at 31 December 2007

	31 December 2007 Outstanding balance	**2007 Sales**
Moravia Georgia	2,446	-
Alioni	1,749	-
Georgian Sugar	1,082	111
Silk Road Group	926	122
Inter	580	197
	6,783	**430**

Liquidity risk – Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

(in Georgian Lari and in thousands)

An analysis of the liquidity risk of financial liabilities as of 31 December 2008 was as follows:

	Up to 3 months	3 months to 6 month	6 month to 1 year	More then 1 year	Maturity undefined	Total
Trade accounts payable	28,691	-	561	2,568	-	31,820
Short-term borrowings and current portion of long term loan	6,678	-	11,701	-	-	18,379
Other liabilities	6,492	-	-	-	-	6,492
Long-term loan	-	-	-	3,701	-	3,701
Total	**41,861**	**-**	**12,262**	**6,269**	**-**	**60,392**

An analysis of the liquidity risk of financial liabilities as of 31 December 2007 was as follows:

	Up to 3 months	3 months to 6 month	6 month to 1 year	More then 1 year	Maturity undefined	Total
Trade accounts payable	24,563	-	-	-	-	24,563
Short-term borrowings and current portion of long term loan	2,064	-	1,768	-	-	3,832
Other liabilities	105,905	-	-	-	-	105,905
Long-term loan	-	-	-	7,068	-	7,068
Total	**132,532**	**-**	**1,768**	**7,068**	**-**	**141,368**

35. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2008 and 2007 the Group had capital commitments as follows.

	31 December 2008	31 December 2007
Within 1year	62,207	30,044
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
Total	**62,207**	**30,044**

Capital commitments are primarily the construction of stations in Batumi, Poti and Zestafoni; modernisation of rail track infrastructure; modernisation of wagons; reconstruction of Railway Bridge in Khobi, locomotives and wagon capital repairs.

Contingent Liabilities

	31 December 2008	31 December 2007
Litigation	-	2,099
Total	**-**	**2,099**

(in Georgian Lari and in thousands)

Contingent assets

	31 December 2008	31 December 2007
Taxes	32,403	32,403
Litigation	24,461	24,433
Total	**56,864**	**56,836**

Operating environment

The Group's principal business operations are within Georgia. Due to the recent conflict between Georgia and the Russian Federation, the business environment is uncertain and may be subject to rapid change. The Group's operations and assets could be at risk due to negative changes in the political, economic or business environment within Georgia and between Georgia and the Russian Federation. These consolidated financial statements do not contain any adjustments, if any, that may arise from the realisation of this uncertainty.

Leasing agreements

Operating leases relate to the investment property owned by the Company with lease terms of between 10 to 50 years. The lessee does not have an option to purchase the property at the expiry of the lease period.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to GEL 2,342 thousand (GEL 1,682 thousand in 2007).

As at 31 December 2008 and 2007, non-cancellable operating lease receivables of the Group were as follows:

	31 December 2008	31 December 2007
Within 1year	3,903	3,800
Longer than 1 year and not longer than 5 years	17,876	17,579
Longer than 5 years	85,959	85,404
Total	**107,738**	**106,783**

Litigation

The Group is involved in litigations and other claims that are in the ordinary course of its business activities. Management believes that the resolution of matters, other than the matters already provided for, refer note 28, will not have a material impact on its financial position or operating results.

Taxation

The Georgian tax authorities are increasingly directing their attention to the business community as the result of overall economic environment in Georgia. Because of that, local and national tax environment in Georgia is constantly changing and is subject to inconsistent application, interpretation, and enforcement. Non-compliance with Georgian laws and regulations can lead to the imposition of severe penalties and interest. Future tax inspections could result in additional commitments being revealed, which do not comply with the Group's tax records. Such commitments could be represented by taxes, penalties, and interest and their amounts could be material. While the Enterprise believes that it has complied with local tax legislation, there have been many new tax laws introduced in recent years, which are not always clearly written.

36. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Recent volatility in global and Georgian financial markets

In 2009 a number of major economies around the world have continued to experience volatile capital and credit markets. A number of major global financial institutions have been taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Georgia, notwithstanding any potential economic stabilisation measures that may be put into place by the Georgian government and the National bank of Georgia, there exists as at the date these consolidated financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Group's profitability.

In June 2009, the Company signed agreement on transfer to Vagonmshenebeli Company LTD receivable from Eleqtrovagonshemketebeli Factory JSC at the amount of GEL 30,798 thousand. And "TBC Bank" JSC, "Bank Republic" JSC and "Bank of Georgia" JSC transferred their receivable rights (by factoring) with Eleqtrovagonshemketebeli Factory JSC to the Company at the total amount of GEL 30,798 thousand. Therefore, the Company takes on the liability of paying the receivables amount of GEL 30,798 thousand to the Banks. In case if payment to any of the banks becomes overdue for more than 60 days, or the payment schedule is violated twice, banks are permitted to cancel the agreement and demand remuneration of the unpaid amount immediately. In addition to all these conditions, all Eleqtrovagonshemketebeli Factory JSC property mortgage rights shall be transferred to the Company and appropriate agreements shall be concluded with the Factory. In turn, the Company mortgages its own real estate (land and buildings), located at Queen Tamar Avenue, Tbilisi.

In July 2009, the Company signed agreement with Eleqtrovagonshemketebeli Factory JSC on netting off mutual receivables at the amount of GEL 3,345. Besides, the Company transfers the right to demand this amount from Eleqtrovagonshemketebeli Factory JSC to Vagonmshenebeli Company LTD, along with mortgaging rights. Hence, Vagonmshenebeli Company LTD becomes listed, as a secured creditor.

37. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the management and authorised for issue on 7 December 2009.