Management Discussion and Analysis of H1 2012 Results

1. Executive Summary

Net income of Georgian Railway JSC for six-month period ended 30 June 2012 amounted to GEL37.4 mln compared to GEL 93.6 mln in the first half of 2011, representing a decrease of 60%. It should be noted that operating expenses included the disposal of Batumi Tower with the amount of GEL 33.6m million. Revenues increased by 0.5% to GEL 225.1 mln, whereas operating expenses (excluding depreciation and disposal of Batumi Tower) decreased by 8.4%. Adjusted EBITDA (earnings before interest, tax, depreciation and amortization) in H1 2012 amounted to GEL 124.7 mln compared to GEL 118.0m in H1 2011.

The main contributor to revenue growth was increase in freight car rental revenue, which was caused by the increased usage of GR's owned railcars by other railways. Revenue from freight traffic in H1 2012 decreased by 1.5% compared to the same period of 2011. The decrease was principally caused by the decrease in Liquid Cargo volumes.

Decrease in expenses was mainly due to the decrease in payroll and repair expenses. Payroll expense in H1 2012 was GEL 50.2 compared to the GEL 52.8 in H1 2011. The decrease in payroll expenses was caused by the reduction in employee number. Repair and maintenance cost is not equally distributed among the quartiles during the year, therefore it is not comparable to the same period of the previous year. In addition the most part of repairs were made internally, instead of external repairs.

1. Profit & Loss Statement

Net income amounted to GEL 37.4 m in H1 2012 compared to GEL 93.6 m in H1 2011.

	H1			
’000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Revenues	225,130	0.5%	1,015	224,115
Other income	12,333	59.5%	4,600	7,733
Payroll expenses	-50,186	-4.9%	2,585	-52,771
Depreciation and amortization expense	-52,675	13.8%	-6,398	-46,277
Electricity and materials used	-24,553	9.8%	-2,198	-22,355
Other expenses	-64,068	61.5%	-24,389	-39,679
Result From Operating Activities	**45,981**	**-35.0%**	**-24,785**	**70,766**
Finance Income	11,229	-72.6%	-29,710	40,939
Finance Cost	-6,248	159.6%	-3,841	-2,407
Net finance income/(cost)	**4,981**	**-87.1%**	**-33,551**	**38,532**
Profit before income tax	**50,962**	**-53.4%**	**-58,336**	**109,298**
Income tax	-13,544	-13.9%	2,192	-15,736
Net income	**37,418**	**-60.0%**	**-56,144**	**93,562**
EBITDA (adjusted)	**124,702**	***5.6%***	***6,665***	**118,037**
EBITDA Margin	**43.80%**		***7.40%***	**52.20%**
Adjusted EBITDA margin	**55.40%**		***4.10%***	**52.70%**

Expenses of H1 2012 include the disposal of Batumi Tower with the amount of GEL 33 million and expenses of H1 2011 include the write-off of property plant and equipment with the amount of GEL 4.1 million. Adjusted EBITDA of Georgian Railway for the six-months period ended 30 June 2012 increased by 5.6% (GEL 6.7 million) compared to the same period in the previous year.

2. P&L Analysis

Results for revenues and expenses of H1 2012 presented in this section (and in other sections) include revenues and expenses of subsidiaries of Georgian Railway JSC.

2.1 Revenues

Revenues in H1, 2012 amounted to GEL 225.1m (not including other income) which is by 0.5% higher than in the same period of the previous year. Revenue from freight transportation increased by 1.0% (GEL 1.7 million) which was caused by the increase in dry cargo transportation and increase in tariffs for liquid cargo transportation. The increase was offset by decrease in liquid cargo transportation. Revenue from freight car rental increased by 24.3% (GEL 4.9 million), which was caused by the increased usage of GR's owned railcars by other railways. Passenger revenues increased by 16.0% (GEL 1.0 million) due to the additional railcars and improved services. Other revenues decreased by 45% (GEL 2.1 million) which was caused by the delay in scrap realisation.

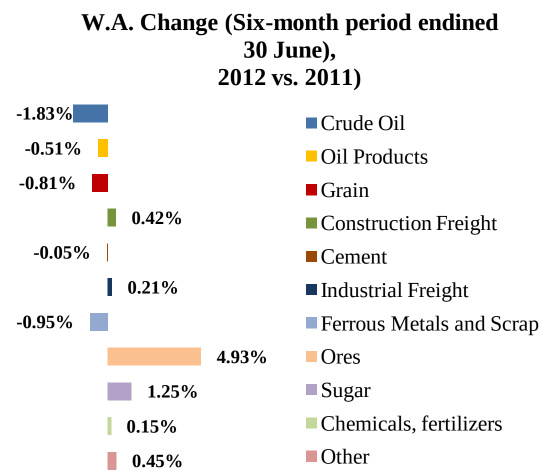
The following tables set forth revenue breakdown and comparison of 6 month-periods ended 30 June 2012 and 2011:

	H1			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Freight transportation	164,086	*1.0%*	*1,659*	162,427
Freight handling	25,708	*-14.9%*	*(4,506)*	30,214
Freight car rental	25,258	*24.3%*	*4,937*	20,321
Passenger transportation	7,502	*16.0%*	*1,032*	6,470
Other revenue	2,576	*-45.0%*	*(2,107)*	4,683
Total Revenue	**225,130**	***0.5%***	***1,015***	**224,115**
Other Income	**12,333**	***59.5%***	***4,600***	**7,733**

2.1.1. Freight revenues

Freight transportation revenues:

Freight transportation revenues increased by GEL 1.7m or by 1.0% in H1 2012 compared to the same period of the previous year. For the H1 2012 year freight transportation revenues, liquid cargoes contributed ca. 47.9% and dry cargoes ca. 52.1%.The chart to the right depicts weighted (by weight of each type of freight in total freight transportation revenues) average change in freight transportation revenues by types of freight for six-month period ended 30 June 2012 and 2011:



The types of freight that positively contributed to the six-month period-over-period change in freight transportation revenue were Sugar and Ores. Revenue from transportation of Ores and Sugar increased by GEL 5.8m and GEL 1.6 m respectively in H1 2012 compared to the same period of the previous year.

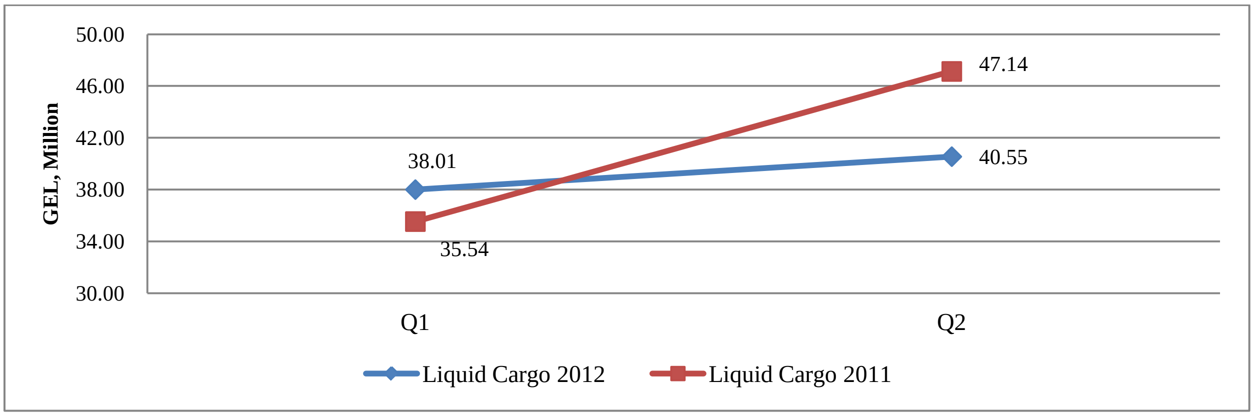
The following table sets forth freight transportation revenue by types of freight for the six-month periods ended 30 June 2011 and 2012:

GEL, Millions	**H1**			
	2012	***% Change***	***Abs. Change***	**2011**
Liquid Cargoes	**78,56**	*-5%*	*-4.12*	**82,68**
of which				
Crude Oil	32,98	*-9%*	*-3.27*	36,25
Oil Products	45,59	*-2%*	*-0.84*	46,43
Dry Cargoes	**85,52**	*7%*	*5.77*	**79,75**
of which				
Grain	10,14	*-13%*	*-1.51*	11.65
Construction Freight	5,20	*6%*	*0.6*	4.6
Cement	1,32	*-6%*	*-0.08*	1.4
Industrial Freight	4,16	*8%*	*0.31*	3.85
Ferrous Metals and Scrap	8,61	*-18%*	*-1.88*	10.49
Ores	20,89	*38%*	*5.78*	15.11
Sugar	7,71	*26%*	*1.61*	6.1
Chemicals, fertilizers	5,67	*4%*	*0.24*	5.43
Other	21,83	*3%*	*0.7*	21.13
Total	**164,09**	*1,0%*	*1.67*	**162,42**

Liquid cargo revenues:

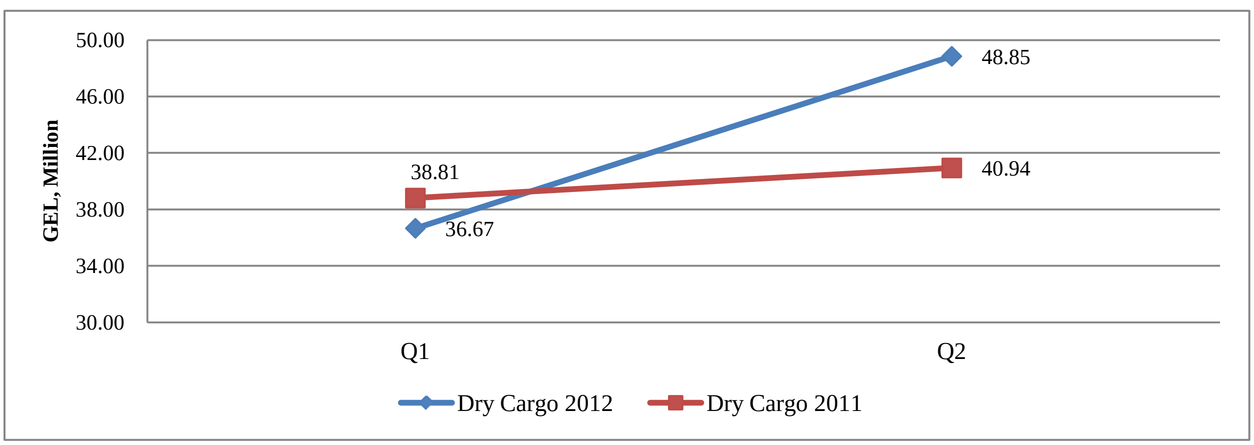
Liquid cargo volumes decreased by 14.1% (0.75 mtn) in H1 2012 compared to the same period of previous year. Revenue from transportation of liquid cargo decreased by 5%, which was caused by the deficit of tank cars. The disproportional change between freight volumes and freight revenues was caused by the increase in freight tariffs on Liquid Cargo (as well as for Dry Cargo) transportation since February 2012. Since July 1 2012 the company decreased volume discount by USD1.5 per ton for Crude Oil and USD1 per ton of Oil products.

The following graph shows distribution of revenues from liquid cargo transportation by quarters, for six-month periods ended 30 June 2011 and 2012:



Dry cargo revenues:

The following graph shows distribution of revenues from dry cargo transportation by quarters in H1 2011 and H1 2012:



Dry cargo volumes in six-month period ended 30 June 2012 increased by 19.7% and revenues increased by 7% compared to the same period of the previous year.

Freight handling and freight car rental revenues:

The following table sets forth the revenues from freight handling and freight car rental for the periods ended 30 June 2011 and 2012:

	H1			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Freight handling	25,708	*-14.9%*	*(4,506)*	30,214
Freight car rental	25,258	*24.3%*	*4,937*	20,321

Revenue from freight handling decreased by 14.9% (GEL 4.5m) in six-month period ended 30 June 2012 compared to the same period of the previous year. This is mostly attributable to the decrease of penalties for the delay of the railcars by clients, as the clients began to operate with more efficiency and less delays. Revenue from freight car rental increased by 24.3% (GEL 4.9m) in H1 2012 compared to the H1 2011. The increase was primarily due to the increased usage of company's own railcars by other railways.

2.1.2 Passenger revenues

The following table sets forth the revenues from passenger transportation for H1 2011 and H1 2012:

	H1			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Passenger revenues	7,502	*16.0%*	*1,032*	6,470

Passenger revenues increased by 16% (GEL 1.0m) in the six-month period ended 30 June 2012 compared to the same period of the previous year, which was caused by the increased quality of service provided and additional railcars.

2.1.3 Other revenues

Other revenues comprise such items as: revenue from rent of space in buildings, sale of scrap, repair services and such. Decrease in three-month period ended 30 June 2012 compared to the same period of 2011 was caused by the delay of scrap realization to the later periods.

	H1			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Other revenue	2,576	*-45.0%*	*(2,107)*	4,683

2.1.4. Other income

Other income mostly comprises such revenues as: penalties accrued on trade debtors or creditors, gain on inventory revaluation, revenues from communication services, revenue for inflicted loss on company from third parties, and other. In H1 2012 other income increased by 59.5% (GEL 4.6 million), compared to the same period of previous year. The increase was caused by the increase in income from non-continuing operations by 148.4% (GEL 4.6 million).

	H1			
’000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Other Income	**12,333**	***59.50%***	***4,600***	**7,733**
Of which:				
Continuing Operations	4,684	0.70%	31	4,653
Non-Continuing Operations	7,649	148.40%	4,569	3,080

2.2 Operational expenses

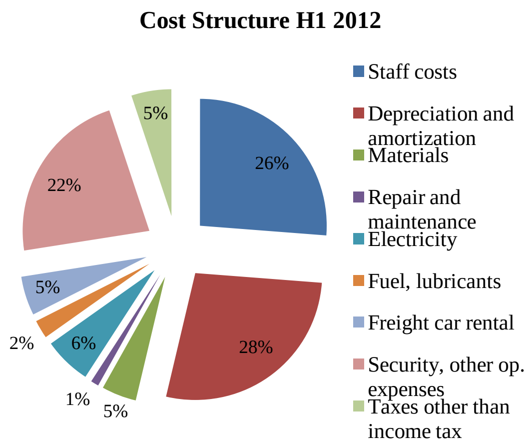
2.2.1 Main operational expenditure items

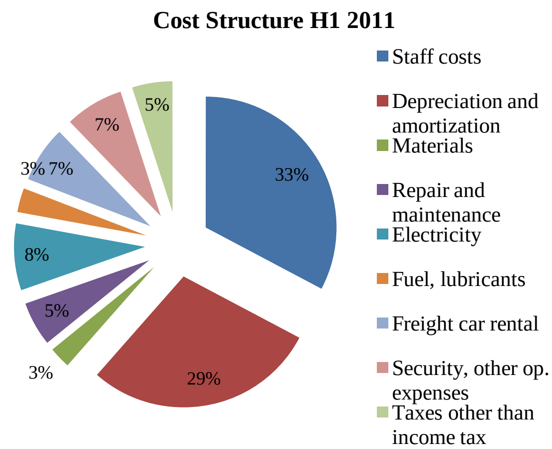
The following table sets forth total expenses of Georgian Railway JSC, excluding Finance Costs, Interest Income/Expense and Profit Tax, for the six-month periods ended 30 June of 2011 and 2012:

	H1			
’000 Gel	**2012**	*% Change*	ABS. Change	**2011**
Staff costs	(50,186)	*-5%*	*-2,585*	(52,771)
Depreciation and amortization	(52,675)	*14%*	*6,398*	(46,277)
Materials	(8,480)	*97%*	*4,186*	(4,294)
Repair and maintenance	(1,929)	*-78%*	*-6,910*	(8,839)
Electricity	(11,578)	*-13%*	*-1,683*	(13,261)
Fuel, lubricants	(4,495)	*-6%*	*-305*	(4,800)
Freight car rental	(9,497)	*-15%*	*-1,700*	(11,197)
Security, other op. expenses	(42,832)	*269%*	*31,218*	(11,614)
Property and land tax	(9,810)	*22%*	*1781*	(8,029)
Total	**(191,482)**	***19%***	***30,400***	**(161,082)**

In expenses of H1 2012 is include the disposal of Batumi Tower (GEL 33.7 million), which was the transfer of property to the owner. This expense doesn’t reflect on profitability of the Company. If excluding depreciation and the cost of disposal of Batumi Tower, total expenses for H1 2012 decreased by 8.4% (GEL 9.7m) compared to the same period of the previous year the main reasons of which were the decrease in repair and maintenance, electricity, payroll, security and other operating expenses.

The following charts set forth the cost structures for H1 2011 and H1 2012:





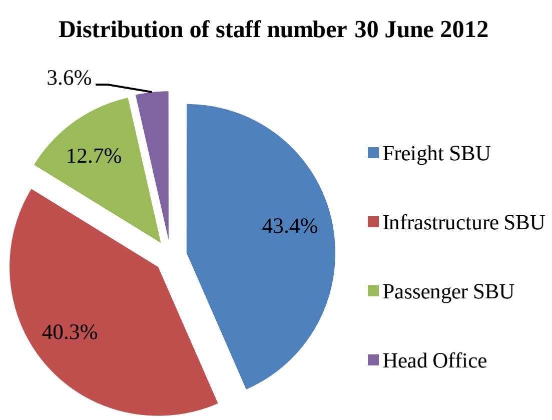
2.2.2 Staff cost

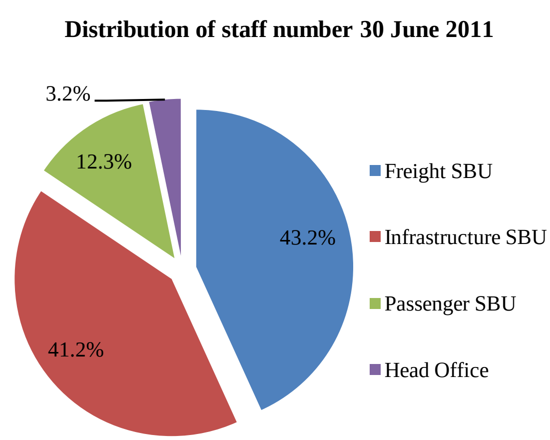
The following table sets forth staff costs for the three-month period ended 31 March for the years 2012 and 2011:

	H1			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Staff cost	(50,186)	*-5%*	*-2,585*	(52,771)

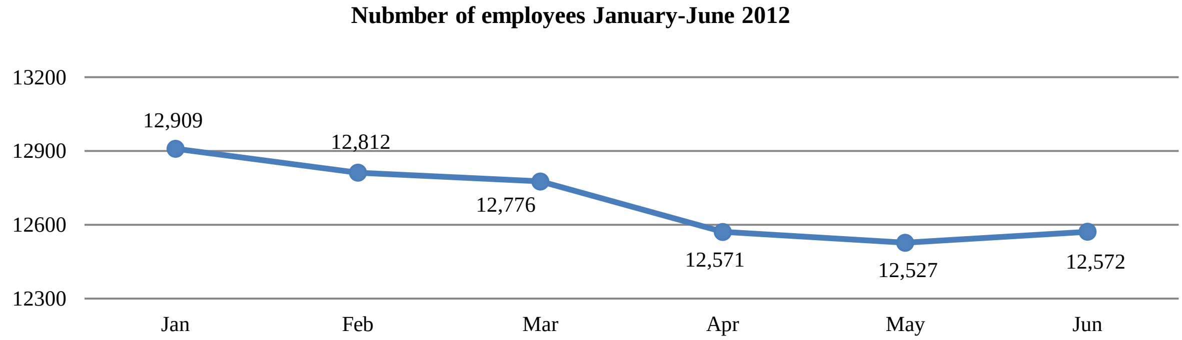
The main reason for the decrease in total staff costs has been the decrease in employee number. Employee number on 30 June 2012 decreased to 12,572 from 13,689 on 30 June 2011,as a result of staff optimization project.

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





The following graph demonstrates the reduction of number of employees during the H1 2012 (excluding subsidiaries):



The following table sets forth the average salaries for the six-months periods ended 30 June 2012 and 2011 (excluding subsidiaries):

	H1			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Average Salary	646.1	*3.4%*	*21.5*	624.6

2.2.3 Materials, Repair and Maintenance Expenses

Total expense for material, repair and maintenance services for six-month period ended 30 June 2012 decreased by GEL 2.72 million compared to the same period of the previous year. The decrease was due to decrease in repair and maintenance expense by GEL 6.9 million which was caused the increase internal repairs rather than external.

	H1			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Materials	(8,480)	*97%*	4,186	(4,294)
Repair and maintenance	(1,929)	*-78%*	-6,910	(8,839)
TOTAL	**(10,409)**	***-21%***	***(-2724)***	**(13,133)**

2.2.4 Consumption of utility – Electricity and Fuel Expenses

Electricity Expense:

Electricity expense for the six-month period ended 30 June 2012 decreased by 13% (GEL 1.7m) compared to the same period of the previous year.

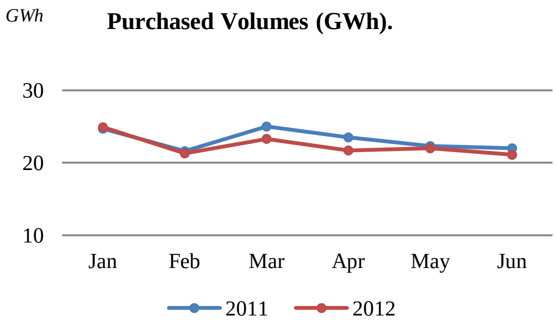
	H1			
’000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Electricity	(11,578)	*-13%*	*-1,683*	(13,261)

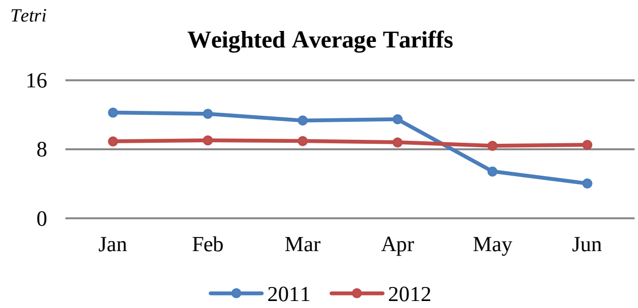
Change in electricity expense is a function of two major variables: price per purchased KWh and consumed electricity, which in H1 2012 decreased by 3.4% (4.7 GWh), to ca. 134.4 GWh compared to the same period of previous year. The decrease was caused by the decrease of the average distance of cargo transportation (resulting from the decreased share of transit traffic). As for the price of KWh, until September 2011 the company was purchasing electricity with tariffs provided by ESCO (Electricity System Commercial Operator), which was the sole provider of electricity to Georgian Railway JSC. Tariffs were changing by 4 Tetri (one hundredth of Lari) to 12 Tetri per KWH according to the seasonality. Since September 2011 Energo-Pro Georgia became a main provider of electricity to Georgian Railway JSC. Energo-Pro Georgia has set fixed tariff of 8.56 Tetri per KWh. Hence electricity expense in H1 2012 decreased by GEL 1.7 million and amounted to GEL 11.6 million.

The following table shows purchased electricity and weighted average tariff paid by Georgian Railway JSC:

	2012 First six months			**2011 First six months**		
	Purchase (GWh)	***W. A. Tariff (Tetri per KWH)***	**Amount paid (GEL, m)**	**Purchase (GWh)**	***W. A. Tariff (Tetri per KWH)***	**Amount paid (GEL, m)**
January	24.9	8.92	2.18	24.7	12.26	3.02
February	21.3	9.04	1.89	21.6	12.12	2.61
March	23.3	8.96	2.05	25	11.35	2.83
April	21.7	8.8	1.9	23.5	11.49	2.69
May	22	8.41	1.81	22.3	5.43	1.21
June	21.1	8.52	1.77	22	4.05	0.89
Total	**134.4**		**11.58**	**139**		**13.26**

The following graphs show comparison of purchased volumes and weighted average tariffs by months for the six-months periods ended 30 June 2011 and 2012:





Fuel expenses:

Fuel (and lubricants) expenses for the six-month period ended 30 June 2012 decreased by 6%:

	H1			
’000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Fuel, lubricants	(4,495)	*-6%*	*-305*	(4,800)

Lubricants such as oil and greasing substances, included in fuel expenses comprise not more than 12-14% of total fuel expenses and their consumption has remained stable.

The main reason for decrease was the decrease in revenue from freight handling services, as diesel locomotives are mainly used for freight handling operations.

2.2.5 Freight car rental expense

Freight car rental expenses for the six-month period ended 30 June 2012 decreased by 15% compared to the same period of 2011:

	H1			
’000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Freight car rental	(9,497)	*-15%*	*-1,700*	(11,197)

The decrease was mainly due to the lower use of other railways railcars on the territory of Georgia, as a result of the decreased transportation of liquid cargo volumes.

2.2.6 Security and other op. expenses

Total security and other operating expenses for the six-month period ended 30 June 2012 increased by 269% (GEL 31.2m) compared to the same period of 2011:

	H1			
’000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Security	(3,636)	*-5.3%*	*-204*	(3,840)
Other op. expenses	(39,196)	*404.2%*	*31,422*	(7,774)
Total	**(42,832)**	***269%***	***-31,218***	**(11,614)**

Other operating expenses mainly consist of such items as: heating gas, communication, legal costs, insurance for personnel, consultancy, membership fees, administrative expenses and etc. In addition in other expenses is included the cost of Batumi Tower disposal of GEL 33.7 million, which doesn’t reflect on profitability of the Company and is the main reason behind the increase in other operating expenses. Batumi Tower construction was initiated by the company subsidiary – GRC and was financed by the government through cash and in-kind equity injection.

2.2.7 Property and land taxes

The following table sets forth the breakdown of Property and Land taxes for the six-months periods ended 30 June 2011 and 2012:

	H1			
’000 GEL	**2012**	*% change*	Abs. change	**2011**
Taxes other than income tax	(9,810)	*22%*	*1781*	(8,029)

Property and Land taxes increased due to the increase in Construction in Progress and due to the purchased land plots for Modernization and Bypass projects.

2.3 Financial costs and income

	H1			
’000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Provisions	-6,213	*160%*	-3,820	-2,393
FX gain/loss	5,352	*-86%*	-33,024	38,376
Interest income	5,877	*129%*	3,315	2,562
Interest expense	-35	*150%*	-21	-14
Net finance income/(cost)	**4,981**	*-87%*	-33,550	**38,531**

Finance income in the six-months period ended 30 June 2012 decreased by 87% compared to the same period of previous year. The decrease was caused by the fact that the Company’s liabilities are denominated in USD, as in the first half of 2011 USD experienced depreciation against GEL resulting in gain from revaluation of liabilities, but in 2012 USD experienced substantially less depreciation against

GEL, thus resulting in lower gain on revaluation. Other factor was the appreciation of CHF in the first half of 2011, which resulted in gain from revaluation of cash and cash equivalents kept in CHF.

2.4. Income Tax Expense

The following table shows the Income Tax Expense for the six-months periods ended 30 June 2012 and 2011:

	H1			
’000 GEL	**2012**	***% change***	Abs. change	**2011**
Income Tax Expense	(13,544)	-13.90%	2,192	(15,736)

Income tax expense in the first six months of 2012 decreased by 13.9% (GEL 2.2 million) compared to the same period of previous year. The decrease was mainly caused by the decreased profit.

Income Tax rate in H1 2012 and 2011 was 15.0%. Effective tax rates were 26.6% in H1 2012 and 14.4% in H1 2011.

2.2. Profitability

The following Table show the calculation of Adjusted EBITDA and Adjusted EBITDA margin:

	H1			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Revenues	225,130	0.5%	1,015	224,115
Other income	12,333	59.5%	4,600	7,733
Expenses	(191,482)	18.9%	(30,400)	(161,082)
Result from Operating Activities	**45,981**	**-35.0%**	**(24,785)**	**70,766**
Depreciation add-back	52,675	13.8%	6,398	46,277
Non-continuing operations from other income	(7,649)	146.7%	(4,549)	(3,100)
Wright-offs	-	-100.0%	(4,094)	4,094
Disposal of Batumi Tower	33,695	100.0%	33,695	-
Adjusted EBITDA	**124,702**	**5.6%**	**6,665**	**118,037**
Adjusted EBITDA Margin	**55.40%**		**2.7%**	**52.70%**

Adjusted EBIDA for the six-month period ended 30 June 2012 amounted to GEL 124.7 mln, representing an increase of 5.6% (GEL 6.7 million) compared to the same period of previous year. Adjusted EBITDA margin reached 55.4%, compared to the 52.7% for the six-months period ended 30 June 2011.

3. Cash flows

The Company's cash flow management policies focus on maintaining a flexible capital expenditure programmes and maximizing cash flow generation, in line with potential future changes in passenger numbers and freight volumes transported. Through these policies, management aims to permit both the maintenance of infrastructure and the pursuit of selective growth opportunities. Management seeks to rely on operating cash flows to finance capital expenditures, but also seeks to maintain a diversified funding structure for strategic initiatives.

The following table sets forth a summary of the Company's cash flows for the periods indicated:

	For the six-months period ended 20 June 2012	
	2012	**2011**
	GEL millions	
Net cash from operating activities	129,110	91,862
net cash used in investing activities	(87,543)	(188,084)
net cash used in financing activities	(52,060)	(2,330)
net increase/decrease in cash and cash equivalents	(10,493)	(98,552)
cash and cash equivalents at 1 January	61,553	323,943
Effect of exchange rate fluctuation on cash and cash equivalents	236	10,009
cash and cash equivalents at 30 June	51,296	235,400

Net cash from operating activities

The Company's net cash from operating activities was GEL 129.1 million for the six-month period ended 30 June 2012, as compared to GEL 91.9 million for the six-month period ended 30 June 2011, representing an increase of 40.5 per cent. (or GEL 37.2 million). This increase was principally due to an increase in cash received from customers by 2.7% (or GEL 6.0 million) and decrease in income tax paid by GEL 22.3 million. Increase was partially offset by the increase in cash paid to suppliers by 1.3 per cent. (or GEL 1.4 million).

In April and May 2012, the Company received GEL 13 million and GEL 10 million, respectively, from the Government by way of a reimbursement of VAT surplus accumulated by the Company in respect of capital projects undertaken in 2011. Given the level of the accumulated surplus, the tax authorities agreed to return these funds to the Company at its request rather than to continue to hold the monies as an offset against future VAT obligations.

Net cash used in investing activities

The Company's net cash used in investing activities was GEL 87.5 million for the six-month period ended 30 June 2012, as compared to GEL 188.1 million for the six-month period ended 30 June 2011, representing a decrease of 53.5 per cent. (or GEL 100.5 million). This decrease was principally due to a decrease in additions to property, plant and equipment, decrease in term deposits and an increase in interest received by 149 per cent. (or GEL 3.8 million), which was partially offset by an increase in restricted cash.

Cash paid for Bypass project was GEL 28.6 million in H1 2012 and GEL 0.3 million in H1 2011. Cash paid for Modernization Project was GEL 13.7 million in H1 2012 and GEL 13.4 million in H1 2011.

Net cash used in financing activities

The Company's net cash used in financing activities was GEL 52.1 million for the six-month period ended 30 June 2012, as compared to GEL 2.3 for the six-month period ended 30 June 2011, representing an increase by GEL 49.7 million . Increase was principally caused by dividend payment of GEL 28.0 million and due to the capitalized interest on Eurobonds with the amount of GEL 20.6 million. In the first six months of 2011 capitalized interest was offset by the cash contribution of GEL 20 million in the Company by the Owner.

4. Performance Report

4.1. Traffic report

4.1.1. Freight traffic

The following table sets forth breakdown of the freight transportation volumes, by type of freight transported, for the periods of H1 2012 and H1 2011:

Ton, Millions	**H1**			
	2012	***% Change***	***Abs. Change***	**2011**
Liquid Cargoes	**4,60**	**-14,1%**	***(0,75)***	**5,36**
of which:				
Crude Oil	2,32	-21,6%	*(0,64)*	2,96
Oil Products	2,29	-4,8%	*(0,12)*	2,40
Dry Cargoes	**5,18**	**19,7%**	***0,85***	**4,33**
of which:				
Grain	0,64	32,1%	*0,16*	0,48
Construction Freight	0,85	30,0%	*0,19*	0,65
Cement	0,28	60,3%	*0,10*	0,17
Industrial Freight	0,26	11,3%	*0,03*	0,23
Ferrous Metals and	0,56	-5,6%	*(0,03)*	0,60
Ores	1,16	28,3%	*0,26*	0,90
Sugar	0,30	31,7%	*0,07*	0,22
Chemicals, fertilizers	0,25	-11,9%	*(0,03)*	0,29
Other	0,89	14,4%	*0,11*	0,78
Total	**9,78**	**1,0%**	***0,10***	**9,68**

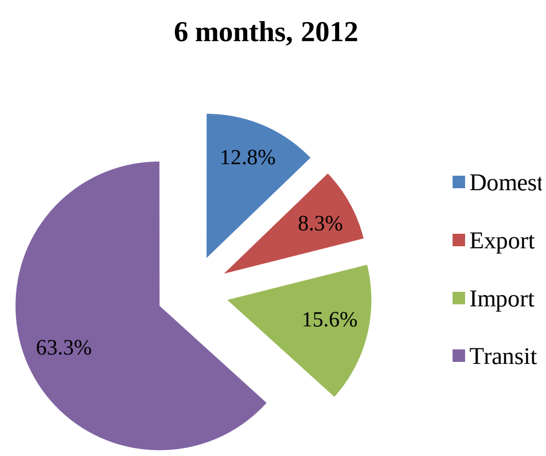
In the first six months of 2012, total freight transportation volumes increased by 1.0%, compared to the same period of previous year. The increase was mainly caused by the increase in Dry Cargo transportation by 19.7% (0.85 million tons) which itself was due to the increase in ores and construction materials transportation. Increase was partially offset by the decrease in Liquid Cargo transportation by 14.1% (0.75 million tons).

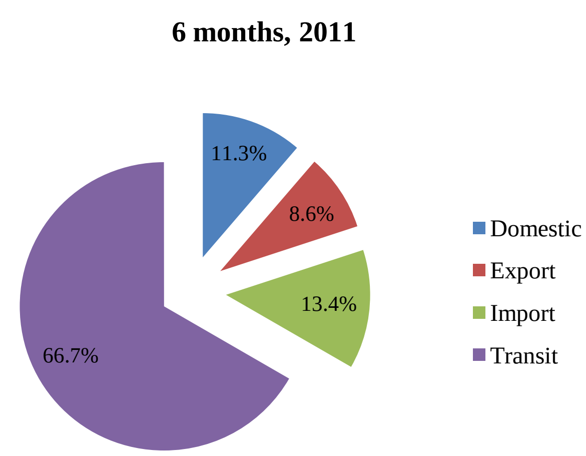
The following table sets forth the breakdown of freight transportation volumes by types of freight transported for months of H1 2012:

Ton, Millions	**2012**						
	Jan	Feb	Mar	Apr	May	Jun	**H1 Total**
Liquid Cargoes	**0.82**	**0.68**	**0.72**	**0.76**	**0.81**	**0.81**	**4.60**
of which:							
Crude Oil	0.43	0.34	0.38	0.37	0.39	0.40	2.32
Oil Products	0.40	0.33	0.34	0.39	0.42	0.41	2.29
Dry Cargoes	**0.85**	**0.64**	**0.84**	**0.99**	**0.98**	**0.88**	**5.18**
of which:							
Grain	0.14	0.08	0.13	0.08	0.11	0.09	0.64
Construction Freight	0.14	0.10	0.14	0.14	0.16	0.16	0.85
Cement	0.03	0.02	0.04	0.06	0.07	0.06	0.28
Industrial Freight	0.03	0.03	0.04	0.04	0.07	0.06	0.26
Ferrous Metals and Scrap	0.09	0.08	0.11	0.09	0.12	0.07	0.56
Ores	0.22	0.14	0.16	0.25	0.23	0.17	1.16
Sugar	0.05	0.04	0.02	0.06	0.04	0.08	0.30
Chemicals, fertilizers	0.02	0.03	0.04	0.10	0.03	0.04	0.25
Other	0.14	0.12	0.16	0.17	0.17	0.14	0.89
Total	**1.67**	**1.31**	**1.56**	**1.75**	**1.79**	**1.69**	**9.78**

As mentioned above, increase in total transportation volumes was offset by the decrease in Liquid Cargo volumes. It must be noted that in July 2012 the transportation of liquid cargo improved significantly and was by 5.0% higher compared to the transportation of liquid cargo in July, 2011.

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

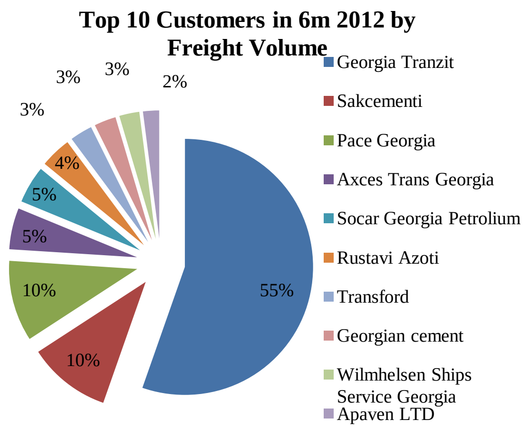


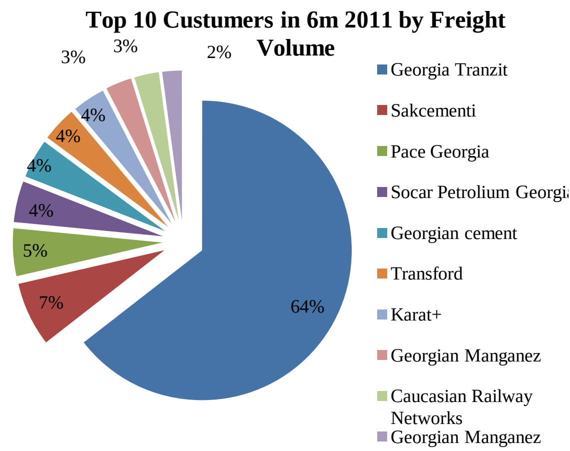


4.1.2. Top 10 freight customers, H1 2012 vs. H1 2011:

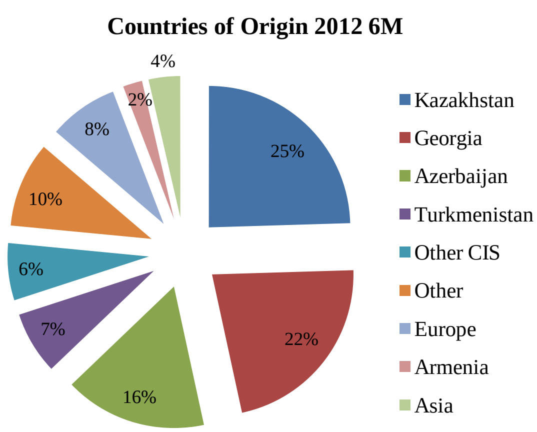
In H1 2012 top ten freight customers transported 70.0% (6.8 million ton) of total freight volume – 9.77 million ton:

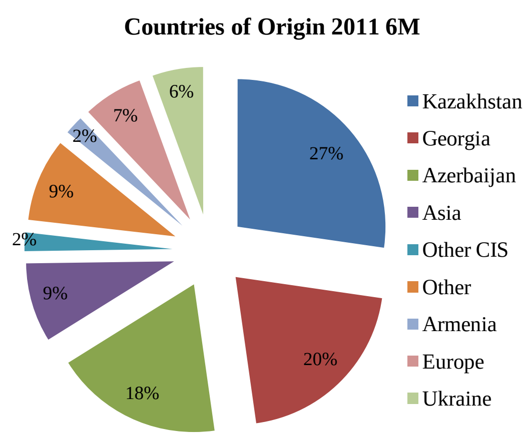
In H1 2011 top ten freight customers transported 71.85% (6.96 million ton) of total freight volume – 9.68 million ton:



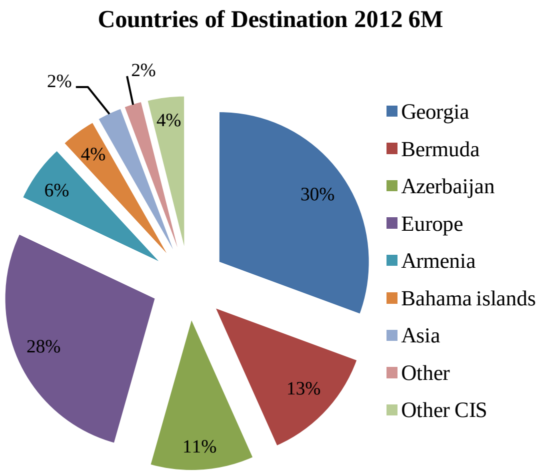


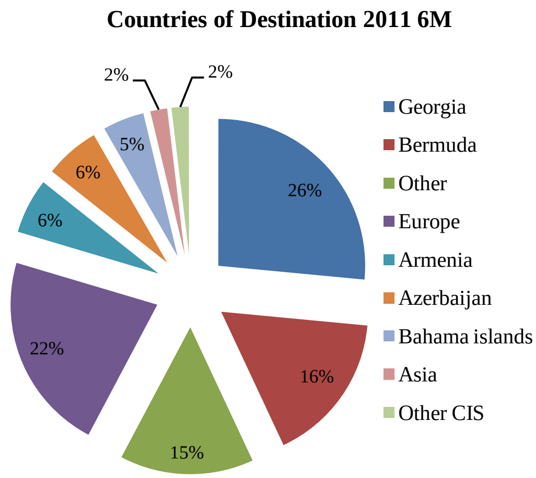
4.1.3. The following graphs show the breakdown by countries of origin of freight transported:





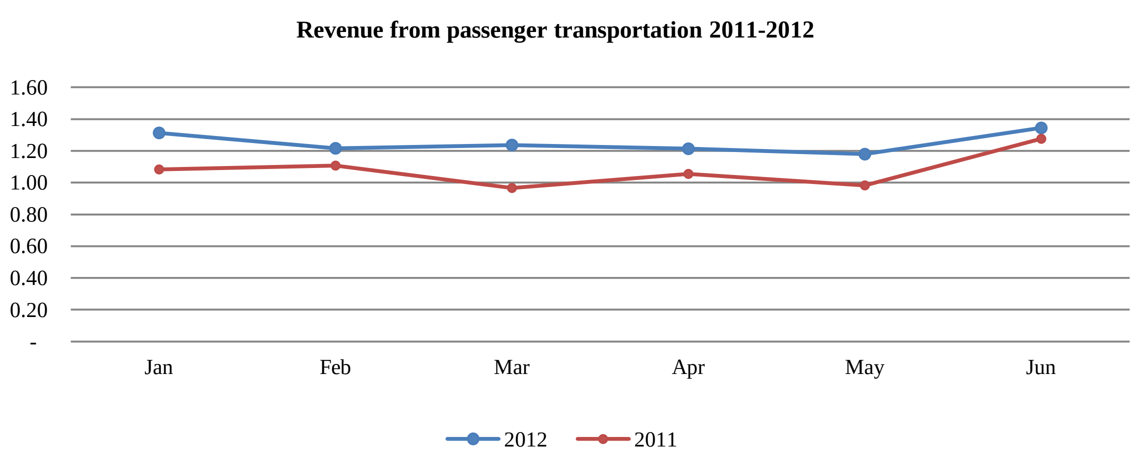
The following graphs show the breakdown by countries of destination of freight transported:





4.1.4. The following table sets forth the passenger transportation volumes for the months of H1 2012:

	H1			
Number of passengers (‘000)	**2012**	***% Change***	***Abs. Change***	**2011**
January	242	*2.1%*	*5*	237
February	224	*3.2%*	*7*	217
March	246	*7.4%*	*17*	229
April	250	*-4.2%*	*-11*	261
May	242	*-7.3%*	*-19*	261
June	258	*-10.7%*	*-31*	289
Total	**1462**	***2.1%***	***-32***	**1494**



5. Strategic Projects

5.1. Bypass Project

The Bypass Project's objective is to relocate certain railway infrastructure components from the centre of Tbilisi to the northern part of the city. Management estimates its completion in 2013. Remaining payment to be made for the Bypass project by August 23 2012 is approximately GEL 193 million. Out of total cost of Bypass, CHF 138 million (GEL 231.6 million) had been reimbursed from the dividends by the government in July 2012 according to the memorandum on the sale of land freed-up as a result of the Bypass project.

5.2. Modernization Project

The Modernization Project focuses primarily on the mainline that runs from Tbilisi to the Black Sea, in particular to the terminals at Poti and Batumi. As part of the project, the Company intends to modernize the railroad and electric supply infrastructure between Tbilisi and Batumi (315 kilometers), including the 40-kilometre mountainous gorge region in Central Georgia, with the aim of achieving passenger train speeds of 80 km/h on the gorge section and 120 km/h on the 117 rest of the mainline, as compared to current average speeds of approximately 55 km/h in the gorge section and approximately 65-90 km/h on the rest of the mainline.

The Company expects to complete the project by 2016. Remaining payment to be made for the Modernization project is approximately GEL 435 million, which is expected to be financed through the proceeds from 2012 notes and internally generated cash flows.