Management Discussion and Analysis for the six months ended 30 June 2017

Georgian Railway has shown deterioration in financial performance during the six months ended 30 June 2017, compared to the same period of 2016, which was mainly caused by decreased transportation volume and turnover by about 8 percent. The Group's total revenue has decreased by about 5 percent y-o-y (GEL 10.0 million). The decrease of about 6 percent (GEL 4.6 million) was shown in the Group's EBITDA, while EBITDA margin was maintained at about the same level, 40 percent. The ratio of Net Debt to EBITDA remained at about the same level, 3.49 as at 30 June 2017 and 3.48 as at 31 December 2016 (*see Appendix 3*).

In January 2017, on the back of the decreased transportation volumes in previous periods, which was significantly influenced by the transportation activity in the region and partner countries, Fitch rating has downgraded Georgian Railway to 'B+' from 'BB-' and assigned a Stable Outlook.

In the first half of 2017 the Group purchased two new additional passenger trains produced by Swiss rolling stock manufacturer Stadler. Revenue from passenger transportation during the six months ended 30 June 2017, compared to the same period of 2016, has increased by 24 percent (GEL 1.5 million).

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1.Profit or Loss Statement

Profit or loss statement

6 month period ended 30 June *In GEL '000*

	6M 2017	6M 2016	% Change	Abs. change
Revenue	194,330	204,336	-4.9%	-10,006
Other income	9,883	9,040	9.3%	843
Employee benefits expense	-73,835	-72,450	1.9%	-1,385
Depreciation and amortization	-51,975	-52,630	-1.2%	655
Electricity, consumables and maintenance costs	-21,299	-23,609	-9.8%	2,310
Other expenses	-32,286	-35,906	-10.1%	3,620
Result from operating activities	**24,818**	**28,781**	**-13.8%**	**-3,963**
Finance income	119,577	34,994	241.7%	84,583
Finance cost	-27,931	-29,300	-4.7%	1,369
Net finance income	**91,646**	**5,694**	**1509.5%**	**85,952**
Profit before income tax	**116,464**	**34,475**	**237.8%**	**81,989**
Income tax expense(benefit)	-448	15,094	-103.0%	-15,542
Profit and total comprehensive income	**116,016**	**49,569**	**134.0%**	**66,447**
EBITDA	76,793	81,411	-5.7%	-4,618
EBITDA margin	39.5%	39.8%	N/A	-0.3%
Adjusted EBITDA	71,350	78,690	-9.3%	-7,340
Adjusted EBITDA margin	36.7%	38.5%	N/A	-1.8%

1.1 Revenue

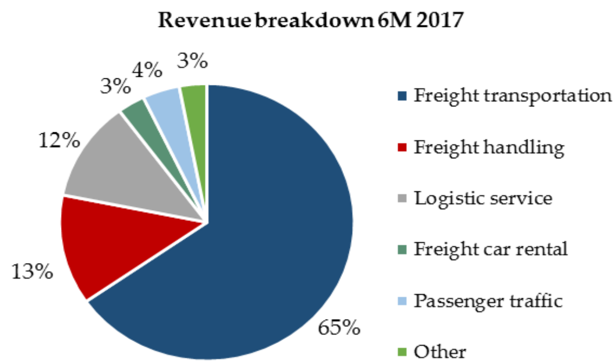
Revenue breakdown

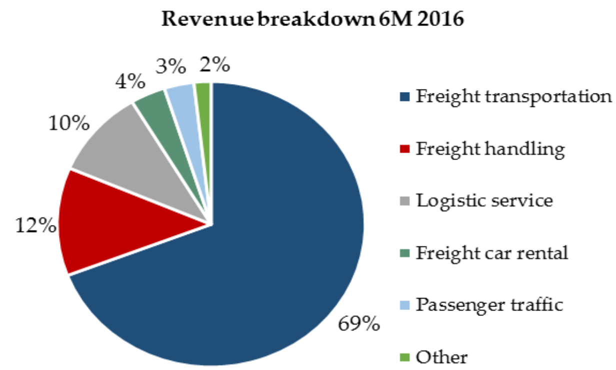
6 month period ended 30 June *In GEL '000*

	6M 2017	6M 2016	% Change	% Change at constant currency	Abs. change
Freight transportation*	126,936	141,316	-10.2%	-16.8%	-14,380
Freight handling*	24,973	25,083	-0.4%	-7.0%	-110
Logistic service*	22,741	20,392	11.5%	3.2%	2,349
Freight car rental	5,866	7,481	-21.6%	-26.5%	-1,615
Passenger traffic	7,941	6,401	24.1%	23.9%	1,540
Other	5,873	3,663	60.3%	57.3%	2,210
Revenue	**194,330**	**204,336**	**-4.9%**	**-11.4%**	**-10,006**
Other income	**9,883**	**9,040**	**9.3%**	**NA**	**843**
Freight transportation	**126,936**	**141,316**	**-10.2%**	**-16.8%**	**-14,380**
Liquid cargoes	**56,603**	**63,555**	**-10.9%**	**-17.6%**	**-6,952**
Oil products	51,184	51,808	-1.2%	-8.5%	-623
Crude oil	5,419	11,748	-53.9%	-57.3%	-6,329
Dry cargoes	**70,333**	**77,761**	**-9.6%**	**-16.3%**	**-7,428**
Ores	12,422	12,021	3.3%	-4.3%	401
Grain	3,976	4,247	-6.4%	-13.3%	-271
Ferrous metals and scrap	5,121	13,156	-61.1%	-64.0%	-8,035
Sugar	8,334	11,483	-27.4%	-32.8%	-3,149
Chemicals and fertilizers	5,214	4,994	4.4%	-3.4%	220
Construction freight	3,343	3,279	1.9%	-5.6%	64
Industrial freight	2,503	1,756	42.6%	32.0%	748
Cement	669	404	65.7%	53.4%	265
Other	28,752	26,422	8.8%	0.7%	2,331
Freight turnover (million ton-km)	1,484	1,624	-8.6%	-8.6%	-139
Revenue / ton-km (in Tetri)	8.55	8.70	-1.7%	-9.0%	-0.15

** For better presentation, we have separated "logistic services" from "freight transportation" and ''freight handling''. ''Logistic services'' represents revenue generated by freight forwarding subsidiaries.*

The following charts represent revenue breakdown for the six months ended 30 June 2017 and 2016:





Freight transportation revenue

Freight transportation revenue, has decreased by 10 percent (GEL 14.4 million) during the six months ended 30 June 2017, compared to the same period of the previous year.

	Average rate			*Reporting date spot rates*			
	6M 2017	6M 2016	% Change	30-Jun-17	31-Dec-16	30-Jun-16	31-Dec-15
USD	2.51	2.32	8.0%	2.41	2.65	2.34	2.39
CHF	2.52	2.36	6.7%	2.51	2.60	2.39	2.42

The Group's transportation revenue depends on several factors, including GEL/USD exchange rate as the Group's tariffs for freight transportation are denominated in USD. Fluctuations in GEL/USD exchange rate also affect the Group's profitability, as significant part of the expenses are denominated in GEL.

Total freight volume transported by the Group during the six months ended 30 June 2017 has decreased by 8 percent, compared to the same period of previous year. The decrease was shown in both liquid and dry cargoes (*see Appendix 1*).

Oil product

6 month period ended 30 June

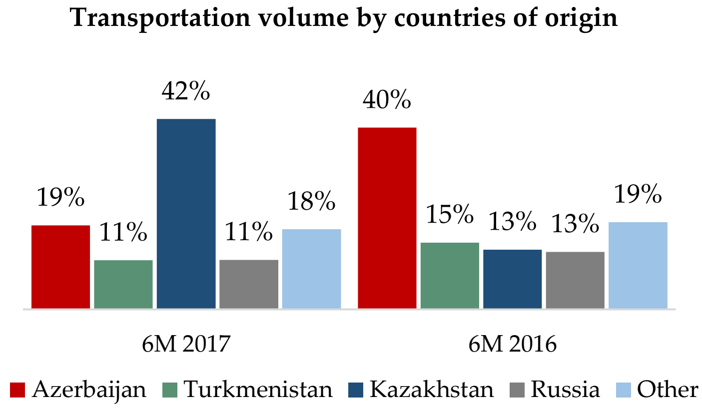
	6M 2017	6M 2016	% Change	% Change at constant currency
Revenue (GEL'000)	51,184	51,808	-1.2%	-8.5%
Freight volume (ton '000)	2,034	1,792	13.5%	13.5%
Freight turnover (million ton-km)	657	545	20.7%	20.7%
Revenue / ton-km (in Tetri)	7.79	9.51	-18.2%	-24.2%

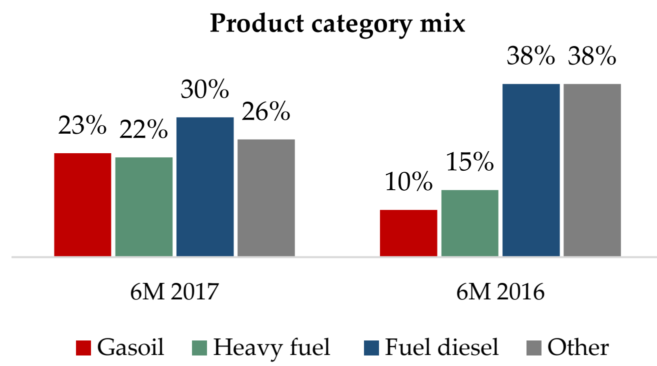
**For better presentation, we have separated "logistic services" from "freight transportation" and ''freight handling''. ''Logistic services'' represents revenue generated by freight forwarding subsidiaries.*

Transportation turnover of oil products for the six months ended 30 June 2017, compared to the same period of 2016, has increased by 21 percent and freight volume was up by 14 percent, while transportation revenue was down by 1 percent. These disproportional changes were mainly caused by decrease in tariffs at the end of 2016 for the transportation of some oil products, also by changes in product category and direction mixes.

Share of transportation volume from Kazakhstan was up from 13 percent to 42 percent while, share of transportation volume from Azerbaijan was down from 40 percent to 19 percent.

The increase in transportation volume was mainly caused by increased transportation of gasoil by 274 thousand tons and heavy fuel oil by 179 thousand tons.





Crude oil

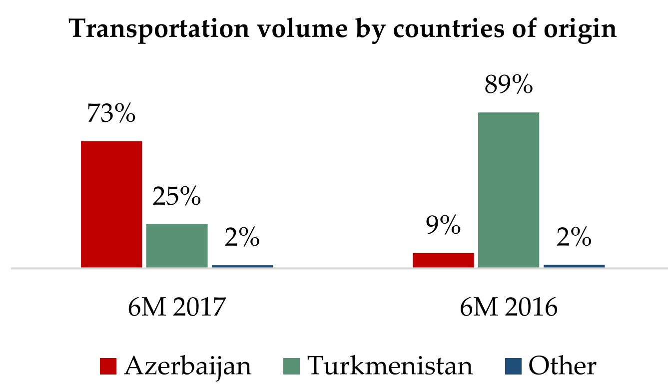
6 month period ended 30 June

	6M 2017	6M 2016	% Change	% Change at constant currency
Revenue (GEL'000)	5,419	11,748	-53.9%	-57.3%
Freight volume (ton '000)	274	798	-65.7%	-65.7%
Freight turnover (million ton-km)	107	316	-66.0%	-66.0%
Revenue / ton-km (in Tetri)	5.05	3.72	35.5%	25.5%

**For better presentation, we have separated "logistic services" from "freight transportation" and ''freight handling''. ''Logistic services'' represents revenue generated by freight forwarding subsidiaries.*

Within the six months ended 30 June 2017 main countries of origin for crude oil volumes transported were Azerbaijan and Turkmenistan, with significant changes in transportation direction mix compared to the same period of 2016.

The decrease in transportation revenue by 54 percent in the six months ended 30 June 2017, compared to the same period of 2016, was mainly caused by reduced transportation turnover, which was partly compensated by the increase in average revenue per ton-kilometer.



The decrease in transportation turnover during the period under review was mainly caused by the sharp fall (about 90 percent) in crude oil transportation volume from Turkmenistan, which was partly offset by increased transportation volume from Azerbaijan (about 185 percent).

The increase in average revenue per ton-kilometer was due to the changes in transportation direction mix. Transportation share from Azerbaijan, relatively more profitable direction, has seen a considerable y-o-y increase during the six months ended 30 June 2017, while transportation volume from Turkmenistan has declined significantly.

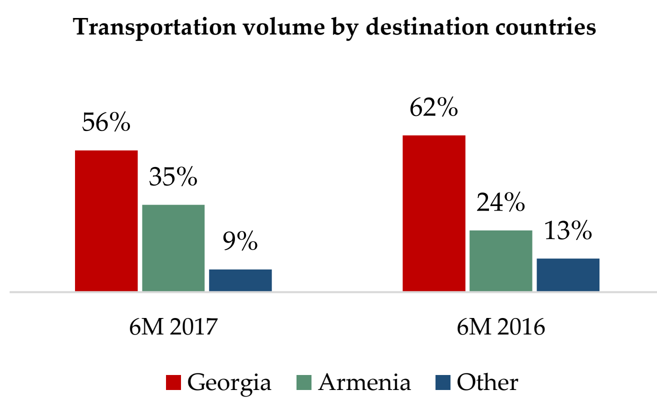
Grain

6 month period ended 30 June

	6M 2017	6M 2016	% Change	% Change at constant currency
Revenue in GEL million	3,976	4,247	-6.4%	-13.3%
Freight volume (ton '000)	157	148	5.8%	5.8%
Freight turnover (million ton-km)	37	45	-17.5%	-17.5%
Revenue / ton-km (in Tetri)	10.78	9.50	13.5%	5.1%

**For better presentation, we have separated "logistic services" from "freight transportation" and ''freight handling''. ''Logistic services'' represents revenue generated by freight forwarding subsidiaries.*

The main country of origin for grain and grain products was Russia (about 75 percent during the six months ended 30 June 2017). The main destination countries were Georgia and Armenia, with changes in direction share in the six months ended 30 June 2017, compared to the same period of 2016.



Transportation volume has increased by about 6 percent, while transportation turnover was down by about 18 percent in the six months ended 30 June 2017, compared to the same period of 2016. These disproportional changes were caused by significant reduction in average transportation distance for one of the main destination countries, Georgia.

The increase in average revenue per ton-km during the six months ended 30 June 2017, compared to the same period of 2016 was mainly due to the changes in transportation direction mix.

Ferrous metals and scrap

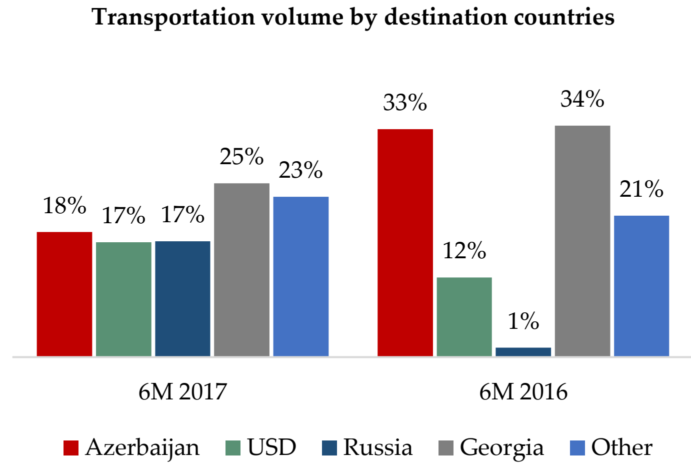
6 month period ended 30 June

	6M 2017	6M 2016	% Change	% Change at constant currency
Revenue in GEL million	5,121	13,156	-61.1%	-64.0%
Freight volume (ton '000)	244	381	-35.9%	-35.9%
Freight turnover (million ton-km)	54	98	-44.2%	-44.2%
Revenue / ton-km (in Tetri)	9.40	13.48	-30.3%	-35.5%

**For better presentation, we have separated "logistic services" from "freight transportation" and ''freight handling''. ''Logistic services'' represents revenue generated by freight forwarding subsidiaries.*

The main destination countries for ferrous metals and scrap during the period under review were Georgia, Azerbaijan, Russia and USA, together creating 77 percent of total volume transported in the first half of 2017.

The decrease in transportation revenue by 61 percent during the first half of 2017, compared to the same period of 2016, was driven by reduced transportation turnover and average revenue per ton-kilometer.



During the six months ended 30 June 2017, transportation volume has decreased by 36 percent, compared to the same period of the previous year, while transportation turnover has decreased by 44 percent. This was caused by reduced share of Azerbaijan (which covers longer distances) from 33 to 18 percent of total volume transported by the Group and at the same time reduction in transportation distance to Azerbaijan by 21 percent, while the share of Russia (which covers shorter distances) has increased from 1 to 17 percent.

The decrease in average revenue per ton-kilometer was due to ceased transportation of pipes for oil and gas pipelines to Azerbaijan, which are relatively more profitable products and also due to changes in product category mix transported to Georgian direction.

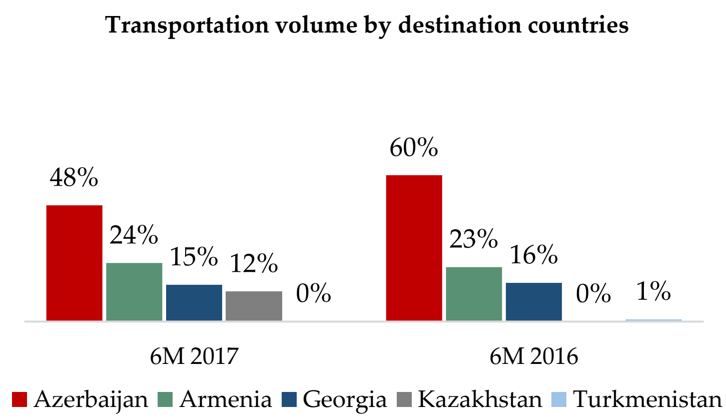
Sugar

6 month period ended 30 June

	6M 2017	6M 2016	% Change	% Change at constant currency
Revenue in GEL million	8,334	11,483	-27.4%	-32.8%
Freight volume (ton '000)	221	263	-16.0%	-16.0%
Freight turnover (million ton-km)	80	96	-16.7%	-16.7%
Revenue / ton-km (in Tetri)	10.37	11.90	-12.9%	-19.4%

**For better presentation, we have separated "logistic services" from "freight transportation" and ''freight handling''. ''Logistic services'' represents revenue generated by freight forwarding subsidiaries.*

Brazil was the main country of origin for transported volumes of sugar for the six months ended 30 June 2017 and 2016, with the share of 95 percent and 97 percent, respectively. Main destination countries of the sugar were Azerbaijan, Armenia and Georgia. In the first half of 2017 new destination county Kazakhstan was added with transportation share of 12 percent.



The decrease in transportation revenue by 27 percent during the six months ended 30

June 2017, compared to the same period of the previous year, was caused by the reduced transportation turnover and average revenue per ton-kilometer.

The decrease in freight turnover for the six months ended 30 June 2017, compared to the same period of 2016, was mainly due to the decline in freight volume transported to Azerbaijan by 33 percent which was partly offset by transportation to Kazakhstan direction.

The reduction in average revenue per ton-kilometer was mainly due to the reduction in tariffs for transit cargoes and changes in product direction mix.

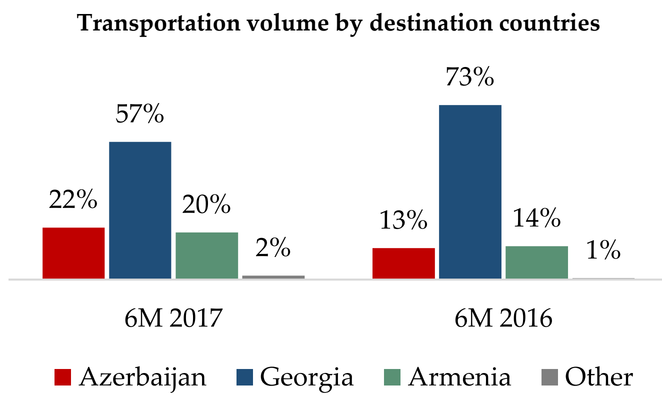
Industrial freight

6 month period ended 30 June

	6M 2017	6M 2016	% Change	% Change at constant currency
Revenue in GEL million	2,503	1,756	42.6%	32.0%
Freight volume (ton '000)	124	131	-5.1%	-5.1%
Freight turnover (million ton-km)	24	20	22.0%	22.0%
Revenue / ton-km (in Tetri)	10.23	8.75	16.8%	8.2%

**For better presentation, we have separated "logistic services" from "freight transportation" and ''freight handling''. ''Logistic services'' represents revenue generated by freight forwarding subsidiaries.*

The main destination points for industrial freight transported by the Group during the six months ended 30 June 2017 were Georgia, Azerbaijan and Armenia, with the shares of 57 percent, 22 percent and 20 percent, respectively. The increase in transportation revenue for the six months ended 30 June 2017, compared to the same period of 2016, was caused by increased transportation turnover and average revenue per ton-kilometer.



Transportation turnover of industrial freight shows an increase in the six months ended 30 June 2017, compared to the same period of the previous year, although transportation volume has decreased by 5 percent. This was caused by the increased average transportation distance for one of the main destination countries, Armenia by 28 percent.

Increase in average revenue per ton-kilometer for the six months ended 30 June 2017, compared to the same period of 2016, was mainly due to the increased transportation share to more profitable directions (Azerbaijan and Armenia), while transportation share to less profitable direction, Georgia, has decreased. The increase in average revenue per ton-kilometer was also caused by increased average revenue on freight transported to Georgia by 24 percent.

Logistic services

The increase in logistic services by GEL 2.3 million during the six months ended 30 June 2017, compared to the same period of the previous year, was mostly attributable to increased logistic revenue from oil products, mainly transported from Black Sea ports to the direction of Azerbaijan and Armenia.

Freight car rental

The reduction in revenue from freight car rental by 22 percent (GEL 1.6 million) during the six months ended 30 June 2017, compared to the same period of 2016, was mainly caused by reduced usage of the Group's tank cars by Azerbaijan and Turkmenistan and by reduced usage of grain carriers.

Passenger transportation

Passenger transportation

6 month period ended 30 June *In '000*

	6M 2017	6M 2016	% Change	Abs. change
Revenue	7,941	6,401	24.1%	1,540
Number of passengers	1,215	1,104	10.0%	111

Revenue from passenger transportation has increased by 24 percent (GEL 1.5 million) during the six months ended 30 June 2017, compared to the same period of the previous year, while the number of passengers has increased by 10 percent. The higher increase in revenue was driven by increased number of passengers on the main line and international transportation (which is more profitable), while the number of passengers on regional transportation remained at about the same level.

Other revenue

The increase in other revenue by GEL 2.2 million during the first half of 2017, compared to the same period of 2016, was mostly attributable to increase in sales of scrap.

1.2 Other income

In order to better illustrate the operational profitability of the Group, other income is split into two categories: continuing operations (such as income from services of heavy equipment, penalties on creditors and debtors, etc.) and non-continuing operations (such as gain or loss from sale of fixed assets and other items which are not expected to reoccur in the following periods).

Other income

6 month period ended 30 June *In GEL '000*

	6M 2017	6M 2016	% Change	Abs. change
Continuing operations	4,240	6,594	-35.7%	-2,354
Non-continuing operations	5,643	2,447	130.6%	3,197
Total	**9,883**	**9,040**	**9.3%**	**843**

The decrease in other income from continuing operations during the six months ended 30 June 2017, compared to the same period of the previous year, was mainly due to the lower accrued penalty on debtors.

1.3 Operating expenses

Total operating expenses for the six months ended 30 June 2017 decreased by GEL 5.2 million, compared to the same period of the previous year. The decrease was mainly caused by reduction in repair and maintenance expenses, decrease in freight car rental expenses and lower expenses in logistic services.

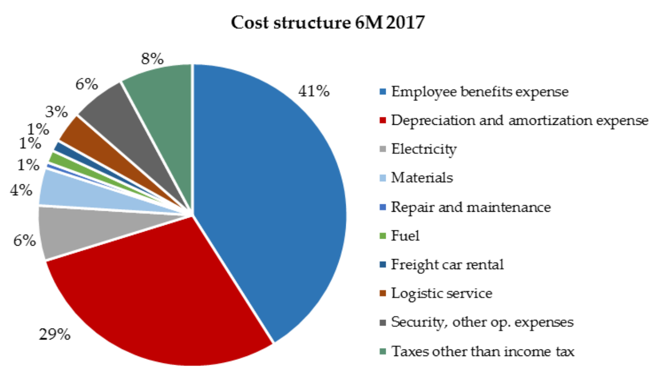
Operating expenses

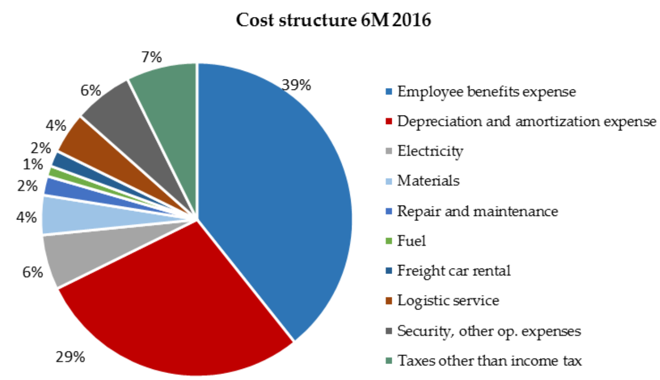
6 month period ended 30 June *In GEL '000*

	6M 2017	6M 2016	% Change	Abs. change
Employee benefits expense	73,835	72,450	1.9%	1,385
Depreciation and amortization expense	51,975	52,630	-1.2%	-655
Electricity	10,563	10,457	1.0%	106
Materials	7,252	7,526	-3.6%	-274
Repair and maintenance	1,081	3,633	-70.2%	-2,552
Fuel	2,403	1,993	20.6%	410
Freight car rental	2,170	3,076	-29.5%	-906
Logistic service	5,994	7,888	-24.0%	-1,894
Security, other op. expenses	10,290	11,338	-9.2%	-1,048
Taxes other than income tax	13,833	13,604	1.7%	229
Total	**179,396**	**184,595**	**-2.8%**	**-5,199**

**For better presentation, we have reclassified "logistics service" from "security and other operating expenses".*

The following charts represent the cost structure for the six months ended 30 June 2017 and 2016:



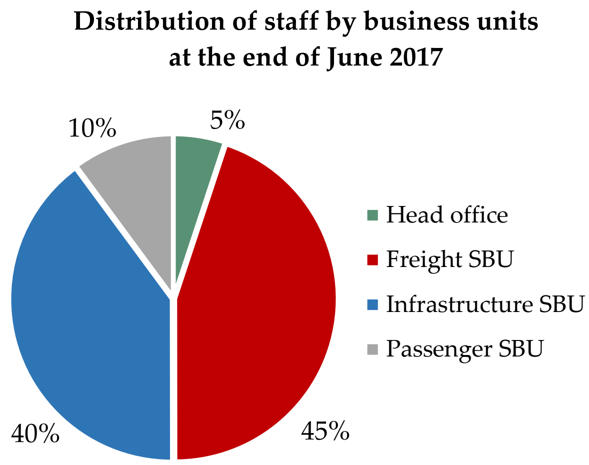


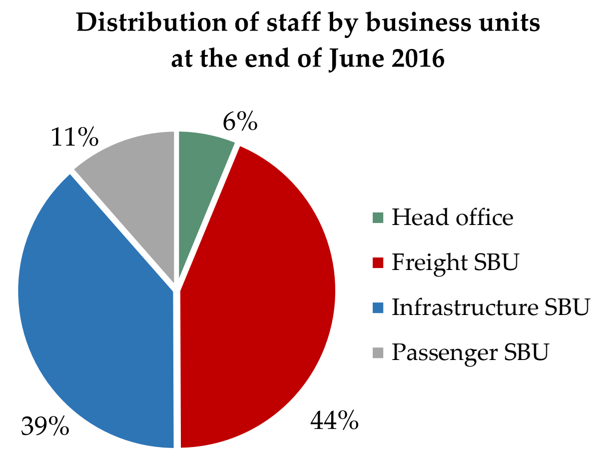
Employee benefits expense

The increase in employee benefits expense during the six months ended 30 June 2017, compared to the same period of the previous year, was mainly due to higher cost of personal insurance and aids provided to employees. Employee's salaries are mostly fixed and normally are not affected by changes in transportation volumes.

Number of employees (excluding subsidiaries) by the end of June 2017 was 12,428, compared to 12,704 by the end of June 2016.

Following charts show the headcount by strategic business units and head office of the Company (excluding subsidiaries):





Materials, repair and maintenance expenses

The Group's materials, repair and maintenance expenses are influenced by its rolling stock equipment balance and subsequent utilization level. During the six months ended 30 June 2017 transportation turnover decreased by 9 percent compared to the same period of the previous year. Consequently material, repair and maintenance expenses decreased by GEL 2.8 million. The decrease was mainly caused by reduced expenditure on repair of rolling stocks and buildings.

Electricity expenses

Electricity expenses

6 month period ended 30 June *In GEL '000*

	6M 2017	6M 2016	% Change	Abs. change
Electricity expense on traction	8,735	8,776	-0.5%	-41
Utility expenses	1,828	1,681	8.7%	147
Total	**10,563**	**10,457**	**1.0%**	**106**

There was insignificant increase in electricity expenses for traction during the six months ended 30 June 2017, compared to the same period of 2016, although gross ton-kilometers has decreased by about 9 percent. This disproportional change was driven by increased consumption in January 2017, compared to the same period of 2016, and increased tariffs of electricity on open market. Georgian Railway has fixed price for more than 90 percent of its electricity needs under agreement on electricity procurement, the rest of the electricity is procured on the open market.

Purchased electricity and weighted average tariff

6 month period ended 30 June

	6M 2017			6M 2016		
	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)
January	14.5	620.3	0.121	12.4	491.3	0.119
February	12.6	497.4	0.121	13.5	586.8	0.119
March	12.5	490.7	0.119	12.7	536.2	0.115
April	11.4	416.7	0.118	12.0	498.5	0.116
May	10.9	408.3	0.117	12.0	502.9	0.116
June	11.5	451.7	0.116	12.4	537.8	0.116
Total	**73.4**	**2,885.2**	**0.119**	**75.0**	**3,153.4**	**0.117**

Note: The table above includes only electricity consumed for traction.

Freight car rental expense

Freight car rental expense in the six months ended 30 June 2017, compared to the same period of the previous year, decreased by about GEL 0.9 million mostly due to the reduced usage of tank cars.

Logistic services

Expenses for logistic services represent operating expenses of Georgian Railway's logistic subsidiaries. The expenses for logistic services in the six months ended 30 June 2017 have decreased by about 24 percent (GEL 1.9 million), compared to the same period of the previous year. The decrease was mainly caused by reduced expenses of Georgian Railway's subsidiary that mainly serves crude oil and oil products transported by the Company.

Taxes other than income tax

Taxes other than income tax

6 month period ended 30 June *In GEL '000*

	6M 2017	6M 2016	% Change	Abs. change
Property tax	7,604	6,766	12.4%	838
Land tax	5,626	5,624	0.0%	2
Other taxes*	603	1,214	-50.3%	-611
Total	**13,833**	**13,604**	**1.7%**	**229**

**Other taxes also include all subsidiaries' taxes (other than income tax).*

In the six months ended 30 June 2017, compared to the same period of 2016, property tax has increased by 12 percent (GEL 0.8 million), which was mainly caused by the increased property tax on CIP and transportation equipment. Property tax will be reduced after putting the Modernization project into operation, as railway infrastructure related assets are free of property tax and assets under the project are taxed by property tax while under construction in progress. The increase in property tax was partly offset by the reduction in other taxes, caused by unpaid VAT.

1.4 Finance income and cost

Finance income and cost

6 month period ended 30 June *In GEL '000*

	6M 2017	6M 2016	% Change	Abs. change
Interest income	9,007	13,226	-31.9%	-4,219
Impairment loss on trade receivables	-1,265	-4,098	-69.1%	2,833
Interest expense	-26,666	-25,202	5.8%	-1,464
FX gain	110,570	21,768	407.9%	88,802
Net finance income	**91,646**	**5,694**	**1509.5%**	**85,952**

In the six months ended 30 June 2017 the Group showed GEL 91.6 million net finance income, compared to GEL 6.0 million in the same period of 2016. The positive difference of GEL 86.0 million was mainly due to the appreciation of GEL against USD.

GEL/USD exchange rate fluctuation has significant effect on net finance income/(cost). Due to GEL appreciation against USD by 9 percent as at 30 June 2017 compared to 31 December 2016 (GEL/USD exchange rate 2.41 versus 2.65), the Group experienced net foreign exchange gain of GEL 110.6 million, however due to relatively smaller appreciation of GEL against USD (about 2 percent) as at 30 June 2016 compared to 31 December 2015 (GEL/USD exchange rate 2.34 versus 2.39), the Group showed net foreign exchange gain of GEL 21.8 million.

Higher interest expense during the six months ended 30 June 2017, compared to the same period of 2016, was mainly due to new passenger loan.

Lower interest income by GEL 4.2 million in the six months ended 30 June 2017 compared to the same period of 2016, was mainly due to the lower average cash balance and lower interest rates.

1.5 Income tax expense/benefit

In May 2016, the Parliament of Georgia adopted amendments to the Tax Code of Georgia. The new tax code is effective from 1 January 2017. According to the new tax code, previously active profit tax regulation was changed to so-called "tax on distributed profits" model.

2. Balance Sheet

Balance sheet

6 month period ended 30 June *In GEL '000*

	30-Jun-17	31-Dec-16	% Change	Abs. change
TOTAL ASSETS	**3,240,475**	**3,225,683**	**0.5%**	**14,792**
Changes are mainly due to:				
Property, plant and equipment	2,727,515	2,623,594	4.0%	103,921
Other non-current assets	128,956	147,565	-12.6%	-18,609
Trade and other receivables	86,577	99,649	-13.1%	-13,072
Cash and cash equivalents	217,138	277,953	-21.9%	-60,815
TOTAL LIABILITIES	**1,524,962**	**1,626,407**	**-6.2%**	**-101,445**
Changes are mainly due to:				
Loans and borrowings (LT)	1,278,212	1,361,602	-6.1%	-83,390
Trade and other payables	91,160	109,638	-16.9%	-18,478

Significant changes in assets

During the first six months in 2017, GEL 103.9 million increase in property, plant and equipment was mainly due to the construction in progress (mostly under the Modernization project) and procurement of two new passenger trains.

GEL 18.6 million decrease in other non-current assets was mainly due to the decrease in prepayments for non-current assets, mostly attributable to the Modernization project, and reduction in construction materials that were transformed to property plant and equipment.

There was GEL 13.1 million decrease in trade and other receivables in the six months ended 30 June 2017. The decrease was driven by collection of receivables from partnering railway and appreciation of GEL against USD.

Cash and cash equivalents have decreased by GEL 60.8 million in the six months ended 30 June 2017. Significant cash outflows have occurred in investing activities, higher interests were paid and first principal payment of the loan acquired for new passenger trains took place in May (*see heading 3 "Cash Flow Statement"*).

Significant changes in liabilities

There was GEL 83.4 million decrease in long term borrowings in the six months ended 30 June 2017 despite the fact that the Group has withdrawn additional amount of loan to purchase passenger trains. The decrease was mainly due to debt revaluation as GEL has appreciated against USD by about 9 percent and the Group's debts are denominated in USD.

Trade and other payables have decreased by GEL 18.5 million in the six months ended 30 June 2017. The decrease was mainly driven by the reduction in payables for the Modernization project and for new passenger trains acquired, as well as reduction in advances received for freight transportation.

3. Cash Flow Statement

Cash flow statement

6 month period ended 30 June *In GEL '000*

	6M 2017	6M 2016
Cash flows from operating activities		
Cash receipts from customers	216,577	202,325
Cash paid to suppliers and employees	-133,518	-124,838
Cash flows from operations before income taxes paid	**83,059**	**77,487**
Income tax paid	-2,686	-2,669
Net cash from operating activities	**80,373**	**74,818**
Cash flows from investing activities		
Acquisition of property, plant and equipment	-129,459	-83,660
Proceeds from sale of property, plant and equipment	1,581	0
Interest received	6,771	12,888
Issuance of the loan	0	-15,127
Repayment of the issued loans	1,036	21,512
Net cash used in investing activities	**-120,071**	**-64,387**
Cash flows from financing activities		
Proceeds from borrowings	50,248	0
Repayment of borrowings	-5,310	0
Interest paid	-55,203	-46,800
Dividends paid	0	-1,607
Net cash used in financing activities	**-10,265**	**-48,407**
Net decrease in cash and cash equivalents	**-49,963**	**-37,976**
Cash and cash equivalents at 1 January	277,953	294,784
Effect of exchange rate fluctuations on cash and cash equivalents	-10,852	-2,990
Cash and cash equivalents at the end of the period	**217,138**	**253,818**

Operating activities

Net cash from operating activities increased by GEL 5.6 million in the six months ended 30 June 2017, compared to the same period of the previous year. The change was driven by increase in cash receipts from customers by GEL 14.3 million, mostly caused by higher cash generated from logistic services and also due to the cash collection from partnering railway to cover its old accounts payables.

The increase in cash paid to suppliers and employees by about GEL 8.7 million, was mainly caused by higher taxes due to VAT paid, higher cash payments for electricity and fuel as well as higher cash outflows for logistic services.

Investing activities

Cash used in investing activities has increased by GEL 55.7 million in the six months ended 30 June 2017, compared to the same period of the previous year. The increase was mainly due to the procurement of two new passenger trains.

The decrease in interest received was mainly caused by lower average cash balance held by the Group and lower interest rates during the six months ended 30 June 2017, compared to the same period of 2016.

Issuance of the loan GEL 15.1 million in 2016 represents USD 6 million provided to the parent and USD 1 million, provided to the owner of liquid cargo terminal on the Black Sea.

Repayment of the issued loans GEL 1.0 million during the six months ended 30 June 2017 represents partial collection of principal due from the loan provided to the owner of liquid cargo terminal on the Black Sea. During the same period in 2016 the Group has collected GEL 21.5 million from the issued loan, which represented the portion of short-term loan (USD 16 million) that the Group provided to a state controlled entity by the end of 2015.

Financing activities

Proceeds from borrowings GEL 50.2 million represents the loan for financing the purchase of the new passenger trains. Repayment of borrowings GEL 5.3 million represents the amount paid for current portion of the loan acquired for new passenger trains.

Higher interest paid in the six months ended 30 June 2017, compared to the same period of the previous year, was mainly due to the interest paid on loan for passenger trains and depreciation of GEL against USD.

Appendix 1

Breakdown of freight transportation in tons

6 month period ended 30 June *In thousand tons*

	6M 2017	6M 2016	% Change	Abs. change
Liquid cargoes	**2,307**	**2,590**	**-10.9%**	**-283**
Oil products	2,034	1,792	13.5%	242
Crude oil	274	798	-65.7%	-524
Dry cargoes	**2,957**	**3,110**	**-4.9%**	**-153**
Ores	659	686	-3.8%	-26
Grain	157	148	5.8%	9
Ferrous metals and scrap	244	381	-35.9%	-137
Sugar	221	263	-16.0%	-42
Chemicals and fertilizers	251	244	2.9%	7
Construction freight	551	569	-3.2%	-18
Industrial freight	124	131	-5.1%	-7
Cement	37	26	38.4%	10
Other	714	663	7.7%	51
Total	**5,264**	**5,700**	**-7.6%**	**-436**

Appendix 2

Breakdown of freight transportation in ton-kilometers

6 month period ended 30 June *In million ton-kilometers*

	6M 2017	6M 2016	% Change	Abs. change
Liquid cargoes	**765**	**860**	**-11.1%**	**-95**
Oil products	657	545	20.7%	113
Crude oil	107	316	-66.0%	-208
Dry cargoes	**720**	**763**	**-5.8%**	**-44**
Ores	139	153	-8.9%	-14
Grain	37	45	-17.5%	-8
Ferrous metals and scrap	54	98	-44.2%	-43
Sugar	80	96	-16.7%	-16
Chemicals and fertilizers	75	71	5.9%	4
Construction freight	74	77	-3.6%	-3
Industrial freight	24	20	22.0%	4
Cement	9	8	19.6%	1
Other	226	197	14.9%	29
Total	**1,484**	**1,624**	**-8.6%**	**-139**

Appendix 3

According to Condition 3 (d) of the "Terms and Conditions of the Notes" (The U.S. $500,000,000 7.75% Notes due 11 July 2022 issued by Georgian Railway JSC on 5 July 2012), Georgian Railway and/or its subsidiary is entitled to incur financial indebtedness if the ratio of Net Financial Indebtedness of the Issuer and its Subsidiaries as of the date of such Incurrence to the aggregate amount of EBITDA for the most recent annual financial period for which consolidated financial statements have been delivered, does not exceed 3.5 to 1.

Given table sets forth calculation of Net Financial Indebtedness to EBITDA as at 30 June 2017 and according to the above mentioned Condition 3 (d) of the "Terms and Conditions of the Notes". However, this calculation is for information only and does not implicate that 30 June 2017 is the Incurrence date (or "the date of determination") as defined in Condition 3 of the "Terms and Conditions of the Notes".

Calculations of ratio of Net Financial Indebtedness to EBITDA:

In 000 GEL

Net Financial Indebtedness as at:	**30-Jun-17**
Financial indebtedness	1,334,534
less:	
Available credit facilities	133,288
Cash	217,138
Net Financial Indebtedness:	**984,108**

The most recent annual financial period	**Twelve-month period ended 31-Dec-16**
Results from operating activities	175,488
Depreciation add-back	106,267
EBITDA	**281,755**
Net Financial Indebtedness/EBITDA	**3.49**