Georgian Railway LLC
Consolidated Condensed Interim Financial Statements for the three and six month periods ended 30 June 2011 and 2010

Contents

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

'000 GEL	Note	30 June 2011 Unaudited	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	9	1,767,697	1,725,633
Investment property		6,838	9,926
Other non-current assets	9	201,002	136,375
Total non-current assets		**1,975,537**	**1,871,934**
Current assets			
Inventories		21,193	17,992
Current tax assets			
Trade and other receivables		26,557	26,913
Prepayments and other current assets		56,699	42,665
Cash and cash equivalents	11	235,400	335,855
Restricted cash			
Bank deposits		49,421	38,021
Total current assets		**389,270**	**461,446**
Total assets		**2,364,807**	**2,333,380**
EQUITY AND LIABILITIES			
Equity	10		
Charter capital		1,009,432	985,376
Non-cash owner contribution reserve		35,404	35,404
Retained earnings		696,394	612,261
Total equity		**1,741,230**	**1,633,041**
Non-current liabilities			
Loans and borrowings	11	412,587	438,383
Trade and other payables		45	45
Deferred tax liabilities		63,525	66,521
Total non-current liabilities		**476,157**	**504,949**
Current liabilities			
Loans and borrowings	11	18,261	19,259
Trade and other payables		34,953	61,886
Liabilities to the owners	13	26,529	29,241
Provisions		19,639	21,597
Other taxes payable		23,780	27,236
Current tax liabilities		17,257	21,153
Other current liabilities		7,001	15,018
Total current liabilities		**147,420**	**195,390**
Total liabilities		**623,577**	**700,339**
Total equity and liabilities		**2,364,807**	**2,333,380**

		Six-month period ended 30 June		Three-month period ended 30 June	
	Note	Unaudited	Unaudited	Unaudited	Unaudited
		2011	**2010**	**2011**	**2010**
Revenue		224,115	189,097	122,680	101,200
Other income		7,733	4,032	4,719	2,177
Payroll expenses		(52,771)	(53,602)	(23,212)	(27,356)
Depreciation		(46,277)	(49,375)	(24,663)	(26,052)
Electricity and materials used		(22,355)	(19,565)	(9,191)	(8,802)
Other expenses		(39,679)	(30,582)	(30,434)	(18,427)
Results from operating activities		**70,766**	**40,005**	**39,899**	**22,740**
Finance income	7	40,939	988	30,500	589
Finance costs		(2,407)	(4,182)	8,665	(3,356)
Net finance costs		**38,532**	**(3,194)**	**39,165**	**(2,767)**
Profit before income tax		**109,298**	**36,811**	**79,064**	**19,973**
Income tax expense	8	(15,736)	(6,253)	(8,113)	(3,728)
Profit and total comprehensive income for the year		**93,562**	**30,558**	**70,951**	**16,245**

	Charter capital	Non-cash owner contribution reserve	Retained earnings	Total equity
Balance at 1 January 2010	967,207	25,311	556,165	1,548,683
Total comprehensive income for the period:				
Profit and total comprehensive income for the period			30,558	30,558
Transactions with owners, recorded directly in equity:				
Non-cash distributions to owners (unaudited)	(2,352)	-	(6,266)	(8,618)
Balance at 30 June 2010 (unaudited)	**964,855**	**25,311**	**580,457**	**1,570,623**
Balance at 1 January 2011	985,376	35,404	612,261	1,633,041
Total comprehensive income for the period:				
Profit and total comprehensive income for the period			93,562	93,562
Transactions with owners, recorded directly in equity:				
Non-cash distributions by and distributions to owners (unaudited)	4,056	-	(9,429)	(5,373)
cash distributions by owners (unaudited)	20,000			20,000
Balance at 30 June 2011 (unaudited)	**1,009,432**	**35,404**	**696,394**	**1,741,230**

'000 GEL	Note	**2011** Unaudited	**2010** Unaudited
Cash flows from operating activities			
Cash receipts from customers		221,043	205,346
Cash paid to suppliers and employees		(106,551)	(92,241)
Cash flows from operations before income taxes and interest paid		**114,492**	**113,105**
Income tax paid		(22,630)	(851)
Interest paid		(22,330)	(1,603)
Net cash from operating activities		**69,532**	**110,651**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(191,158)	(86,976)
Increase in term deposits		(11,400)	-
Decrease in restricted cash		11,912	-
Other		2,562	986
Net cash used in investing activities		**(188,084)**	**(85,990)**
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayment of borrowings		-	(1,971)
Dividends paid		20,000	-
Net cash used in financing activities		**20,000**	**(1,971)**
Net increase in cash and cash equivalents		**(98,552)**	**22,690**
Cash and cash equivalents at 1 January		323,943	1,361
Effect of exchange rate fluctuations on cash and cash equivalents		10,009	(375)
Cash and cash equivalents at 30 September		**235,400**	**23,676**

1 Background

(a) Business environment

Georgian business environment

The Group's operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The conflict between Georgia and the Russian Federation has created additional uncertainty in the environment. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The condensed consolidated interim financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Reporting Entity

Georgian Railway LLC (the "Company") and its subsidiaries (the "Group") comprise Georgian limited liability and joint stock companies as defined in the Civil Code of Georgia.

The Group's principal activity is the operation of a nationwide railway system providing freight and passenger transportation services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

The Group is wholly owned by the State of Georgia represented by the State Enterprise management Agency of the Ministry of Economy and Sustainable Development of Georgia.

2 Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. These do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the years ended 31 December 2010.

(b) Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these condensed consolidated interim financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand

(c) Use of estimates and judgments

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the years ended 31 December 2010.

3 Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at end for the years ended 31 December 2010.

4 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2010.

5 Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Freight transportation*. Includes transportation of goods and commodities and related services.
- *Passenger transportation*. Includes transportation of passengers and luggage.

(i) Information about reportable segments for the Six-month period ended 30 June (unaudited)

’000 GEL	Freight transportation 2011	Freight transportation 2010	Passenger transportation 2011	Passenger transportation 2010	Total 2011	Total 2010
External revenues	213,033	176,359	7,152	7,035	220,185	183,394
Reportable segment profit/(loss) before infrastructure costs, central overheads, interest and income tax	136,206	109,180	(7,766)	(5,887)	128,440	103,293
Reportable segment assets	343,317	340,717	98,120	93,407	441,437	434,124

(ii) Reconciliation of reportable segment profit or loss for the twelve-month period ended 31 March (unaudited)

’000 GEL	2011 Unaudited	2010 Unaudited
Total profit or loss for reportable segments	128,440	103,293
Other profit or loss	1,164	(435)
Payroll expenses – infrastructure and headquarters	(24,941)	(22,903)
Depreciation expenses – infrastructure and headquarters	(23,135)	(24,933)
Net finance income/(costs)	38,532	(3,194)
Other net unallocated expenses	(10,762)	(15,017)
Consolidated profit before income tax	**109,298**	**36,811**

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2010.

6 Seasonality of operations

The Group's revenues remain relatively stable during the year with increases in March to October as a result of seasonal fluctuations in the construction industry and in agriculture and the holiday seasons.

7 Foreign currency exchange rate fluctuations

Included in finance income for the three and six-month periods ended 30 June 2011 is a net foreign exchange gain of GEL 9,809 thousand and GEL 38,376 thousand correspondingly mainly as a result of the GEL depreciation against Swiss Francs ("CHF") and GEL appreciation against U.S. Dollars ("USD") as the Group held a significant part of its bank balances in CHF and the Group's loans and borrowing were denominated in USD during the three and six-month periods ended 30 June 2011.

8 Income tax expense

Income tax is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim periods. The Group's consolidated effective tax rate for the six-month period ended 30 June 2011 was 14 percent (six-month period ended 30 June 2010: 17 percent). The statutory tax rate is 15 percent.

9 Property, plant and equipment

Acquisitions and disposals of property, plant and equipment

During the six-month period ended 30 June 2011 the Group acquired assets with a cost, excluding capitalized borrowing costs, of GEL 76,338 thousand (30 June 2010: GEL 53,643 thousand). Capitalized borrowing costs related to the Main Line Modernization project for the six-month period ended 30 June 2011 amounted to GEL 12,350 thousand (30 June 2010: nil) and capitalized borrowing costs related to the Tbilisi Bypass project for the six-month period ended 30 June 2011 amounted to GEL 8,690 thousand (30 June 2010: nil). During the six-month period ended 30 June 2011 assets with a carrying amount of GEL 12,158 thousand were transferred to the owner (30 June 2010: GEL 14,722 thousand).

Other non-current assets

Increase in other non-current assets is mainly related to prepayments made and materials and equipment purchased for the Main Line Modernization and Tbilisi Bypass projects.

Capital commitments and major projects

As at 30 June 2011 the Group had entered into contracts for construction or purchase of property, plant and equipment of GEL 733,656 thousand (30 June 2010: GEL 547,627 thousand) excluding prepayments made for the contracts, mainly related to the Main Line Modernization and Tbilisi Bypass projects. Included in capital commitments are contracts for the construction of a building in the west of Georgia for future sale or lease for USD 22,345 thousand.

10 Equity

Dividends

No dividends were declared and paid by the Group during the six-month period ended 30 June 2011 (six-month period ended 30 June 2010: Nil). No dividends have been proposed after 30 June 2011.

11 Loans and borrowings

No significant issues or repayments of loans and borrowings occurred during the six-month periods ended 30 June 2011 and 2010. The changes in the carrying amounts are attributable to interest accruals and payments and foreign currency translation differences.

On 17 March 2010 a loan agreement was signed between the Group and the European Bank for Reconstruction and Development ("EBRD"), by which EBRD agreed to lend the Group up to CHF 146.2 million partly to finance the Tbilisi Bypass project. No funds had been drawn down under this facility as at 30 June 2011 or as at the date that these condensed consolidated interim financial statements were approved for issuance. Prepaid finance cost included in trade and other receivables related to this loan agreement amounts to GEL 4,120 thousand as at 30 June 2011 (30 June 2010: GEL 3,047 thousand).

In 2011 the Group breached several non-financial covenants in the loan agreement with the EBRD. As at 30 June 2011 and as at the date that these condensed consolidated interim financial statements were approved for issuance, the Group was in the process of requesting waivers from the EBRD and changes to the covenants in the loan agreement (see note 14).

The Group holds GEL 149,909 thousand (30 June 2010: nil) in an escrow account included in cash and cash equivalents based on the loan agreement with EBRD according to which the cash can be used by the Group only with the consent of EBRD and only for the Tbilisi Bypass project. Cash and cash equivalents include restricted cash of GEL 11,912 thousand as of 31 December 2010 (30 June 2011 and 30 June 2010: nil).

12 Contingencies

During 2011 the Group won a case in the Supreme Court of Georgia related to an additional tax liability imposed by the Georgian Tax Authorities for the years from 1998 to 2003, and accrued by the Group before 2007, of approximately GEL 13 million. An asset is not recognized for this case as at 30 June 2011 as the case is not yet finalized and management was not able to make a reliable estimate of the final outcome of the case as at the date that these condensed consolidated interim financial statements were approved for issuance.

13 Related parties

(a) Parent and ultimate controlling party

The Company is wholly owned by the State of Georgia represented by the State Enterprise Management Agency of the Ministry of Economy and Sustainable Development of Georgia.

(b) Transactions with key management personnel

Key management received the following remuneration during the six-month periods ended 30 June 2011 and 2010, which is included in employee benefits expenses:

’000 GEL	2011	2010
Salaries and bonuses	571	503

(c) Other related party transactions

(i) Revenue, purchases and expenses

The Group purchases most of its electricity from a State owned operator which amounted to GEL 10,093 thousand for the six-month period ended 30 June 2011 (30 June 2010: GEL 8,430 thousand). The Group also purchases security services from a state agency which amounted to GEL 3,776 thousand for the six-month period ended 30 June 2011 (30 June 2010: GEL 3,796 thousand). The Group usually does not have significant balances for these purchases. Management estimates that the aggregate amounts of other income and expenses and the related balances with other government-related entities are not significant.

(ii) Other balances

’000 GEL	June 30, 2011	December 31, 2010	June 30, 2010	December 31, 2009
Liabilities to the owners	26,529	29,241	24,482	26,636

Liabilities to the owners relate to non-core property, plant and equipment that has been withdrawn but not yet transferred formally to the Government of Georgia. These liabilities are recognized at the carrying amount of assets to be transferred to the Government of Georgia.