Georgian Railway LLC

Financial Statements
For the Year Ended 31 December 2006

GEORGIAN RAILWAY LLC

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GEORGIAN RAILWAY LLC

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Georgian Railway LLC (the Company).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2006, the results of its operations and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the 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 financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company 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 Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company 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 Company; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended 31 December 2006 were authorised for issue on 19 October 2009 by the management board.

On behalf of the Management Board:

General Director	Acting Chief Accountant
Irakli Ezugbaia	Amiran Tevzadze

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the owners of Georgian Railway LLC:

We were engaged to audit the accompanying financial statements of Georgian Railway LLC (the "Company"), which comprise the balance sheet as of 31 December 2006 and the related statement of operations, statements of changes in equity, 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 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.

Basis for disclaimer of opinion

Inventory

We did not observe the counting of physical inventories as of 31 December 2006 and 31 December 2005, since those dates were prior to the time we were initially engaged as auditors for the Company. Owing to the nature of accounting records of the Company, we were not able to satisfy ourselves as to the inventory quantities by other audit procedures.

As at 31 December 2005, the Company did not maintain the appropriate accounting records to determine whether or not its inventory was presented at the lower of cost or net realisable value. We were unable to estimate the amount, if applicable, at that date which would have resulted in accurate recording of lower of cost or net realisable value as defined in and required for presentation by International Accounting Standard ("IAS") 2 "Inventories".

Deferred taxes

As disclosed in Note 2, the Company did not record or account for deferred taxes in the financial statements as of 31 December 2006 and 31 December 2005. In our opinion, this is not in accordance with IAS 12 "Income Taxes". Owing to the nature of the accounting records of deferred taxes, we were unable to estimate any unrecorded liability/asset and related deferred tax expense/benefit for the years then ended, nor the presentation amounts/formats of any associated disclosure as required by such standard, as applicable.

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Property, plant and equipment

As disclosed in Note 4, as part of its revaluation of property, plant and equipment which was performed as of 31 December 2006, the Company determined that a significant portion of its property, plant and equipment were impaired. Due to the nature of the impairment adjustment and the state of the accounting records, management was not able to retrospectively determine the allocated amount of the impairment adjustment to the 2005 financial statements or opening retained earnings at 1 January 2005, if any, nor determine the portion of the impairment adjustment applicable to the year ended 31 December 2006. As a result, the entire amount was posted as a debit to retained earnings for the year ended 31 December 2006 and a credit to property, plant and equipment as of 31 December 2006 in the amount of GEL 134,255 thousand. Owing to the nature of accounting records of the Company, we were not able to satisfy ourselves as to the appropriateness and accuracy of this treatment and its effect, if any, on the property, plant and equipment balances, accumulated depreciation balances, retained earnings and revaluation reserves at 31 December 2006 and 2005 or the depreciation expense for the years then ended and/or opening retained earnings and revaluation reserves at 1 January 2005.

Associates

As disclosed in Note 15 the Company accounted for its investment in an associate at cost in the financial statements, as of 31 December 2006 and 31 December 2005. In our opinion, this is not in accordance with IAS 28 "Investment in Associates". Due to the nature of the accounting records of the associate, we were unable to estimate the effect on the Company's financial position and results of operations, as well as the associated disclosures, if any.

Consolidation

As disclosed in Note 15 the Company did not consolidate its subsidiaries in the financial statements, instead recording investments in subsidiaries in the non-current line item "Investments" on the balance sheet at their carrying value, as of 31 December 2006 and 31 December 2005. In our opinion, this is not in accordance with IAS 27 "Consolidated and Separate Financial Statements". Due to the nature of the accounting records of the subsidiaries, we were unable to estimate the consolidated amounts and the effect of the non-eliminated balances and transactions on the Company's financial position and results of operations.

Related parties

As described in Note 32, the Company did not disclose the amounts of and the balances for transactions with related parties, as of 31 December 2006 and 31 December 2005. In our opinion, disclosure of this information is required by IAS 24, "Related Party Disclosure."

Inadequacy of the accounting system

Due to the inadequacy of the accounting system and the underlying accounting records, we were unable to satisfy ourselves as to the following items (all amounts are in thousands of Georgian Lari – GEL):

- Revenues of GEL 251,973 for the year ended 31 December 2005;
- Operating lease rental revenue in investment revenue of GEL 24,574 for the year ended 31 December 2005;
- Other gains and losses of GEL 5,335 for the year ended 31 December 2005;
- Employee benefit expense of GEL 72,392 for the year ended 31 December 2005;

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- Materials included in raw materials and consumable used of GEL 24,712 for the year ended 31 December 2006 and GEL 25,712 for the year ended 31 December 2005;
- Fuel included in raw materials and consumable used of GEL 9,187 for the year ended 31 December 2006 and GEL 8,165 for the year ended 31 December 2005;
- Depreciation and amortisation expense of GEL 27,333 for the year ended 31 December 2006 and GEL 39,117 for the year ended 31 December 2005;
- Repairs and maintenance in other expenses of GEL 25,996 for the year ended 31 December 2005;
- Security in other expense of GEL 4,694 for the year ended 31 December 2005;
- Other provision in other expenses of GEL 5,390 for the year ended 31 December 2005;
- Property, plant and equipment of GEL 416,758 for the year ended 31 December 2005;
- Prepaid taxes other than income taxes included in prepayments and other current assets of GEL 4,811 as at 31 December 2006 and GEL 3,681 as at 31 December 2005;
- Refundable VAT included in prepayments and other current assets of GEL 21,871 as at 31 December 2006 and GEL 12,318 as at 31 December 2005;
- Retained earnings of GEL (193,625) as at 31 December 2006 and GEL 53,169 as at 31 December 2005;
- Advances received included in Trade payables and advances received of GEL 5,600 as at 31 December 2005;
- Current income tax payable of GEL 9,832 as at 31 December 2006, and related income tax expenses of GEL 23,747 for the year ended 31 December 2006 and GEL 12,509 as at 31 December 2005, and related tax expenses of GEL 13,159 for the year ended 31 December 2005;
- Other taxes payable of GEL 2,897 as at 31 December 2006 and GEL 14,082 as at 31 December 2005;
- Other liabilities GEL 5,920 as at 31 December 2005;

Corresponding figures

The 2005 financial statements do not disclose/present the following as of and/or for the year ended 31 December 2005:

- Statement of cash flow;
- A breakdown of inventory by class;
- A movement schedule for property, plant, and equipment;
- The capital commitments;
- Operating lease receivable;

In our opinion, disclosure of this information is required by IAS 1 "Presentation of Financial Statements"

Disclaimer of Opinion

Because of the significance of the matters discussed in the basis for disclaimer of opinion above, we do not express an opinion on the financial statements.

Deloitte & Touche

19 October 2009

GEORGIAN RAILWAY LLC

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
		GEL'000	GEL'000
Revenue	5	306,888	251,973
Investment revenue	6	14,480	24,866
Movement in provisions	8	2,669	(6,473)
Other gains and losses	7	1,731	(5,335)
Employee benefit expense	8	(85,073)	(72,392)
Raw materials and consumables used	9	(51,068)	(46,617)
Other expenses	10	(47,087)	(69,468)
Depreciation and amortisation expense	8	(27,600)	(39,117)
Finance costs	11	(1,016)	(1,226)
Profit before tax		**113,924**	**36,211**
Income tax expense		(23,747)	(13,159)
Profit for the year		**90,177**	**23,052**

On behalf of the Management Board:

General Director
Irakli Ezugbaia

Acting Chief Accountant
Amiran Tevzadze

The notes on pages 9-32 are an integral part of these financial statements.

GEORGIAN RAILWAY LLC

BALANCE SHEET
AT 31 DECEMBER 2006

ASSETS	Notes	31 December 2006 GEL'000	31 December 2005 GEL'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,265,890	417,991
Investment property	13	9,466	-
Other non-current assets	14	1,760	4,435
Investments	15	35,040	10,182
Total non-current assets		1,312,156	432,608
CURRENT ASSETS			
Cash and cash equivalents	16	21,557	10,908
Restricted cash	17	4,073	-
Investments	15	2,100	-
Trade and other receivables, net	18	11,037	6,356
Prepayments and other current assets	19	24,882	11,533
Inventories	20	27,389	29,697
Total current assets		91,038	58,494
TOTAL ASSETS		**1,403,194**	**491,102**
LIABILITIES AND EQUITY			
CAPITAL AND RESERVES			
Charter capital	21	586,481	362,764
Revaluation reserves	23	916,057	-
Retained earnings	24	(196,597)	53,169
Total Equity		1,305,941	415,933
NON-CURRENT LIABILITIES			
Borrowings	25	11,413	15,919
Total non-current liabilities		11,413	15,919
CURRENT LIABILITIES			
Liability to the owners	26	28,965	-
Current portion of borrowings	25	4,215	4,389
Provisions	27	6,597	714
Trade payables and advances received	28	27,170	21,636
Current income tax payable		9,832	12, 509
Other taxes payable	29	2,897	14,082
Other liabilities	30	6,164	5,920
Total current liabilities		85,840	59,250
TOTAL LIABILITIES		**97,253**	**75,169**
TOTAL EQUITY AND LIABILITIES		**1,403,194**	**491,102**

On behalf of the Management Board:

General Director
Irakli Ezugbaia

Acting Chief Accountant
Amiran Tevzadze

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GEORGIAN RAILWAY LLC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Charter capital	PPE Revaluation Reserve	Investment Property Revaluation Reserve	Retained earnings	Total
		GEL'000	GEL'000	GEL'000	GEL'000	GEL'000
Balance at 31 December 2004		**364,805**	**-**	**-**	**36,617**	**401,422**
Profit for the period		-	-	-	23,052	23,052
Withdrawals from capital		(2,041)	-	-	-	(2,041)
Dividends		-	-	-	(6,500)	(6,500)
Balance at 31 December 2005		**362,764**	**-**	**-**	**53,169**	**415,933**
Revaluation Gain	23	-	910,143	5,914	-	916,057
Profit for the period		-	-	-	90,177	90,177
Net contribution to capital	21	23,879	-	-	-	23,879
Retained earnings capitalisation	24	199,838	-	-	(199,838)	-
Dividends	22	-	-		(5,850)	(5,850)
Correction of error from impairment loss	4	-	-	-	(134,255)	(134,255)
Balance at 31 December 2006		**586,481**	**910,143**	**5,914**	**(196,597)**	**1,305,941**

In 2006 the company declared dividends of GEL 5,850 thousand (2005: GEL 6,500 thousand). The dividends were paid to Georgian Government throughout the year, refer note 22.

On behalf of the Management Board:

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Irakli Ezugbaia

Acting Chief Accountant
Amiran Tevzadze

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GEORGIAN RAILWAY LLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 GEL'000
OPERATING ACTIVITIES:	
Cash receipts from customers	343,589
Cash paid to suppliers and employees	(216,988)
Cash generated by operations	126,602
Income tax paid	(26,381)
Interest paid	(1,029)
Net cash generated by operating activities	99,191
INVESTING ACTIVITIES:	
Purchase of property, plant and equipment	(75,036)
Purchase of investments	(2,100)
Interest received	3,107
Dividends received	36
Net cash used in investing activities	(73,993)
FINANCING ACTIVITIES:	
Dividends paid	(5,500)
Increase in restricted cash	(4,073)
Repayment of borrowings	(3,971)
Net cash from financing activities	(13,544)
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,654
CASH AND CASH EQUIVALENTS, beginning of year	10,908
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1,005)
CASH AND CASH EQUIVALENTS, end of year	21,557

On behalf of the Management Board:

General Director
Irakli Ezugbaia

Acting Chief Accountant
Amiran Tevzadze

The notes on pages 9-32 are an integral part of these financial statements.

1. GENERAL INFORMATION AND DESCRIPTION OF BUSINESS

Limited Liability Company "Georgian Railway" (the Company) was incorporated in Georgia on 8 December 1998.

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 entities operating in Georgia. These entities are unconsolidated subsidiaries for the purposes of reporting under International Financial Reporting Standards ("IFRS").

These entities as at 31 December 2006 and 2005 were as follows:

Name	Legal form	Nature of business	Ownership interest	
			2006	2005
Mikheil Meskhi Stadium	LLC	Sport	100%	-
Reinforced Concrete Tie Factory	LLC	Manufacturing	100%	100%
Chkhenisi Crushed Stone Factory	LLC	Manufacturing	100%	100%
Public Clinical Hospital	LLC	Medical	100%	-
Tbilisi Cross Melding Factory	LLC	Manufacturing	100%	100%
Sak Rkinigza Project	LLC	Construction	100%	100%
Refrigerated and Isothermal Transportation Company	LLC	Transportation	100%	100%
Railway Telecom	LLC	Communication	100%	100%
Selling Base of Unclaimed Freight and Construction Materials	LLC	Transportation	-	100%
Polyclinic of Railway Central Clinical Hospital	LLC	Medical	-	100%

In addition, the Company had equity investment in associate – JSC Chitakhevi-Borjomi with the ownership interest of 25% as at 31 December 2006 and 2005.

The financial statements were approved by the management board and authorised for issue on 16 September 2009.

The Company employed approximately 15 thousand and 16 thousand employees in 2006 and 2005, respectively.

Pricing Policy

Although, the Company has a certain level of independence in different aspects of its operations and their management, the Company's operations are closely regulated by the state. Final tariff rates are approved by the Ministry of Transport and Communications.

A. Tariffs for domestic freight transportation

Domestic freight transportation is a natural monopoly subject to regulation in accordance with The Law on the Railway Code of Georgia, dated 28 December 2002.

Tariffs for domestic freight transportation services are prescribed by Decrees:

- No. 74 approved by the Minister of Georgian Transport and Communications on Amendments and Additions to Decree No.1 approved by the Minister of Georgian Transport and Communications on Tariff Policy of the Georgian Railway during Freight Years of 2002;
- No. 112/n approved by the Deputy General Director of Georgian Railway on the Measures and Undertakes to Attract Cargo for Georgian Railway.

Domestic freight tariffs are denominated in Georgian Lari.

B. Tariffs for domestic transportation of passengers and luggage

Domestic transportation of passengers and baggage is a natural monopoly subject to regulation in accordance with the Law on the Railway Code of Georgia dated 28 December 2002.

Tariffs for domestic transportation of passengers and luggage are prescribed by Decrees approved by the General Director/Commercial Director of the Georgian Railway, and denominated in Georgian Lari.

C. Tariffs for international transportation of freight and passengers

CIS rail tariffs apply to:

- Freight transit via CIS railways;
- Third country freight transportation to/from the CIS;
- Freight transportation between CIS rail terminals.

Tariffs for international freight transportation services are prescribed by Decrees:

- No. 74 approved by the Minister of Georgian Transport and Communications on Amendments and Additions to Decree No.1 approved by the Minister of Georgian Transport and Communications on Tariff Policy of the Georgian Railway during Freight Years of 2002;
- No. 112/n approved by the Deputy General Director of Georgian Railway on the Measures and Undertakes to Attract Cargo for Georgian Railway.

Tariffs are based on the International Rail Transit Tariff and Unified Transit Tariff denominated in Swiss Francs.

Technical terms and conditions for transportation of freight through the territory of CIS are based on the International Freight Transportation Agreement ("IFTA") issued by the Organisation of Cooperation Between Railways.

Technical terms and conditions for transportation of freight through the territory of Georgia are based on the Rules of Freight Transportation by Railway approved by Decree No. 26 of Minister of Transport and Communications of Georgia.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards, except for the application of the following standards:

- IAS 12 Income taxes;
- IAS 24 Related Party Disclosures;
- IAS 27 Consolidated and Separate Financial Statements;
- IAS 28 Accounting for Investments in Associates.

Basis of preparation

The financial statements have been prepared on the historical cost and accrual basis except for the revaluation of certain non-current assets. The principal accounting policies are set out below.

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

Adoption of new and revised standards

In the current year, the Company has adopted all of the following new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006:

- IFRIC 4 Determining Whether an Arrangement Contains a Lease;
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment.

The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Company's accounting policies.

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

- IFRS 3 (Revised) Business Combinations (from 1 July 2009);
- IFRS 7 Financial Instruments: Disclosures (from 1 January 2007);
- IFRS 8 Operating Segments (from 1 January 2009);
- IAS 1 (Revised) Presentation of Financial Statements (from 1 January 2009);
- IAS 23 (Revised) Borrowing Costs (from 1 January 2009);
- IAS 27 (Revised) Consolidated and Separate Financial Statements (from 1 July 2009);
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (from 1 March 2006);
- IFRIC 8 Scope of IFRS 2 (from 1 May 2006);
- IFRIC 9 Reassessment of Embedded Derivatives (from 1 June 2006);
- IFRIC 10 Interim Financial Reporting and Impairment (from 1 November 2006);
- IFRIC 11: IFRS 2: Group and Treasury Share Transactions (from 1 March 2007);

- IFRIC 12: Service Concession Arrangements (from 1 January 2008);
- IFRIC 13 Customer Loyalty Programmes (from 1 July 2008);
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (from 1 January 2008);
- IFRIC 15: Agreements for the Construction of Real Estate (from 1 January 2009);
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (from 1 October 2008);
- IFRIC 17: Distributions of Non-cash Assets to Owners (from 1 July 2009);
- IFRIC 18: Transfer of Assets from Customers (from 1 July 2009).

The management anticipates that the adoption of these Standards and Interpretations in future periods will have no material effect on the financial statements of the Company.

Revenue recognition

Revenues are 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.

Revenues are 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 has been crossed.

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

Revenues are 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.

Operating leases

The company 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 company 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.

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 revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the retained earnings relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Properties in the course of construction for production or for purposes not yet determined, are carried at cost, less any recognised impairment loss. 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.

Freehold land is not depreciated.

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
Buildings and construction	10 - 92
Rail Track infrastructure	5 - 97
Transport, machinery, equipment and other	5 - 80

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.

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 policy decisions of the investee but is not control or joint control over those policies.

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.

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 financial statements of the Company.

Receivables and prepayments

Receivables and prepayments are stated at their nominal value as reduced by appropriate allowance for doubtful debts or irrecoverable amounts, respectively. Such allowance reflects either specific cases or estimates based on evidence of recoverability.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

Equity

Inputs and withdrawals of capital are based upon 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. Dividends decrees occur throughout the year based upon Government policy

Borrowings

Borrowings are initially recorded at the proceeds received, net of direct issue costs. Borrowings comprise short-term and long-term loans. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the borrowings to the extent that they are not settled in the period in which they arise.

Borrowing costs

Borrowing costs are charged to the income statement in the period in which they are incurred.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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.

Payables

Payables are initially recognised at nominal value, which represents the fair value of consideration received. Subsequently, instruments with fixed maturity are re-measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement. Financial liabilities, which do not have a fixed maturity, are subsequently carried at cost.

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 Company's liability for current tax is calculated in accordance with the tax regulations of Georgia by applying the statutory tax rate of 20%. 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

The company does not account for deferred taxes in the financial statements.

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.

Financial instruments

The Enterprise recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognised at nominal value, which represents the fair value of consideration given or received, respectively, including or net of any operating expenses, respectively. Any gain or loss at the initial measurement is recognised in the current year's financial results or credited (charged) directly to the equity whenever the financial instrument results from capital transactions. Accounting policies regarding the subsequent measurement of such instruments are disclosed in the respective accounting policies described in this Note.

Commitments and contingencies

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

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Foreign currencies

The functional and presentation currency of the Company is the Georgian Lari ("GEL"). These financial statements are presented in thousands of Georgian Lari, unless otherwise indicated. Transactions in currencies other than the Lari are treated as transactions in foreign currencies. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the statement of operations 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.

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

	31 December 2006	31 December 2005
Georgian Lari/1 US Dollar	1.7135	1.7925
Georgian Lari/1 Euro	2.2562	2.1245
Georgian Lari/1 Swiss franc	1.4042	1.3655

Average exchange rates for the year ended 31 December 2006 and 2005 were as follows:

	Average for 2006	Average for 2005
Georgian Lari/1 US Dollar	1.7764	1.8125
Georgian Lari/1 Euro	2.2297	2.2593
Georgian Lari/1 Swiss franc	1.4178	1.4597

Reclassifications

Certain reclassifications were made in the Statement of Operations and notes to the comparative information in the 2005 financial statements to conform to the 2006 presentation.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, 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.

Assessment of impairment of financial assets is based on actual collection of receivables in subsequent years.

Provisions are mainly represented by the provision for tax liabilities that is determined as the difference between the tax liability declared by the Company and the tax reconciliations act issued by the tax authorities.

Critical judgements in applying accounting policy

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in 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 Company 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 Company to provide in-kind benefits to its employees, which replace cash outflows on wages and salaries.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Trade and other accounts receivable

During the year management reconsidered the recoverability of its trade and other accounts receivable arising from the company's operations which is included in its balance sheet at 31 December 2006 at GEL 11,037 thousand. Since the majority of the receivables were generated more than 180 days ago, management questioned their recoverability and investigated all debtors on a case-by-case basis. Amounts identified as non-recoverable were provisioned for. This situation will be closely monitored and future adjustments will be made if future development of this issue indicates that such adjustments are appropriate.

Prepayment and other current assets

During the year management reconsidered the recoverability of its prepayment and other current assets arising from company's operations which are included in its balance sheet at 31 December 2006 at GEL 24,882 thousand. Since the majority of the assets were generated more than 180 days ago, management questioned their recoverability and investigated them on case-by-case basis. Amounts identified as non-recoverable were provisioned for. This situation will be closely monitored and future adjustments will be made if future development of this issue indicates that such adjustments are appropriate.

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 2 above, the Company 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.

4. CURRENT PERIOD ADJUSTMENTS

In 2006 the Company's management discovered errors in the financial statements related to prior years. On the 31 December 2006, management conducted a valuation of all property, plant and equipment, refer note 12. As part of this valuation it was determined that a significant portion of its property, plant and equipment were impaired. This impairment was an accumulative effect since the foundation of Company. However due to the nature of the error and the accounting records, management could not retrospectively correct prior years, therefore in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the correction of the errors was done in the current period.

Type of account	Before correction 31 December 2006	Amount of correction	As corrected 31 December 2006
Property, plant and equipment	1,400,145	(134,255)	1,265,890
Retained earnings	(62,342)	(134,255)	(196,597)

5. REVENUE

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

	Year ended 31 December 2006	Year ended 31 December 2005
	GEL'000	GEL'000
Revenue		
Freight traffic	291,021	240,157
Passenger traffic	15,867	11,816
Total	**306,888**	**251,973**

6. INVESTMENT REVENUE

	Year ended 31 December 2006	Year ended 31 December 2005
	GEL'000	GEL'000
Operating lease rental revenue:		
Carriages	8,727	10,130
Other	1,260	14,444
Investment properties	845	-
Buildings	552	-
	11,384	24,574
Interest revenue:		
Bank deposits	3,096	292
	3,096	292
Total	**14,480**	**24,866**

7. OTHER GAINS AND LOSSES

	Year ended 31 December 2006	Year ended 31 December 2005
	GEL'000	GEL'000
Other income /(expense)	2,212	(7,476)
Net foreign exchange gain/(losses)	(481)	2,141
Total	**(1,731)**	**(5,335)**

8. PROFIT FOR THE YEAR

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

7.1 Depreciation and amortisation

	Year ended 31 December 2006	Year ended 31 December 2005
	GEL'000	GEL'000
Amortisation of intangible assets	(11)	-
Depreciation of Property, Plant and Equipment	(27,589)	(39,117)
Total	**(27,600)**	**(39,117)**

7.2 Employee benefit expense

	Year ended 31 December 2006	Year ended 31 December 2005
	GEL'000	GEL'000
Other related expenses	(3,634)	-
Salary and bonuses expenses	(81,439)	(72,392)
Total	**(85,073)**	**(72,392)**

7.3 Movement in provision for impairment

	Year ended 31 December 2006	Year ended 31 December 2005
	GEL'000	GEL'000
Movement of provisions for impairment	2,669	(6,473)
Total	**2,669**	**(6,473)**

9. RAW MATERIALS AND CONSUMABLES USED

	Year ended 31 December 2006	Year ended 31 December 2005
	GEL'000	GEL'000
Materials	(24,712)	(25,712)
Electricity	(17,169)	(12,740)
Fuel	(9,187)	(8,165)
Total	**(51,068)**	**(46,617)**

10. OTHER EXPENSES

	Year ended 31 December 2006 GEL'000	Year ended 31 December 2005 GEL'000
Repairs and maintenance	(12,865)	(25,966)
Freight car rental	(9,506)	(6,237)
Security	(7,204)	(4,694)
Other provision	(9,892)	(5,390)
Taxes other than income tax	(6,251)	(2,361)
Passenger transportation cost	(798)	-
Tax fines	(571)	(24,820)
Total	**(47,087)**	**(69,468)**

11. FINANCE COSTS

	Year ended 31 December 2006 GEL'000	Year ended 31 December 2005 GEL'000
Interest on bank loans	(1,016)	(1,226)
Total	**(1,016)**	**(1,226)**

12. PROPERTY, PLANT AND EQUIPMENT

The movement on property, plant and equipment for the year ended 31 December 2006 was as follows:

	Land	Buildings and construction	Rail track infra-structure	Transport, machinery, equipment and other	Capital Construction In progress	Total
Net book value as at December 31, 2005	274	81,725	180,963	133,060	21,969	417,991
Additions	50,315	10,173	5,815	40,489	31,559	138,351
Disposals	(3,667)	(28,377)	(77)	(3,078)	-	(35,199)
Depreciation charge for the year	-	(1,724)	(12,600)	(13,265)	-	(27,589)
Net book value as at December 31, 2006	46,922	61,797	174,101	157,206	53,528	493,554
Transfer to investment property (note 13)	(1,426)	(2,126)				(3,552)
Revaluation increase	-	101,929	519,606	281,793	6,815	910,143
Restatement of Impairment loss (note 4)	(51)	(32,143)	(54,593)	(41,257)	(6,211)	(134,255)
Revalued net value as at December 31, 2006	**45,445**	**129,457**	**639,114**	**397,742**	**54,132**	**1,265,890**

The revaluation of the Group's property, plant and equipment was performed as at 31 December 2006 by an independent appraiser by 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.

Some items of property, plant and equipment were impaired during revaluation and this impairment loss has been included in retained earnings as restatement, refer note 4.

13. INVESTMENT PROPERTY

	GEL'000
Net Balance Value as at 31/12/2005	-
Transfer from property, plant and equipment	3,552
Gain from fair value adjustment	5,914
Balance at fair value as at 31/12/2006	9,466

The fair value of the Company's investment property at 31 December 2006 has been arrived at on the basis of a valuation carried out at that date by Grant Thornton Amyot LLC, an independent valuer that is not related to the Company. The valuation, which conforms to International Valuation Standards, was arrived at by reference to discounted cash flows of lease agreements.

Investment properties of the Company are land and building that are leased to LLC Tbilisi Central till the Year 2055. And container terminal leased to LLC Intertrans till year 2016.

14. OTHER NON-CURRENT ASSETS

	31 December 2006	31 December 2005
Advances paid for acquisition of non-current assets	8,875	6,331
Loan to subsidiary	103	251
Intangible assets	23	27
	9,001	6,609
Less: provision for impairment	(7,241)	(2,174)
Total	**1,760**	**4,435**

15. INVESTMENTS

	31 December 2006	31 December 2005
Investments in associates	35,040	10,182
Short term cash deposits in bank	2,100	-
Total	**37,140**	**10,182**

Unconsolidated investments in associates as at 31 December 2006 and 31 December 2005 were as follows:

	Nature of business	Ownership interest in 2006	31 December 2006	Ownership interest in 2005	31 December 2005
Mikheil Meskhi Stadium	Sport	100%	25,925	-	-
Reinforced Concrete Tie Factory LLC	Manufacturing	100%	5,887	100%	5,887
Chkhenisi Crushed Stone Factory LLC	Manufacturing	100%	2,200	100%	2,200
Chitakhevi-Borjomi JSC	Energy	25%	2,021	25%	2,021
Academician E.Pipia Public Clinical Hospital LLC	Medical	100%	751	-	751
Tbilisi Cross Melding Factory LLC	Manufacturing	100%	403	100%	403
Sak Rkinigza Project LLC	Construction	100%	36	100%	28
Refrigerated and Isothermal Transportation Company LLC	Transportation	100%	15	100%	1,817
Railway Telecom LLC	Communication	100%	2	100%	2
Absolute Bank JSC	Banking	-	171	-	179
Selling Base of Unclaimed Freight and Construction Materials LLC	Transportation	-	-	100%	15
Polyclinic of Railway Central Clinical Hospital LLC	Medical	-	-	100%	9
			37,411		12,561
Less: allowance for impairment			(2,371)		(2,379)
Total			**35,040**		**10,182**

16. CASH AND CASH EQUIVALENTS

	31 December 2006	31 December 2005
Cash at banks	21,262	10,888
Cash on hand	295	20
Total	**21,557**	**10,908**

17. RESTRICTED CASH

	31 December 2006	31 December 2005
Restricted cash	4,073	-
Total	**4,073**	**-**

Company has restricted cash in the form of funded letters of credit with TBC bank, VTB bank, and Bank of Georgia at the total amount of GEL 4,073 thousand as at 31 December 2006.

18. TRADE AND OTHER RECEIVABLES

	31 December 2006	31 December 2005
Trade receivables	59,649	52,803
Other receivables	3,918	2,838
	63,567	55,641
Allowance for doubtful debts	(52,530)	(49,285)
Total	**11,037**	**6,356**

19. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2006	31 December 2005
Refundable VAT	21,871	12,318
Advances paid to suppliers	13,285	4,452
Prepaid taxes other than income tax	4,811	3,681
Social tax	569	-
Other current assets	156	42
	40,692	20,493
Allowance for irrecoverable amounts	(15,810)	(8,960)
Total	**24,882**	**11,533**

20. INVENTORIES

Inventories as at 31 December 2006 comprised of:

	31 December 2006	31 December 2005
Materials	20,346	-
Rails	8,253	-
Other	2,538	-
Fuel	1,512	-
	32,649	29,697
Less: allowance for inventory obsolete	(5,260)	-
Total	**27,389**	**29,697**

21. CHARTER CAPITAL

The charter capital contributed by the State of Georgia was equal to GEL 586,481 thousand and GEL 362,764 thousand as at 31 December 2006 and 2005, respectively.

	Capital	Description
Balance at 1 January 2006	**362,764**	
5 January 2006	8,977	Share capital increased
21 February 2006	(9)	Share capital decreased
21 February 2006	7,330	Share capital increased
27 February 2006	(2,014)	Share capital decreased
27 February 2006	123	Share capital increased
3 May 2006	8,203	Share capital increased
3 May 2006	2,561	Share capital increased
8 June 2006	11,339	Share capital increased
8 June 2006	1,631	Share capital increased
8 June 2006	3,585	Share capital increased
15 June 2006	15,615	Share capital increased
17 July 2006	(504)	Share capital decreased
16 August 2006	(533)	Share capital decreased
16 August 2006	(175)	Share capital decreased
16 August 2006	(940)	Share capital decreased
16 August 2006	1,001	Share capital increased
16 August 2006	846	Share capital increased
16 August 2006	71	Share capital increased
16 August 2006	2,617	Share capital increased
16 August 2006	127,060	Share capital increased
16 August 2006	424	Share capital increased
16 August 2006	(228)	Share capital decreased
16 August 2006	(15)	Share capital decreased
16 August 2006	20	Share capital increased
17 August 2006	3,150	Share capital increased
6 September 2006	35	Share capital increased
6 September 2006	258	Share capital increased
13 December 2006	(523)	Share capital decreased
13 December 2006	33,812	Share capital increased
Balance at 31 December 2006	**586,481**	

During 2006 the State of Georgia, the 100% shareholder, withdrew from the Company investments and property, plant and equipment by decree of the State Property Management Agency.

22. DIVIDENDS DECLARED

Description	Amount of dividend	Declaration date	Payment date
Government decree on dividends 2006 declared	350	28 March 2006	29 March 2006
Government decree on dividends 2006 declared	400	18 April 2006	28 April 2006
Government decree on dividends 2006 declared	400	11 May 2006	29 May 2006
Government decree on dividends 2006 declared	500	13 June 2006	26 June 2006
Government decree on dividends 2006 declared	500	18 July 2006	28 July 2006
Government decree on dividends 2006 declared	500	10 August 2006	30 August 2006

22. DIVIDENDS DECLARED

Description	Amount of dividend	Declaration date	Payment date
Government decree on dividends 2006 declared	350	28 March 2006	29 March 2006
Government decree on dividends 2006 declared	400	18 April 2006	28 April 2006
Government decree on dividends 2006 declared	400	11 May 2006	29 May 2006
Government decree on dividends 2006 declared	500	13 June 2006	26 June 2006
Government decree on dividends 2006 declared	500	18 July 2006	28 July 2006
Government decree on dividends 2006 declared	500	10 August 2006	30 August 2006
Government decree on dividends 2006 declared	500	18 September 2006	29 September 2006
Government decree on dividends 2006 declared	700	9 October 2006	25 October 2006
Government decree on dividends 2006 declared	500	8 November 2006	27 November 2006
Government decree on dividends 2006 declared	250	8 November 2006	29 November 2006
Government decree on dividends 2006 declared	600	20 December 2006	22 December 2006
Government decree on dividends 2006 declared	300	20 December 2006	22 December 2006
Government decree on dividends 2006 declared	350	15 December 2006	23 January 2007
Total	**5,850**		

23. REVALUATION RESERVES

	GEL'000
Property, plant and equipment revaluation	910,143
Investment property revaluation	5,914
Total	**916,057**

Property, plant and equipment reserve

	GEL'000
Balance at 1 January 2006	-
Increase arising on revaluation of property, plant and equipment	910,143
Balance as at 31/12/2006	910,143

The properties revaluation reserve arises on the revaluation of buildings, transport, machinery, equipment and rail track infrastructure. Where revalued land, buildings, transport, machinery, equipment or rail track infrastructure are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained profits.

Investment property reserve

	GEL'000
Balance at 1 January 2006	-
Increase arising on revaluation of investment property	5,914
Balance as at 31/12/2006	5,914

The investment property revaluation reserve arises on the revaluation of investment property. Where a revalued investment property is sold, the portion of the reserve that relates to that investment, and is effectively realised, is transferred directly to retained profits.

24. RETAINED EARNINGS CAPITALISATION

As a result of a decree by the government, in 2006 retained earnings of the Company, as per local accounting standards, were capitalised into charter capital in the amount of GEL 199,838 thousand.

25. BORROWINGS

Non-current borrowings as at 31December 2006 and 2005 comprised an outstanding balance of a USD denominated loan obtained by the Company 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 outstanding balances as at December 31, 2006 and 2005 were as follows:

	31 December 2006	31 December 2005
Long-term portion of loan from EBRD	11,413	15,919
Current portion of loan from EBRD	4,215	4,389
Total	**15,628**	**20,308**

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 at the reporting date.

According to the abovementioned loan agreement, the Company 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 Company complies with all the financial covenants as at 31 December 2006.

Calculation of compliance with covenants is presented below:

	2006		2005	
Covenant	**Required**	**Actual**	**Required**	**Actual**
Debt to Service Coverage Ratio	At least 1.50	21.72	At least 1.50	3.11
Working Ratio	Maximum 0.90	0.57	Maximum 0.90	0.75
Borrower's Debtor Days	Maximum 90 days	71	Maximum 90 days	75

26. LIABILITY TO THE OWNERS

During 2006 Government decided to transfer out of the Company's charter capital M. Meskhi Stadium (GEL 25,925 thousand) and other fixed assets (GEL 3,040 thousand) by decrees. But these assets were not formally transferred to government as at 31 December 2006 and the Company accrued liability to shareholders as at 31 December 2006 at the amount of GEL 28,965 thousand.

27. PROVISIONS

	31 December 2006	31 December 2005
Employee disability benefits	4,062	-
Litigations	2,535	714
Total	**6,597**	**714**

As at 31 December 2006 provision for at the amount of GEL 2,535 (in 31 December 2005: GEL 714) consists of court cases that management believes that it is probable that they will not successfully defend.

28. TRADE PAYABLES AND ADVANCES RECEIVED

	31 December 2006	31 December 2005
Trade payables	16,100	16,036
Advances received from customers	11,070	5,600
Total	**27,170**	**21,636**

As at 31 December 2006 advances received from customers mainly relates to advances received for freight transportation in the amount of GEL 10,467 thousand.

Trade payables consisted of the following as at 31 December 2006:

	31 December 2006
Current payables	15,302
Balance of settlement accounts with other railways	798
Total	**16,100**

29. OTHER TAXES PAYABLE

	31 December 2006	31 December 2005
Property and other tax	2,229	1,507
Personal income tax withheld	668	594
Provision for tax liability	-	10,964
Social tax	-	1,017
Total	**2,897**	**14,082**

30. OTHER LIABILITIES

	31 December 2006	31 December 2005
Salaries payable	4,393	4,333
Other short-term liabilities	1,421	1,587
Dividends payable	350	-
Total	**6,164**	**5,920**

31. PENSIONS AND RETIREMENT PLANS

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

32. RELATED PARTY TRANSACTIONS

The Company is a government entity and as a result all other government entities, municipal entities and all members of Parliament, ministries and their deputies, managing directors of state entities as well as other officials acting on behalf and representing the State authority at different levels and their close family members are related parties. As a result of the large number of Related Parties and the limited resources of the Company, it is unable to comply with the disclosure requirements of International Accounting Standard No. 24 "Related Party Disclosure", for the years ended 31 December 2006 and 2005.

33. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2006 the Company had capital commitments as follows.

	GEL'000
Within 1year	21,195
Longer than 1 year and not longer than 5 years	-
Longer than 5 years	-
Total	**21,195**

Capital commitments primarily cover the reconstruction of bridges through Rioni river; modernisation of rail track infrastructure in Gori and Shulaveri; modernisation of wagons; purchase of equipment for traffic controllers; and wagon capital repairs.

Operating environment

The Company'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 Company'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 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 Company from its investment property, all of which is leased out under operating leases, amounts to GEL 845 thousand.

As at December 31, non-cancellable operating lease receivable of the Company was as follows:

	GEL'000
Within 1year	3,534
Longer than 1 year and not longer than 5 years	19,339
Longer than 5 years	95,427
Total	**118,300**

Litigation

The Company 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 27, 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 Company'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.

34. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Recent volatility in global and Georgian financial markets

In 2008 and 2009 a number of major economies around the world have experienced 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 financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the entity 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 entity's profitability.

In the year of 2007 the following subsidiaries were disposed to the State of Georgia (100% shareholder of the Company):

	Nature of business	Ownership interest	Carrying amount as at 31 December 2006	Price	Change in equity
Mikheil Meskhi Stadium	Sport	100%	25,925	-	25,925
Reinforced Concrete Tie Factory LLC	Manufacturing	100%	5,887	-	5,887
Chkhenisi Crushed Stone Factory LLC	Manufacturing	100%	2,200	-	2,200
Academician E.Pipia Public Clinical Hospital LLC	Medical	100%	751	-	751
Tbilisi Cross Melding Factory LLC	Manufacturing	100%	403	-	403

Foundation of Refrigerated and Isothermal Transportation Company LLC in 2005 (with balance of GEL 15 thousand, refer to Note 7) was considered to be unsuccessful and the investee was fully liquidated in 2008. The liquidation resulted in a loss for the company of GEL 15 thousand:

	Nature of business	Ownership interest	Carrying amount as at 31 December 2006	Price	Change in equity
Refrigerated and Isothermal Transportation Company LLC	Transportation	100%	15	0	15

In 2007, the football stadium in Samtredia included in the Company's property, plant and equipment with a carrying amount of GEL 1,604 thousand.

On 11 July 2007, the supervisory board of the Company was abolished according to the decree of the president of Georgia and on 9 June 2008 it was re-established.

Subsequent to 31 December 2006 but before the issuance of this report, the Company has declared dividends in the total amount of GEL 11,750 thousand – in 2007, and GEL 60,000 thousand – in 2008.

In February 2008, the Company obtained a 1 year loan from Bank of Georgia, in the amount of GEL 15,000 thousand.

In August of 2008, the conflict between Georgia and Russia damaged the infrastructure of the Company and also caused losses due to inability to conduct transportation services during the conflict. However this event does not have any impact on financial statement as at 31 December 2006.

In September of 2008, High Professional Education College of Railway Transport of Georgia LLC was founded by 100% shareholding on the basis of one of the branches of the Company. This subsidiary in amount of GEL 656 thousand was disposed to the State of Georgia in October of 2008.

In December 2008, two agreements amounting to USD 51,696,292 were signed with the Wagon Repairs Company LLC for capital renovation and repairs of 1,473 wagons.

In December 2008, approval of obtaining credit line or overdraft at the amount of GEL 8,000 thousand in Bank of Georgia. And approval of obtaining credit line or overdraft at the amount of USD 3,000 thousand and annual interest rate of 17% in KorStandard Bank. However, no assets on the balance sheet of the Company should be put in pledge under these loan agreements.

In June 2009, approval of foundation of the Company's branches: "Georgian Railway Freight Transportation" and "Georgian Railway Infrastructure".

In July 2009, approval of foundation of the Company's affiliates "Railway Asset Management" which will specialise on real estate rental, leasing and transferring property to third parties through auction or tender. And Approval of foundation of the Company's branch "Information and Communication Technologies".

35. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the management and authorised for issue on 19 October 2009.