Management Discussion and Analysis for the twelve month period ended 31 December 2013

Contents

Summary

In year 2013, Georgian Railway has demonstrated significant stability and resilience. Despite the decrease of cargo transportation by approximately 2 million tons, revenues have shown an increase as a result of tariff policy optimization and other operational efficiencies.

In total, adjusted EBITDA of the company has decreased by about GEL 19.8 million, primarily due to salary increase that took place in Q4 2012 (annual increase in salary expense was GEL 25.0 million). It must be noted that the company has shown the ability to effectively respond to the decrease of cargo transportation and posted lower results only due to salary expense increase and non-operational income.

Cash balances of the company remained practically at the same level of GEL 209 million compared to GEL 215 million at the end of 2012, giving the company a healthy liquidity and flexibility for its investment cash requirements.

1. Profit & Loss Statement

Following table sets forth profit and loss statement of the Company for the twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31December			
’000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Revenues	481,653	2.2%	10,403	471,250
Other income	13,645	-55.3%	-16,877	30,522
Payroll expenses	-133,509	23.1%	-25,042	-108,467
Depreciation and amortization expense	-101,927	5.0%	-4,845	-97,082
Electricity and materials used	-49,166	-7.2%	3,807	-52,973
Other expenses	-89,319	1.0%	-873	-88,446
Result From Operating Activities	**121,376**	-21.6%	-33,428	**154,804**
Finance Income	12,334	-35.4%	-6,772	19,106
Finance Cost	-57,521	-3.0%	1,789	-59,310
Net finance income	**-45,187**	12.4%	-4,983	**-40,204**
Profit before income tax	**76,189**	-33.5%	-38,411	**114,600**
Income tax	-10,960	-36.9%	6,423	-17,383
Net income	**65,229**	-32.9%	-31,988	**97,217**
EBITDA	**223,303**	**-11.3%**	**-28,583**	**251,886**
EBITDA margin	**47.8%**			**53.0%**

Net income amounted to GEL 65.2 million in the twelve month period ended 31 December 2013 compared to GEL 97.2 million in the same period of the previous year.

2. P&L Analysis

Following paragraphs present the analysis of the profit and loss statement of Georgian Railway JSC for the twelve month period ended 31December 2013.

2.1. Revenues

The following table sets forth revenue breakdown and comparison of the twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31December			
’000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Freight transportation	365,865	4.3%	14,999	350,866
Freight handling	60,529	15.6%	8,173	52,356
Freight car rental	34,308	-26.0%	-12,074	46,382
Passenger transportation	18,044	3.5%	612	17,432
Other revenue	2,908	-31.0%	-1,306	4,214
Total Revenue	**481,653**	**2.2%**	**10,403**	**471,250**
Other Income	**13,645**	**-55.3%**	**-16,877**	**30,522**

Revenues in the twelvemonth period ended 31December, 2013 amounted to GEL 481.7 million, representing an increase of 2.2 per cent (GEL 10.0 million) compared to the same period in the previous year. Revenue from freight transportation increased by 4.3 per cent (GEL 15.0 million); Freight handling revenue increased by 15.6 per cent (GEL 8.2 million); Revenue from freight car rental decreased by 26.0 per cent (GEL 12.1 million); Passenger revenues increased by 3.5 per cent (GEL 0.6 million). Other revenues decreased by 31.0 per cent (GEL 1.3 million). Below, you can find detailed discussion for the reasons of the above-mentioned changes.

2.1.1 Freight revenues

Freight transportation revenues increased by 4.3 per cent (GEL 15 million) in the twelve-month period ended 31 December 2013 compared to the same period of the previous year.

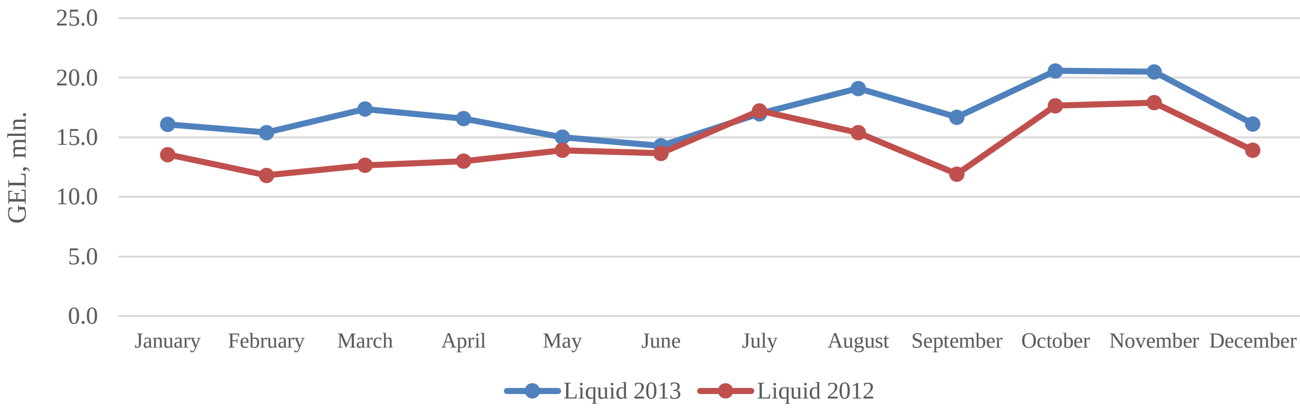
The following table sets forth freight transportation revenue by types of freight for the twelve month periods ended 31 December 2013 and 2012:

GEL, Millions	**12 month periods ended 31December**			
	2013	***% Change***	***Abs. Change***	**2012**
Liquid Cargoes	**204.7**	**18.6%**	**32.2**	**172.5**
of which				
Crude Oil	78.3	6.4%	4.7	73.6
Oil Products	126.3	27.7%	27.4	98.9
Dry Cargoes	**161.2**	**-9.6%**	**-17.1**	**178.3**
of which				
Grain	23.6	-14.0%	-3.8	27.4
Construction Freight	11.0	0.7%	0.1	10.9
Cement	3.2	-7.5%	-0.3	3.5
Industrial Freight	6.9	-27.8%	-2.6	9.5
Ferrous Metals and Scrap	16.4	-9.2%	-1.7	18.1
Ores	31.5	-15.6%	-5.8	37.3
Sugar	16.6	-5.2%	-0.9	17.5
Chemicals, fertilizers	9.26	-15.0%	-1.6	10.9
Other	42.8	-1.1%	-0.5	43.3
Total	**365.9**	**4.3%**	**15.0**	**350.9**

The types of freight that positively contributed to the twelve month period-over-period change in freight transportation revenue were mainly Oil products and Crude oil. This was offset by the decrease in revenue from transportation of dry cargo.

Liquid cargo revenues:

The following graph presents distribution of revenue from liquid cargo transportation by months, for the twelve month periods ended 31 December 2013 and 2012:

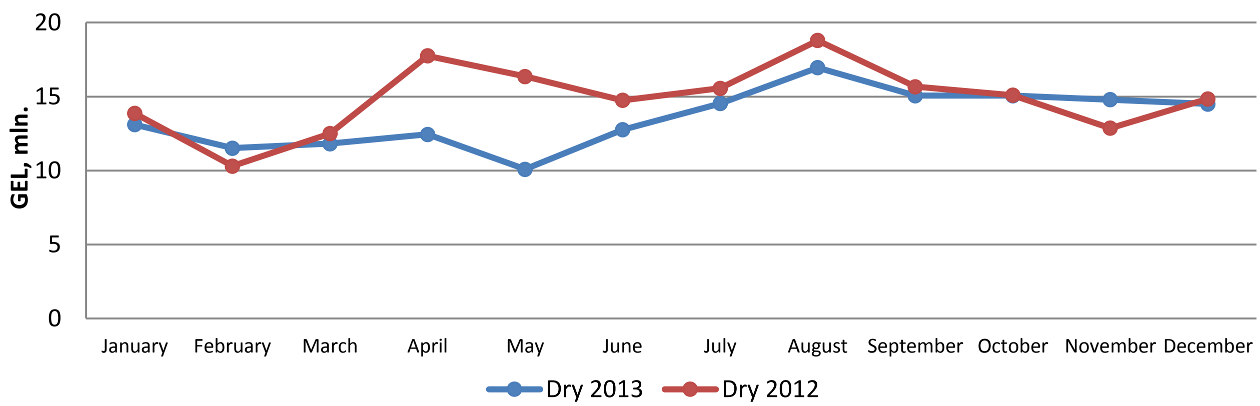


Revenue from transportation of liquid cargo was higher in Q1 2013 compared to Q1 2012 as a result of increased tariffs during 2012 and approximately the same cargo transportation volumes. Starting from Q2 2013, there was a decrease in cargo transportation due to maintenance works on oil fields in Kazakhstan, however this was compensated by higher tariffs and the addition of Georgian Transit LLC as a subsidiary to the company. As Georgian Transit is a liquid freight forwarding company, the margin of freight forwarding was added to the revenue of the company from cargo transportation.

In Q3 2013 liquid cargo volumes recovered, which combined with higher tariffs resulted in increase in revenue from cargo transportation. The same trend continued in Q4 2013.

Dry cargo revenues:

The following graph shows distribution of revenues from dry cargo transportation by months in twelve month periods ended 31 December 2013 and 2012:



Dry cargo volumes in twelve month period ended 31 December 2013 decreased by 14.2 per cent and revenues decreased by 9.6 per cent compared to the previous year. The decrease was mainly attributable to the reduced volumes of Grain, Industrial and Ore products. Dry cargo transportation volumes increased starting from July.

Revenue from Grain transportation decreased by 14.0 per cent (GEL 3.8 million) due to the high existing stocks in the region, which reduced the need of additional grain cargo purchase from other regions. Another reason was high prices on the global market for grain, which must have refrained buyers from increasing stock levels of the commodity.

The main reason of the decrease of Ore products by 15.6 per cent (GEL 5.8 million), which was caused by the decreased amount of aluminum production within Azerbaijani factories, due to low prices on aluminum. Another reason was the changes in aluminum manufacturing processes in factories of Azerbaijan. Previously, during manufacturing processes factories were using bauxite, while in the end of year 2012 they started to use aluminum oxide instead of bauxite. As the technological process of manufacturing requires proportionally less aluminum oxide compared to bauxite, transportation in tons was lower.

Management estimates that the reason for the decreased transportation in construction and industrial freight was temporary stoppage of some construction projects in the country following parliamentary elections on October 1, 2012. Demand on these products was lower caused by slow-down of some big construction projects within the country. Total decrease of Construction and Industrial freight was 12.6 per cent (GEL 2.6 million).

Freight handling revenue:

The following table sets forth the revenues from freight handling for the twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31 December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Freight handling	60,529	15.6%	8,173	52,356

Revenue from freight handling increased by 15.6 per cent (GEL 8.2 million) in the twelve month period ended 31 December 2013 compared to the same period of the previous year. This is mostly attributable to the increased number of delay days of GR railcars in the stations by the customers, which has its charge. Another reason was the increase in freight handling tariffs. Starting from February 2013, tariffs for station services were increased to USD 1.7 per ton for using GR's own diesel locomotives instead of USD 1.6 per ton. For customers' personal diesel locomotives, tariffs increased to USD 1.1 per ton instead of USD 0.6 per ton. Demurrage fee for customers' own railcars in GR's stations increased to GEL 50 per day instead of GEL 20 per day starting from May 2013. This was partly offset by the decrease in tariff for the demurrage of GR's own railcars, from GEL 100 per day t GEL 50 per day. From March, 2013 tariff for assigning GR's railcars for transportation to Afghanistan destination was increased by USD 100 per railcar sent, representing a 15% positive change in tariff.

Freight car rental revenue:

The following table sets forth the revenues from freight car rental for the twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Freight car rental revenue	34,308	-26.0%	-12,074	46,382

Revenue from freight car rental decreased by 26.0 per cent (GEL 12.1 million) in the twelve month period ended 31 December 2013 compared to the same period in 2012. The decrease was primarily due to the additional diesel locomotives acquired by Turkmenistan Railway in order to improve turnover of the cargo. Previously GR's wagons were delayed in Turkmenistan due to the bottlenecks on Afghanistan border. When railcars are delayed for 30-45 days, freight car rental daily tariff is multiplied by a coefficient of 1.3, while for the delay of more than 45 days the tariff triples. As the bottlenecks were dealt with by Turkmenistan, turnover improved significantly and railcar delays decreased, returning the tariff to normal amounts. In the twelve months of 2013 freight car rental revenue from Turkmenistan decreased to GEL 3.4 million from previous year's figure GEL 9.2 million, with the rest of the decrease originating from a decline in cargo transportation in 2013. Resolution of bottlenecks in Turkmenistan has a positive effect on the wagon turnover and capacity for Georgian Railway, somewhat eliminating the possible need for future investments into the railcars. It also must be noted, that the second reason of decrease in freight car rental revenue was the expiration of the contract according to which Georgian Railway was exchanging 200 Open Top Box (OTB) railcars for 200 tank cars with Ukrainian railways. The expiration resulted in a decrease in both freight car rental revenue and expense.

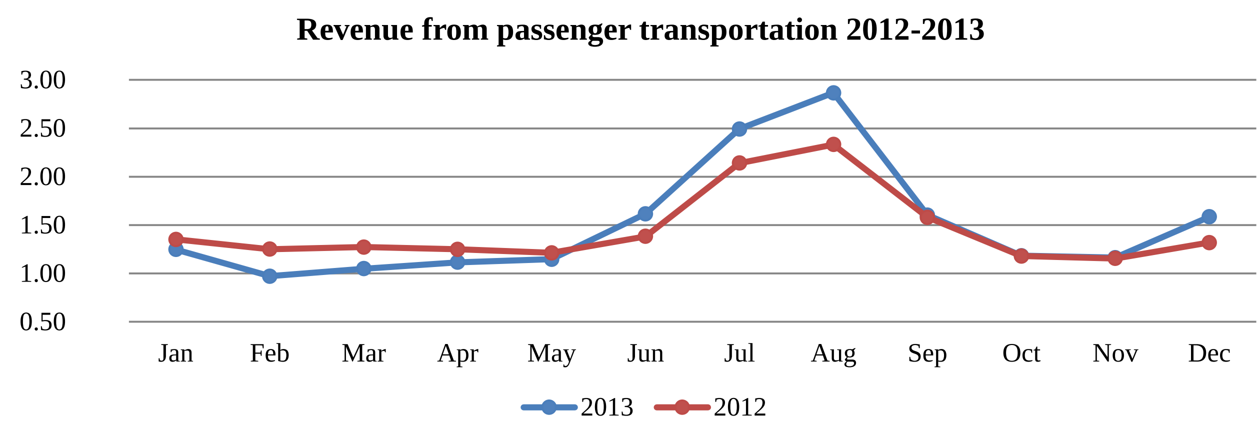
2.1.2. Passenger revenues

The following table sets forth the revenues from passenger transportation for the twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Passenger revenues	18,044	3.5%	612	17,432

Passenger revenues increased by 3.5 per cent (GEL 0.6 million) in the twelve month period ended 31 December 2013 compared to the same period of the previous year. In the twelve month period of 2013, GR transported 3.4 per cent less passengers than in the same period of 2012. The disproportion between the change in passenger number and change in revenues is caused by the increased overall share of higher class seats sold.

The following graph shows distribution of revenues from passenger transportation by month in the twelve month periods ended 31 December 2013 and 2012:



2.1.3. Other revenues

The following table sets forth other revenue for twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Other revenue	2,908	-31.0%	(1,306)	4,214

Other revenues comprise of items such as: revenue from rent of space in buildings, sale of scrap, repair services and such. Decrease in the twelve month period is mainly caused by the reduced scrap realization and the rent of Tbilisi central station building, which was transferred to the government in April 2012.

2.1.4. Other income

The following table sets forth other income for the twelve month periods ended 31December 2013 and 2012:

	12 month period ended 31December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Other Income	**13,645**	***-55.3%***	***-16,877***	**30,522**
Of which:				
Continuing Operations	13,549	5.3%	678	12,871
Non-Continuing Operations	96	-99.5%	-17,555	17,651

In the twelve month period ended 31 December 2013 other income decreased by 55.3 per cent (GEL 16.9 million), compared to the same period of the previous year. Other income mostly comprises of items such as penalties accrued on debtors or creditors, gain on inventory revaluation, revenue from communication services, revenue for inflicted loss on company from third parties, revenue from the surplus of inventory, revenue from heavy equipment services, revenue from subsidiary companies (namely Trans Caucasus Terminals LLC) and other.

In order to better illustrate the operational profitability of the company, GR divides other income into two categories: income which is reoccurring between the periods due to their nature (for example such are revenue from subsidiary company (TCT), penalties on creditors and debtors, different types of non-core revenues and some other items) – this is classified as income from continuing operations. Second type of other income comes from one time sources, such as provisions, gain/loss on inventory revaluation and other items, which are not expected to reoccur in the following periods.

The decrease in other income was caused by the decrease in non-continuing operations. Non-continuing operations decreased by 99.5 per cent (GEL 17.6 million), which was caused by reversal of guarantee provision made in 2012 (GEL 15.6 million).

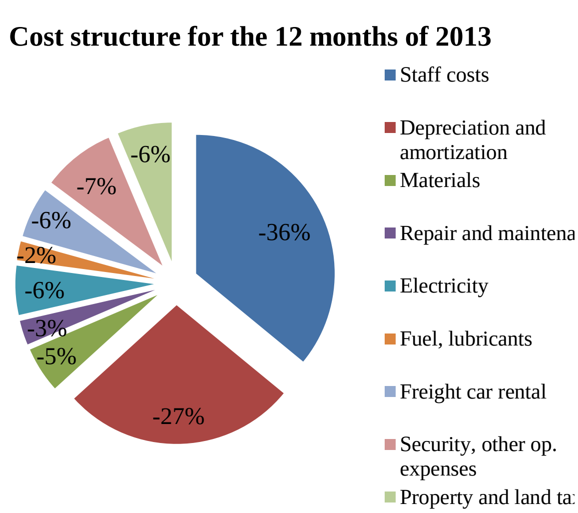
2.2.Operating expenses

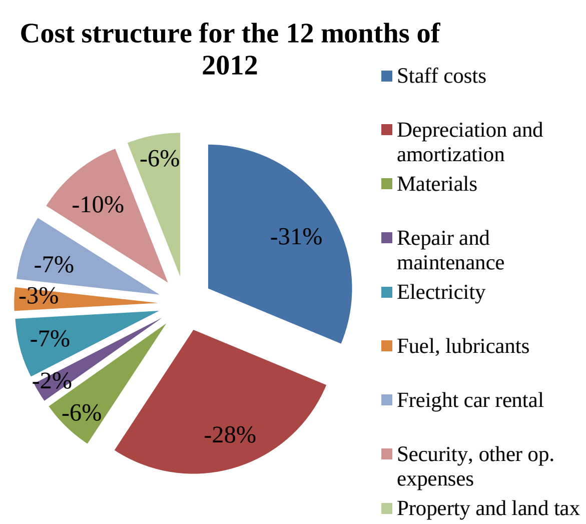
The following table sets forth total expenses of Georgian Railway JSC, excluding Finance Costs, Interest Income/Expense and Profit Tax, for the twelve month periods ended 31 December of years 2013 and 2012:

	12 month period ended 31December			
	2013	***% Change***	**Abs. Change**	**2012**
Staff costs	-133,509	23.1%	-25,042	-108,467
Depreciation and amortization	-101,927	5.0%	-4,845	-97,082
Materials	-19,770	-4.8%	988	-20,758
Repair and maintenance	-10,551	36.5%	-2,822	-7,729
Electricity	-21,236	-8.2%	1,891	-23,127
Fuel, lubricants	-8,160	-10.2%	928	-9,088
Freight car rental	-21,845	-12.8%	3,193	-25,038
Security, other op. expenses	-33,371	-4.5%	1,579	-34,950
Property and land tax	-23,554	13.6%	-2,825	-20,729
Total	**-373,923**	**7.8%**	**-26,955**	**-346,968**

Total expenses for the twelve month period ended 31 December 2013 increased by 7.8 per cent (GEL 27.0 million) compared to the twelve month period ended 31 December 2012, the main reasons for which was the increase in salary expense.

The following charts sets forth the cost structure for the twelve month period ended 31 December of years 2013 and 2012:





2.2.1. Staff cost

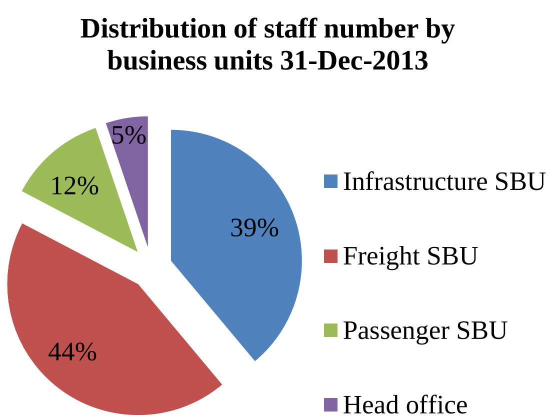
The following table sets forth staff costs for the twelve month periods ended 31 December for years 2013 and 2012:

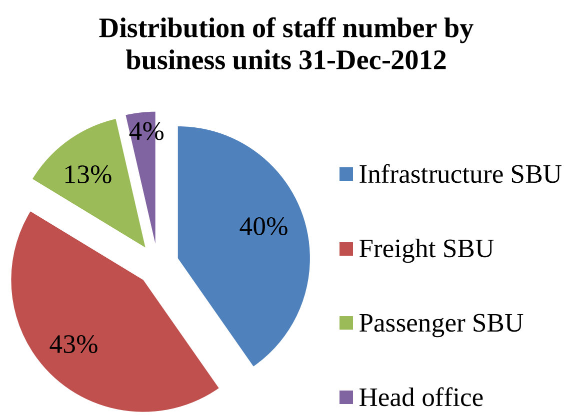
	12 month period ended 31December			
’000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Staff costs	(133,509)	*23.1%*	*(25,042)*	(108,467)

Main reason for increase in staff costs by 23.1% (GEL 25.0 million) was increase in salary expenses at the end of 2012 and in Q1 of 2013. The reason behind this was the faster pace of company’s ranking program. According to the initial plan, number of employees was being reduced, while the average salary was being gradually increased. The increase was applied in a manner that the total salary would stay mostly flat. However, after the elections there was a wave of strikes in the company and country. As a result, by the end of 2012 GR made a decision to complete salary ranking process all at once without staff lay-offs. Respectively, the decision was followed by an increase in salary expense. Currently management withholds from laying off staff because as the Baku-Tbilisi-Kars (BTK) project completion is expected in 2014, operations of BTK require additional staff resources. Management plans to use existing surplus staff for the operations of the new line. This would eliminate the need for lay-offs and rehiring the same staff when the project is done.

Employee number at the ends of September 2012 and December 2013 was equal to 12,494 and 12,665 respectively. Average salary during the year 2013 was GEL 863 compared to GEL 678 in the same period of 2012.

Following charts show the distribution of staff number by strategic business units and head office of the company (excluding subsidiaries):





The following table sets forth average salaries for the twelve month period ended 31 December 2013 and twelve month period ended 31 December 2012:

GEL	12 month period ended 31 December			
	2013	***% Change***	***Abs. Change***	**2012**
Average Salary	863	27.3%	*185*	678

2.2.2. Materials, Repair and Maintenance Expenses

The following table sets forth materials and repair and maintenance expenses for the twelve month period ended 31 December for years 2013 and 2012:

’000 GEL	12 month period ended 31 December			
	2013	***% Change***	***Abs. Change***	**2012**
Materials	-19,770	-4.8%	988	-20,758
Repair and maintenance	-10,551	36.5%	-2,822	-7,729
Total	**-30,321**	**6.4%**	**-1,834**	**-28,487**

Total expense for materials and repair and maintenance services for the twelve month period ended 31 December 2013 increased by 6.4 per cent (GEL 1.8 million) compared to the twelve month period ended 31 December 2012. Materials expenses decreased by 4.8 per cent (GEL 1.0 million). Main reason of the decrease in materials expense was higher number of certain repair types in 2012 conducted internally.

Repair and maintenance expense (repairs received from third parties) increased by 36.5 per cent in twelve months of 2013 compared to the same period in 2012. High expense in 2013 was caused by the higher amount of repairs completed by third parties, namely the replacement of Twin-Heads on freight and passenger railcars.

2.2.3. Electricity and Fuel Expenses

The following table sets forth electricity expense for the twelvemonth periods ended 31December 2013 and 2012:

Electricity Expense:

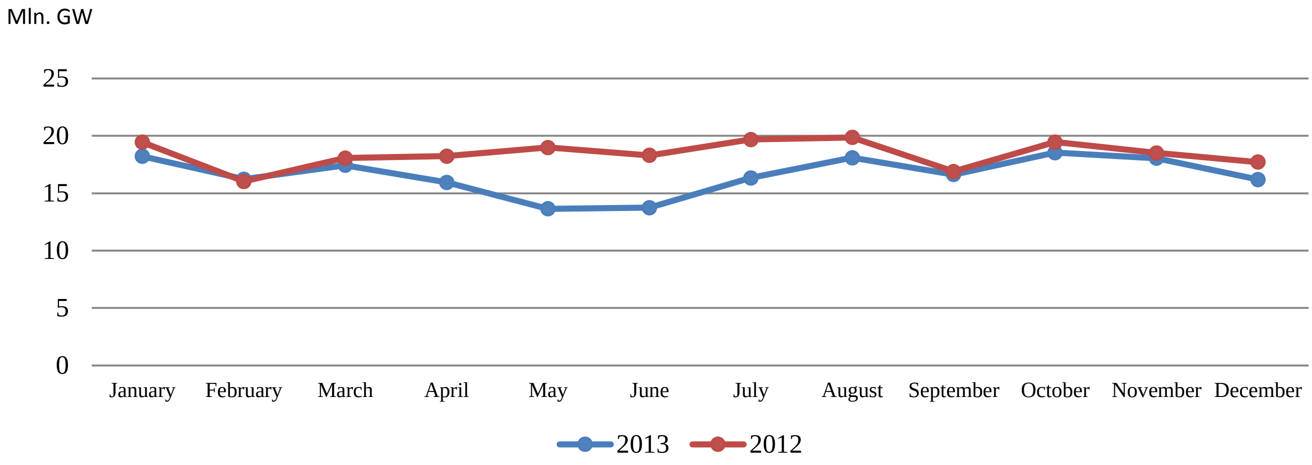
’000 GEL	12 month period ended 31 December			
	2013	***% Change***	***Abs. Change***	**2012**
Electricity	-21,236	-8.2%	1,891	-23,127

Electricity expense for the twelve month period ended 31 December 2013 decreased by 8.2 per cent (GEL 1.9 million) compared to the twelve month period ended 31 December 2012. Change in electricity expense is a function of two major variables: price per purchased KW and consumed electricity, which in the twelve month period ended 31 December 2013 decreased by 8.9 per cent (24.0 GW). Main reason was a decrease in cargo transportation volumes in 2013. The decrease was also caused by the increased average weight of train compositions from an average 2,050 tons to 2,250 tons per composition, which in its turn reduced the average electricity expense per gross ton-km of cargo.

The following table shows purchased electricity for cargo transportation purposes and an average electricity expense per gross ton-kilometer of cargo:

	2013			**2012**		
	GW	**Gross ton km (mln.)**	**GW per gross ton.km (mln.)**	**GW**	**Gross ton km (mln.)**	**GW per gross ton.km (mln.)**
January	18.2	928.2	19.6	19.4	906.8	21.4
February	16.2	835.1	19.4	16.0	726.9	22.0
March	17.4	907.1	19.2	18.1	831.7	21.7
April	15.9	819.7	19.5	18.2	929.0	19.6
May	13.6	675.2	20.2	19.0	938.4	20.2
June	13.7	709.5	19.4	18.3	909.1	20.1
July	16.3	831.1	19.7	19.7	999.0	19.7
August	18.1	940.0	19.2	19.9	997.1	19.9
September	16.6	823.6	20.2	16.9	791.6	21.3
October	18.5	954	19.4	19.5	988	19.7
November	18.0	925	19.5	18.5	961	19.3
December	16.2	759	21.3	17.7	842	21.0
Total	**199.0**	**10,107**	**19.7**	**221.1**	**10,821**	**20.4**

The following graph shows comparison of purchased volumes by months for the twelve month period ended 31 December of years 2013 and 2012:



Fuel expenses:

The following table sets forth fuel expense for the twelve month period ended 31 December for years 2013 and 2012:

	12 month period ended 31 December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Fuel and Lubricants	-8,160	-10.2%	928	-9,088

Fuel and lubricants expense in the twelve month period ended 31 December 2013 decreased by 10.2 per cent compared to the twelve month period ended 31 December 2012. One reason for the decrease was decreased prices per kilogram of fuel purchased. Another reason for the decrease was the decrease in volumes.

2.2.4. Freight car rental expense

The following table sets forth freight car rental expense for the twelve month period ended 31 December for years 2013 and 2012:

	12 month period ended 31 December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Freight car rental	-21,845	-12.8%	3,193	-25,038

Freight car rental expenses for the twelve month period ended 31 December 2013 decreased by 12.8 per cent compared to the twelve month period ended 31 December 2012. The decrease was mainly due to privatization of Ukrainian, Russian and Kazakhstani wagon fleet. With fewer wagons, owned by other railways, the amount of freight car rental expense naturally decreased. Another reason is an expiration of contract in 2013 between Georgian and Ukrainian railways on the exchange of railcars. Ukraine was using Georgian 200 OTB (Open Top Box) railcars in exchange for 200 Tank cars.

2.2.5. Security and other expenses

The following table sets forth security and other operating expenses for the twelve month period ended 31 December for years 2013 and 2012:

	12 month period ended 31 December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Security	-7,776	8.7%	-620	-7,156
Other op. expenses	-25,595	-7.9%	2,199	-27,794
Total	**-33,371**	-4.5%	1,579	**-34,950**

Total security and other operating expenses for the twelve month period ended 31 December 2013 decreased by 4.5 per cent (GEL 1.6 million) compared to the twelve month period ended 31 December 2012. Other operating expenses mainly consist of items such as: municipal, communication, legal costs, consultancy, membership fees, write offs and etc. The decrease in other operating expenses was mainly caused by the decrease in write offs and consultancy fees. The latter was high in 2012 due to the issuance of Eurobonds.

2.2.6. Property and land taxes

The following table sets forth the breakdown of Property and Land taxes for the twelve month periods ended 31December 2013 and 2012:

	12 month period ended 31December			
'000 GEL	**2013**	***% change***	***Abs. change***	**2012**
Property tax	-12,051	*19.6%*	*-1,977*	-10,074
Land Tax	-9,207	*-1.5%*	*142*	-9,349
Other taxes	-2,296	*75.8%*	*-990*	-1,306
Total	**-23,554**	***13.6%***	***-2,825***	**-20,729**

Property tax increased due to the increase in Construction in Progress due to the Modernization and Bypass projects. Other taxes consist of additional expenses for tax purposes and property and land taxes of subsidiaries. Increase in Other taxes is caused by addition of Georgia Transit LLC as a subsidiary company.

2.3. Finance costs and income

The following table sets forth the breakdown of financial costs and income for the twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31 December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Interest income	12,334	*-22.4%*	*-3,568*	15,902
Euro Bond buy-back premium	0	*-100.0%*	*41,178*	-41,178
Impairment loss on trade receivables	-8,904	*15.9%*	*-1,223*	-7,681
Interest expense	-14,251	*36.4%*	*-3,800*	-10,451
FX gain/loss	-34,366	*-1172.6%*	*-37,570*	3,204
Net finance income	**-45,187**	*12.4%*	*-4,983*	**-40,204**

Finance loss in the twelve month period ended 31 December 2013 increased by GEL 4.9 million compared to the twelve month period ended 31 December 2012. Main reason was FX change causing revaluation of company's liabilities denominated in USD (USD appreciated against GEL by 4.8 per cent).

2.4. Income Tax Expense

The following table shows the Income Tax Expense for the twelve month period ended 31 December of years 2013 and 2012:

	12 month period ended 31 December			
'000 GEL	**2013**	***% change***	**Abs. change**	**2012**
Income Tax Expense	-10,960	*-36.9%*	*6,423*	-17,383

Decrease in income tax expense is in line with the decreased income before taxes in the twelve month period ended 31 December 2013.

2.5. Profitability

The following Table show the calculation of EBITDA, EBITDA margin, Adjusted EBITDA and Adjusted EBITDA margin for the twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31December			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Revenues	481,653	2.2%	10,403	471,250
Other income	13,645	-55.3%	-16,877	30,552
Expenses	-373,923	7.8%	-26,955	-346,968
Result from Operating Activities	**121,375**	**-21.6%**	**-33,428**	**154,804**
Depreciation add-back	101,927	5.0%	4,845	97,082
EBITDA	**223,302**	**-11.3%**	**-28,584**	**251,886**
EBITDA Margin	**46.5%**			**53.6%**
Non-continuing operations from other income	-96	-99.5%	17,555	-17,651
Write-offs	5,983	-59.5%	-8,802	14,785
Adjusted EBITDA	**229,190**	**-8.0%**	**-19,830**	**249,020**
Adjusted EBITDA Margin	**47.8%**			**53.0%**

Adjusted EBITDA for the twelve month period ended 31 December 2013 amounted to GEL 229.2 million, representing a decrease of 8.0 per cent (GEL 19.8 million) compared to the same period of the previous year. Adjusted EBITDA margin reached 47.8 per cent, compared to the 53.0 per cent for the twelve month period ended 31 December 2012. Decrease was mainly caused by increase in salary expenses by GEL 25.0 million, which was partly compensated by increase in revenues by GEL 10.0 million.

3. Cash flows

’000GEL	12 month period ended 31 December 2013	12 month period ended 31 December 2012
Cash flows from operating activities		
Cash receipts from customers	475,455	470,826
Tax refund (VAT)	7,500	23,000
Cash paid to suppliers and employees	(240,401)	(245,997)
Cash flows from operations before income taxes and interest paid	**242,554**	**247,828**
Income tax paid	(23,751)	(8,220)
Net cash from operating activities	**218,803**	**239,608**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(148,660)	(398,135)
Purchase of a company share	(48)	-
Decrease/Increase in term deposits	95,525	(23,873)
Increase in restricted cash	-	2,963
Interest received	16,764	11,300
Net cash used in investing activities	**(36,419)**	**(407,746)**
Cash flows from financing activities		
Proceeds from borrowings	-	396,182
Repayment of borrowings	(32)	(635)
Interest paid	(69,764)	(22,915)
Dividends paid	(25,000)	(150,725)
Distribution of cash to owners	-	(3,101)
Net cash from /(used in) financing activities	**(94,797)**	**218,806**
Net increase/(decrease) in cash and cash equivalents	**87,587**	**50,669**
Cash and cash equivalents at 1 January	115,076	61,553
Effect of exchange rate fluctuations on cash and cash equivalents	6,334	2,854
Cash and cash equivalents at 31 December	**208,996**	**115,077**
Bank deposits	-	100,322
Total Cash and cash equivalents	**208,996**	**215,398**

3.1. Net cash from operating activities

The following table shows cash from operating activities for the twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31December			
’000GEL	**2013**	**% change**	**Abs. Change**	**2012**
Cash flows from operating activities				
Cash receipts from customers	475,455	1.0%	4,629	470,826
Tax refund (VAT)	7,500	-67.4%	(15,500)	23,000
Cash paid to suppliers and employees	(240,401)	-2.3%	5,596	(245,997)
Cash flows from operations before income taxes and interest paid	**242,554**	**-2.1%**	**(5,274)**	**247,828**
Income tax paid	-23,751	188.9%	(15,531)	-8,220
Net cash from operating activities	**218,803**	**-8.7%**	**(20,805)**	**239,608**

Net cash from operating activities in the twelve month periods ended 31 December 2013 has decreased by 8.7 per cent (GEL 20.8 million) compared to the same period in 2012. This was mainly caused by the decrease in VAT refund by 67.4 per cent (GEL 15.5 million) and by an increase in income tax paid by GEL 15.5 million. The decrease of net cash from operating activities was partly offset by the decrease in cash paid to suppliers and employees by 2.3 per cent (GEL 5.6 million) and by increase in cash receipts from customers by 1 per cent (GEL 4.6 million).

Decrease in VAT refunded was caused by the fact that in 2013, Georgian Railway used a portion of its VAT surplus in order not to pay other taxes, such as employee income tax and other. This subsequently caused lower refunds of VAT and decrease in cash paid to suppliers and employees.

3.2. Net cash used in investing activities

The following table shows cash from investing activities for the twelve month periods ended 31 December 2013 and 2012:

	12 month period ended 31December			
Cash flows from investing activities	**2013**	**% change**	**Abs. Change**	**2012**
Acquisition of property, plant and equipment	-148,660	-62.7%	249,475	-398,135
Purchase of a company share	-48	100.0%	-48	-
Decrease/Increase in term deposits	95,525	-500.1%	119,398	-23,873
Increase in restricted cash	-	100.0%	-2,963	2,963
Interest received	16,764	48.4%	5,464	11,300
Net cash used in investing activities	**-36,419**	**-91.1%**	**371,327**	**-407,746**

Net cash used in investing activities has decreased by 91.1 per cent (GEL 371.3 million), which was mainly caused by decrease in acquisition of property, plant and equipment by 62.7 per cent (GEL 249.5 million).

Total decrease of net cash used was also caused by the decrease in net cash from term deposits by GEL 119.4 million, which represents just a reclassification of term deposits to cash and cash equivalents and does not have an impact on company's total cash.

Cash paid for Bypass project was GEL 26.4 million in the twelve month periods ended 31 December 2013 and GEL 148.8 million in the twelve month periods ended 31 December 2012. Cash paid for Modernization Project was GEL 47.9 million in the twelve month periods ended 31 December 2013 and GEL 107.1 million in the twelve month periods ended 31 December 2012.

3.3 Net cash used in financing activities

The following table shows cash from financing activities for the twelvemonth periods ended 31 December 2013 and 2012:

	12 month period ended 31 December			
Cash flows from financing activities	**2013**	**% change**	**Abs. Change**	**2012**
Interest paid	-69,764	204.45%	-46,849	-22,915
Dividends paid	-25,000	-83.41%	125,725	-150,725
Repayment of borrowings	-32	-94.96%	603	-635
Proceeds from borrowings	-	-100%	-396,182	396,182
Distribution of cash to owners	-	-100%	3,101	-3,101
Net cash used in financing activities	**(94,797)**	**-143.3%**	**(313,603)**	**218,806**

The Company's total net cash used in financing activities decreased by 143.3 per cent (GEL 313.6 million). This was mainly caused by decrease in proceeds from borrowings of GEL 396.2 million and increase in interest paid by GEL 46.9 million. The total decrease was partly offset by decrease in dividends paid by 83.4% (GEL 125.7 million). The reason behind this is the increased amount of debt due to the new issue of Eurobonds (USD 500 million), which was partly offset by the tender of old Eurobond issue: 88.9 per cent of USD 250 million was bought back by the company alongside with the new bond issue.

Company's dividend payments are restricted by its covenants for the bonds, according to which starting from 2013, 50% of previous year's consolidated net income is the maximum amount that can be paid in any given year. In 2013 has made a dividend distribution of GEL 25 million.

4. Balance Sheet

’000GEL	31-Dec 2013	% change	Abs. change	31-Dec 2012
ASSETS				
Non-current assets				
Property, plant and equipment	2,347,187	7%	149,952	2,197,235
Deferred tax assets	1,558	0%	0	1,557
Other non-current assets	180,908	-36%	-99,976	280,884
Total non-current assets	**2,529,653**	**2%**	**49,976**	**2,479,676**
Current assets				
Inventories	43,059	21%	7,488	35,571
Current tax assets	11,689	100%	11,689	0
Trade and other receivables	52,402	33%	13,149	39,253
Prepayments and other current assets	39,429	-36%	-22,219	61,648
Total cash and cash equivalents	208,996	-3%	-6,401	215,397
Total current assets	**355,575**	**1%**	**3,705**	**351,869**
Total assets	**2,885,228**	**2%**	**53,681**	**2,831,545**
EQUITY AND LIABILITIES				
Equity				
Share capital	1,050,075	0%	324	1,049,751
Non-cash owner contribution reserve	31,673	0%	0	31,673
Retained earnings	487,379	8%	38,003	449,376
Total equity	**1,569,127**	**3%**	**38,327**	**1,530,800**
Non-current liabilities				
Loans and borrowings	913,194	5%	42,260	870,934
Advance received from the Government	231,592	0%	0	231,592
Trade and other payables	52	0%	0	52
Deferred tax liabilities	58,436	2%	1,134	57,302
Total non-current liabilities	**1,203,274**	**4%**	**43394**	**1,159,880**
Current liabilities				
Loans and borrowings	33,747	1%	327	33,420
Trade and other payables	56,161	-31%	-25,484	81,645
Liabilities to Government	11,917	-8%	-1,039	12,956
Provisions	6,155	49%	2,023	4,132
Current tax liabilities	0	-100%	-1,542	1,542
Other current liabilities	4,847	-32%	-2323	7,170
Total current liabilities	**112,827**	**-20%**	**-28,038**	**140,865**
Total liabilities	**1,316,101**	**1%**	**15356**	**1,300,745**
Total equity and liabilities	**2,885,228**	**2%**	**53,683**	**2,831,545**

4.1. Non-current Assets

The following table sets forth breakdown of non-current assets as of 31 December 2013 and 2012:

'000GEL	**31 Dec 2013**	**% change**	**Abs. change**	**31 Dec 2012**
ASSETS				
Property, plant and equipment	2,347,187	7%	149,952	2,197,235
Other non-current assets	180,862	-36%	-100,022	280,884
Deferred tax assets	1,558	0%	0	1,557
Goodwill	46	100%	46	0
Total non-current assets	**2,529,653**	**2%**	**49,976**	**2,479,676**

Total non-current assets increased by 2 per cent (GEL 50.0 million) as at 31 December 2013, comparing to 31 December 2012. The increase was mainly caused by increase in property, plant and equipment by 7 per cent (GEL 150.0 million). This increase was due to increase of construction in progress within the framework of Modernization and Tbilisi Bypass project, as well as acquisition of other railway assets. Total increase of non-current assets was offset by the decrease in other non-current assets by 36 per cent (GEL 100.0 million) caused by the decrease in prepayments for wagon repairs, due to completed works and the completion of some parts of Modernization project, which were previously classified as other non-current assets.

4.2. Current Assets

The following table sets forth breakdown of current assets as of 31 December 2013 and 2012:

'000GEL	**31 Dec 2013**	**% change**	**Abs. change**	**31 Dec 2012**
Inventories	43,059	21%	7,488	35,571
Current tax assets	11,689	100%	11,689	0
Trade and other receivables	52,402	33%	13,149	39,253
Prepayments and other current assets	39,429	-36%	-22,219	61,648
Total cash and cash equivalents	208,996	-3%	-6,401	215,397
Total current assets	**355,575**	**1.1%**	**3,706**	**351,869**

Total current assets at the 31December 2013 is persisted at the same level compared to the 31 December 2012. Increase in Inventories, Current tax assets and Trade and other receivables were offset by decrease in Prepayments and other current assets. Increase in inventories is mainly caused by the increase in materials, which by itself was caused by purchasing component parts of railcars for approximately 500 railcars. Trade and other receivables consist of items such as Trade receivables, Payments receivable from foreign railroads and other. Increase in Trade and other receivables was caused by trade receivables and receivables from foreign railways. Decrease in prepayments and other current assets are due to the completed works for existing advance payments, mainly by one contractor – Georgian wagon building factory.

4.3. Equity

The following table sets forth breakdown of equity as of 31 December 2013 and 2012:

’000GEL	**31 Dec 2013**	**% change**	**Abs. change**	**31 Dec 2012**
Share capital	1,050,075	0%	324	1,049,751
Non-cash owner contribution reserve	31,673	0%	1	31,673
Retained earnings	487,379	8%	38,003	449,376
Total equity	**1,569,127**	**3%**	**38,327**	**1,530,800**

Total equity increased by 3 per cent (GEL 38.0 million) as at the 31December 2013, comparing to the 31 December 2012. The increase was caused by an increase in retained earnings by 8 per cent (GEL 38.0 million).

4.4. Non-current liabilities

The following table sets forth breakdown of non-current liabilities as of 31 December 2013 and 2012:

'000GEL	**31Dec 2013**	**% change**	**Abs. change**	**31 Dec 2012**
Loans and borrowings	913,194	5%	42,260	870,934
Advance received from the Government	231,592	0%	0	231,592
Trade and other payables	52	0%	0	52
Deferred tax liabilities	58,436	2%	1,134	57,302
Total non-current liabilities	**1,203,274**	**4%**	**43,394**	**1,159,880**

Total increase in non-current liabilities was 4 per cent as of 31 December 2013, compared to 31 December 2012. Increase in loans and borrowings was caused by the difference in USD/GEL exchange rate, as the liabilities are mostly in USD.

GEL 231.6 million relating to the advances received from the government, represent the amount for which the company has made an agreement with the government of Georgia in year 2012, that when the Bypass project is completed, the company would transfer the freed-up land to the government. In return, the amount of GEL 231.6 million would be subtracted from the retained earnings of the company. The subtraction is already made, however the project is not yet completed and the land remains with the company. Thus the amount is shown in the balance sheet as a liability. As already stated, Bypass project is negotiated to be postponed for about 3 years. In case the project is cancelled, the liability indicated in the balance sheet will be added back to the retained earnings of the company, without any monetary effect for the company.

4.5. Current liabilities

The following table sets forth breakdown of current liabilities as of December 31 2013 and 2012:

’000GEL	31Dec 2013	% change	Abs. change	31 Dec 2012
Loans and borrowings	33,747	1%	327	33,420
Trade and other payables	56,161	-31%	-25,484	81,645
Liabilities to Government	11,917	-8%	-1,039	12,956
Provisions	6,155	49%	2,023	4,132
Current tax liabilities	0	-100%	-1,542	1,542
Other current liabilities	4,847	-32%	-2323	7,170
Total current liabilities	**112,827**	**-20%**	**-28,038**	**140,865**

Total current liabilities decreased by 20 per cent (GEL 28.0 million) as at the 31December 2013, compared to the 31 December 2012, which was caused by the decrease in trade and other payables by GEL 25.5 million. Decrease in trade and other payables was caused by the payments made to Chines 23rd bureau Group and Khidmsheni JSC (GEL 20.9 million), for the completed works on Bypass and Modernization project in previous periods.

5. Operational Performance Report

5.1. Traffic report

5.1.1. Freight traffic data

The following table sets forth breakdown of the freight transportation volumes, by type of freight transported, for the twelve month periods ended 31 December 2013 and 2012:

Ton, Millions	**12 month period ended 31December**			
	2013	***% Change***	***Abs. Change***	**2012**
Liquid Cargoes	**9.09**	**-4.0%**	**-0.38**	**9.47**
of which:				
Crude Oil	3.96	-16.1%	-0.76	4.72
Oil Products	5.13	8.0%	0.38	4.75
Dry Cargoes	**9.10**	**-14.2%**	**-1.51**	**10.61**
of which:				
Grain	0.95	-33.1%	-0.47	1.42
Construction Freight	1.41	-11.3%	-0.18	1.59
Cement	0.64	-4.5%	-0.03	0.67
Industrial Freight	0.55	-22.5%	-0.16	0.71
Ferrous Metals and Scrap	0.93	-15.5%	-0.17	1.10
Ores	1.96	-10.1%	-0.22	2.18
Sugar	0.61	-11.6%	-0.08	0.69
Chemicals, fertilizers	0.48	-5.9%	-0.03	0.51
Other	1.57	-9.2%	-0.16	1.73
Total	**18.19**	**-9.4%**	**-1.89**	**20.08**

In the twelvemonths of 2013 total freight transportation volumes decreased by 9.4 per cent, compared to the same period of the previous year. The decrease was mainly caused by the decrease in dry cargo transportation by 14.2 per cent (1.51 million tons) which in its turn was due to the decrease in Grain, Industrial freight, Construction freight, Ore transportation and Ferrous metals and Scrap.

High existing stocks of grain in the region at the end of 2012 temporarily eliminated the need for additional grain transportation to this direction; temporary import of low cost flour from Turkey combined with the high prices on grain on the international market also caused the decrease for this category of cargo.

Construction freight transportation decreased by11.3 per cent (0.18 million tons) and industrial freight decreased by 22.5 per cent (0.16 million tons) compared to year 2012. Management estimates that the reason for the decreased transportation in construction and industrial freight was temporary stoppage of some construction projects in the country following parliamentary elections on October 1 2012. Demand on these products was lower caused by slow-down of some big construction projects within the country.

Ferrous metals and Scrap transportation decreased by 15.5 % (0.17 million tons). Main exporters of ferrous metals and scrap are Georgia and Armenia. In 2013 scrap transportation from these directions decreased, due to the fact that previously exported scrap is now used for domestic manufacturing process.

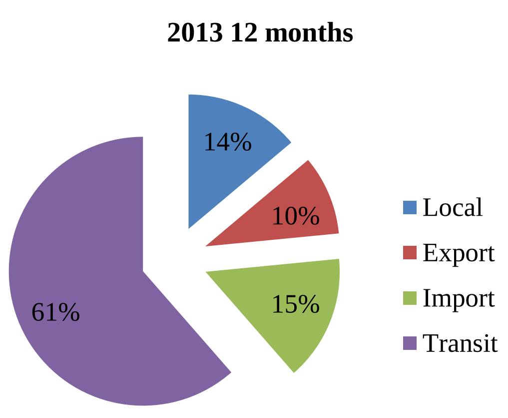
Transportation of Ores in 2013 decreased by 10.1% (0.22 million tons). The main reason of the decrease was the changes in aluminum manufacturing processes in factories of Azerbaijan. Previously, during manufacturing processes factories were using bauxite, while in the end of year 2012 they started to use aluminum oxide instead of bauxite. Due to the fact that manufacturing process requires lower level of aluminum oxide compared to bauxite, transportation volume in tons decreased. Another reason for the decrease was decreased amount of aluminum production within factories, due to low prices on aluminum.

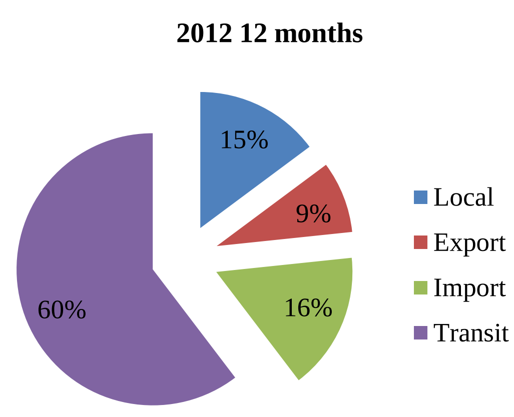
The following table sets forth the breakdown of freight transportation volumes by types of freight transported by quarters in 2013:

Tons, Millions	**Q1 2013**	**Q2 2013**	**Q3 2013**	**Q4 2013**
Liquid Cargoes	**2.5**	**1.97**	**2.2**	**2.42**
of which				
Crude Oil	1.31	0.65	0.88	1.11
Oil Products	1.18	1.32	1.32	1.3
Dry Cargoes	**2.05**	**2.24**	**2.45**	**2.36**
of which				
Grain	0.12	0.11	0.34	0.38
Construction Freight	0.32	0.43	0.33	0.33
Cement	0.13	0.21	0.17	0.13
Industrial Freight	0.13	0.15	0.15	0.12
Ferrous Metals and Scrap	0.26	0.24	0.23	0.19
Ores	0.48	0.48	0.49	0.51
Sugar	0.1	0.14	0.19	0.18
Chemicals, fertilizers	0.11	0.09	0.16	0.12
Other	0.41	0.39	0.37	0.4
Total	**4.55**	**4.21**	**4.65**	**4.78**

Main contributor of increase in the Q4 is Crude Oil and Grain. Crude oil increased due to the renewal of operations on the oil field in Kazakhstan and new source of crude oil (Zhanazhol oil field). Grain and sugar transportation rose due to the increased demand.

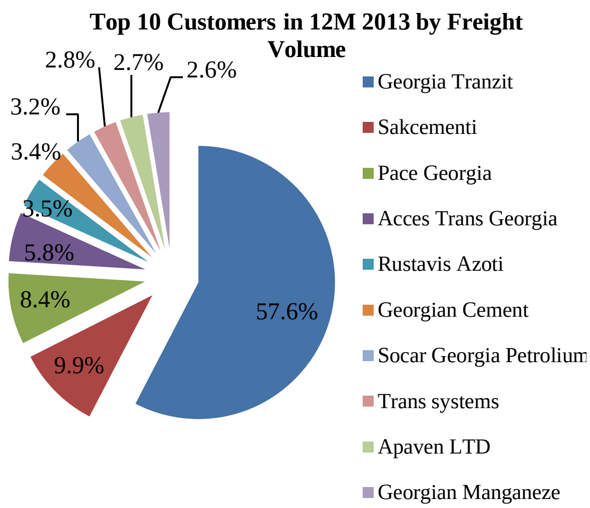
The following graphs show the freight transportation volumes by type of transportation:



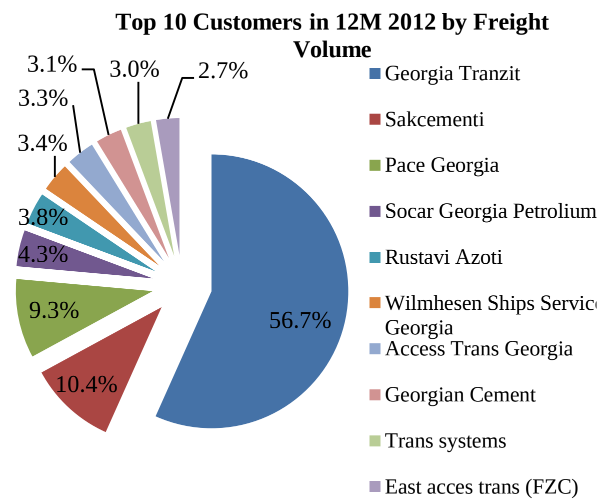


Top 10 freight customers in twelvemonth periods ended 31 December 2013 and 2012:

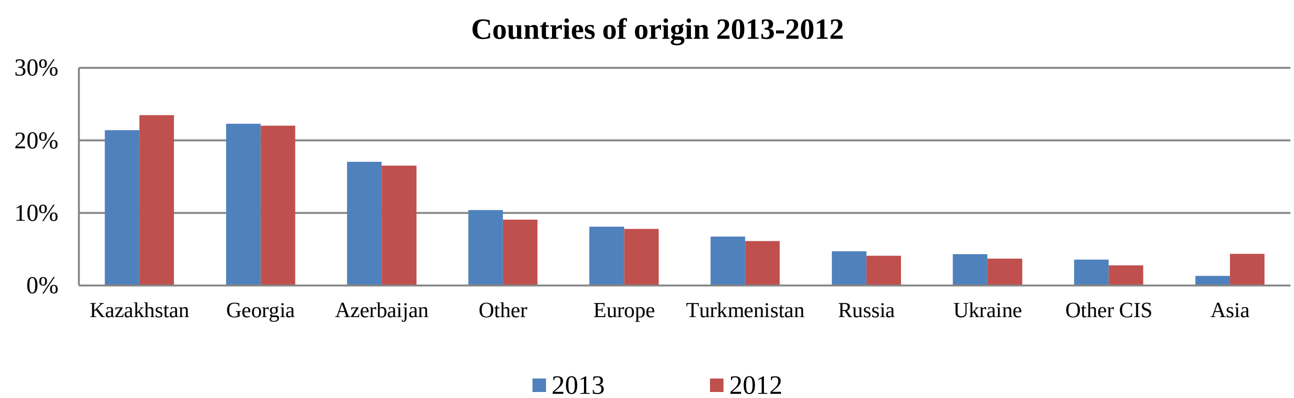
In twelve month 2013 top ten freight customers transported 69.5% (12.6 million ton) of total freight volume – 18.2 million ton:



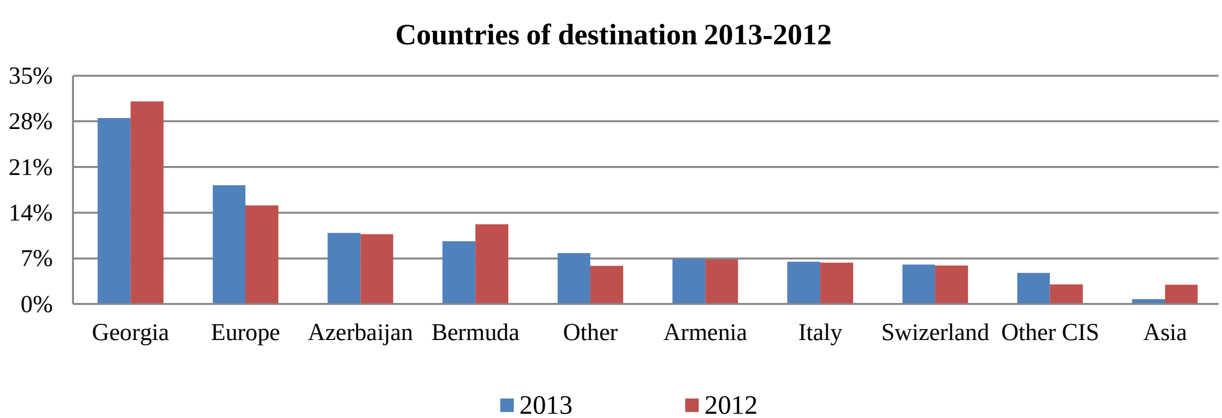
In twelve month 2012 top ten freight customers transported 67.8% (13.6 million ton) of total freight volume – 20.1 million ton:



The following graphs show the breakdown of countries of origin of freight transported:



The following graphs show the breakdown of countries of destination of freight transported:



5.1.2. Freight transportation tariffs

The following table sets forth average revenue per thousand ton-kilometers by quarters 2013-2012:

'USD per 1,000 ton-km	**Q1 2012**	**Q2 2012**	**Q3 2012**	**Q4 2012**	**Q1 2013**	**Q2 2013**	**Q3 2013**	**Q4 2013**
Crude oil	22.2	22.5	26.1	26.3	26.4	28.9	28.7	32.5
Oil products	38.4	38.7	41.0	40.2	38.9	46.1	50.2	47.3
Dry	38.8	41.2	40.8	40.7	40.0	38.7	41.8	42.4

Starting from February 2013, Georgian Railway has increased its base tariffs for transportation by 3 per cent. This does not have its effect on discounted transportation of liquid cargo as the tariffs set there remained the same.

Average revenue per 1,000 ton-km of crude oil remained practically the same between Q1 2013 and Q4 2012. But from Q2 2013 average revenue increased mainly due to the consolidation of Georgian Transit LLC into the revenue of the Company (from April 2013).

Average revenue on oil products in Q4 2013 increased to USD 47.3 compared to previous periods. Increase was mainly caused by the increased usage of Georgian Railway's railcars for transportation of oil products. Namely 30.3 per cent of total oil products were transported with GR's railcars in FY 2012, while in the twelve month period of 2013 the GR's share was 40.9 per cent. Due to the fact that transportation with Company's own railcars has a higher tariff, average revenue increased. Also from Q2 2013, Georgia Transit was consolidated into the revenues of the company, thus increasing the average revenue. Increase from Q2 2013 to Q4 2013 was mainly caused by the increase of tariff margin by approximately USD 1.6 per ton by Georgia Transit on transportation of oil & oil products, starting from May 2013. Comparing Q4 2013 to Q3 2013, the decrease in oil products average tariff was caused by change in oil products mix.

Average revenue per 1,000 ton-km of dry cargo in the twelve months of 2013 increased by 4.2 per cent compared to Q4 2012. The reason is the change in dry cargo mix and directions, because one of the components of transportation tariffs is transportation length and direction. It must be noted that when calculating average revenue per 1,000 ton-km in the above table, company has subtracted revenue from transportation of empty wagons owned by private companies, which generally is classified as transportation of dry cargo however does not count as transported tons and has no impact on ton-kilometers. Such revenue has increased by 17.8 per cent (GEL 0.82 million) when comparing twelve months of 2013 to the same period in 2012 due to increased share of privatized railcars.