Management Discussion and Analysis for the three months ended 31 March 2017

Georgian Railway has shown slight deterioration in financial performance during the three months ended 31 March 2017, compared to the same period of 2016, which was mainly caused by decreased transportation volume and turnover by about 2 percent. The Group's total revenue has decreased by about 3 percent (GEL 3 million). The decrease of about 2 percent (GEL 1 million) was shown in the Group's EBITDA, while EBITDA margin was maintained at about the same level, 44 percent. The ratio of Net Debt to EBITDA has improved slightly, was down to 3.43 as at 31 March 2017 from 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 quarter of 2017 the Group purchased two new additional passenger trains produced by Swiss rolling stock manufacturer Stadler. Revenue from passenger transportation during the three months ended 31 March 2017, compared to the same period of 2016, has increased by 24 percent (GEL 0.7 million).

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1.Profit or Loss Statement

Profit or loss statement

3 month period ended 31 March *In GEL '000*

	3M 2017	3M 2016	% Change	Abs. change
Revenue	104,419	107,829	(3.2%)	(3,410)
Other income	4,672	4,684	(0.3%)	(12)
Employee benefits expense	(35,455)	(34,762)	2.0%	(693)
Depreciation and amortization	(31,513)	(26,185)	20.3%	(5,328)
Electricity, consumables and maintenance cost	(10,749)	(12,959)	(17.1%)	2,210
Other expenses	(17,020)	(17,816)	(4.5%)	796
Result from operating activities	**14,354**	**20,791**	**(31.0%)**	**(6,437)**
Finance income	93,765	19,637	377.5%	74,128
Finance cost	(14,981)	(15,676)	(4.4%)	695
Net finance income	**78,784**	**3,961**	**1889.0%**	**74,823**
Profit before income tax	**93,138**	**24,752**	**276.3%**	**68,386**
Income tax expense(benefit)	(205)	10,243	(102.0%)	(10,448)
Profit and total comprehensive income	**92,933**	**34,995**	**165.6%**	**57,938**
EBITDA	45,867	46,976	(2.4%)	(1,109)
EBITDA margin	43.9%	43.6%	N/A	0.4%
Adjusted EBITDA	42,952	45,055	(4.7%)	(2,103)
Adjusted EBITDA margin	41.1%	41.8%	N/A	(0.6%)

1.1 Revenue

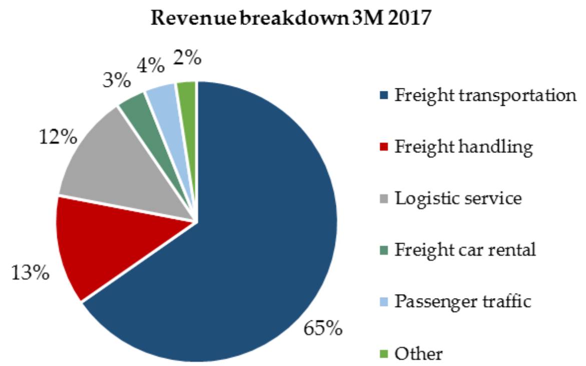
Revenue breakdown

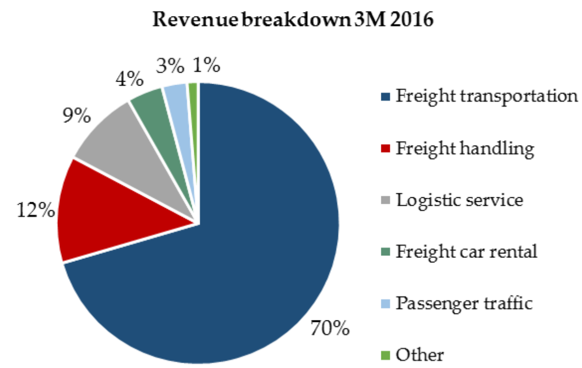
3 month period ended 31 March *In GEL '000*

	3M 2017	3M 2016	% Change	% Change at constant currency	Abs. change
Freight transportation*	68,179	75,988	(10.3%)	(16.1%)	(7,809)
Freight handling*	13,290	13,248	0.3%	(5.3%)	43
Logistic services*	13,019	9,739	33.7%	25.1%	3,280
Freight car rental	3,603	4,416	(18.4%)	(22.9%)	(813)
Passenger traffic	3,806	3,079	23.6%	23.5%	727
Other	2,522	1,359	85.6%	82.9%	1,164
Revenue	**104,419**	**107,829**	**(3.2%)**	**(8.9%)**	**(3,410)**
Other income	**4,672**	**4,684**	**(0.3%)**	**NA**	**(12)**
Freight transportation	**68,179**	**75,988**	**(10.3%)**	**(16.1%)**	**(7,809)**
Liquid cargoes	**31,931**	**35,071**	**(9.0%)**	**(14.8%)**	**(3,139)**
Oil products	28,166	29,185	(3.5%)	(9.7%)	(1,019)
Crude oil	3,765	5,885	(36.0%)	(40.1%)	(2,120)
Dry cargoes	**36,248**	**40,918**	**(11.4%)**	**(17.1%)**	**(4,670)**
Ores	6,335	6,634	(4.5%)	(10.7%)	(300)
Grain	2,237	1,883	18.8%	11.1%	354
Ferrous metals and scrap	2,739	6,802	(59.7%)	(62.3%)	(4,063)
Sugar	4,127	5,865	(29.6%)	(34.2%)	(1,738)
Chemicals and fertilizers	3,538	2,849	24.2%	16.2%	689
Construction freight	1,532	1,756	(12.8%)	(18.4%)	(224)
Industrial freight	1,132	758	49.4%	39.8%	375
Cement	163	277	(41.4%)	(45.2%)	(115)
Other	14,446	14,092	2.5%	(4.1%)	353
Freight turnover (million ton-km)	**818**	**837**	**(2.2%)**	**(2.2%)**	**(19)**
Revenue / ton-km (in Tetri)	**8.33**	**9.08**	**(8.2%)**	**(14.1%)**	**(0.75)**

** 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 three months ended 31 March 2017 and 2016:





Freight transportation revenue

Freight transportation revenue, has decreased by 10 percent (GEL 7.8 million) during the three months ended 31 March 2017, compared to the same period of the previous year.

	Average rate			*Reporting date spot rates*			
	3M 2017	3M 2016	% Change	31-Mar-17	31-Dec-16	31-Mar-16	31-Dec-15
USD	2.60	2.44	6.9%	2.45	2.65	2.37	2.39
CHF	2.59	2.45	5.8%	2.45	2.60	2.46	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 three months ended 31 March 2017 has decreased by 2 percent, compared to the same period of previous year. There was 3 percent increase in liquid cargo volume while dry cargo volume showed 7 percent fall (*see Appendix 1*).

Oil products

3 month period ended 31 March

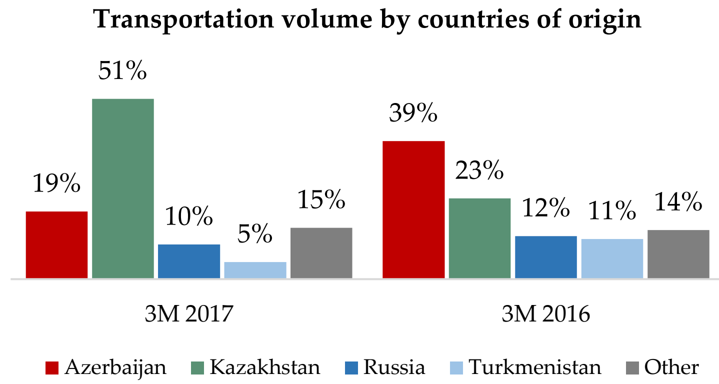
	3M 2017	3M 2016	% Change	% Change at constant currency
Revenue (GEL'000)	28,166	29,185	(3.5%)	(9.7%)
Freight volume (ton '000)	1,178	949	24.1%	24.1%
Freight turnover (million ton-km)	392	303	29.6%	29.6%
Revenue / ton-km (in Tetri)	7.18	9.64	(25.5%)	(30.3%)

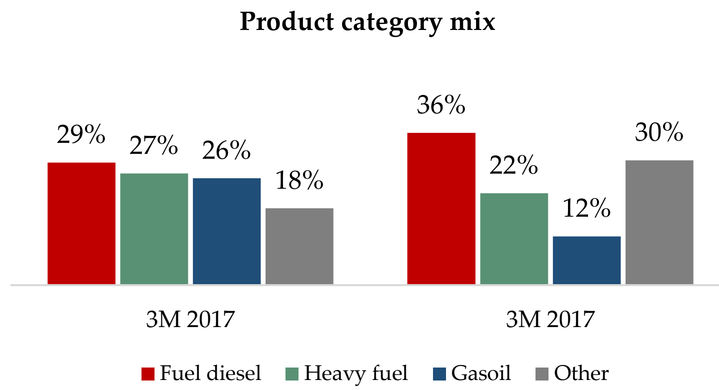
**For better presentation, we have separated "logistic services" from "freight transportation" and ''freight handling''. ''Logistic services'' represents revenue generated by freight forwarding subsidiaries.*

Transportation turnover of oil products for the three months ended 31 March 2017, compared to the same period of 2016, has increased by 30 percent and freight volume was up by 24 percent, while transportation revenue was down by 4 percent. These disproportional changes were mainly caused by decrease in tariffs at the end of 2016 for some oil products, also by changes in product category and direction mixes.

Share of transportation volume from Kazakhstan was up from 23 percent to 51 percent while, share of transportation volume from Azerbaijan was down from 39 percent to 19 percent.

The increase in transportation volume was caused by increased transportation of gasoil and heavy fuel oil, which was partly offset by reduced volume of petrol.





Crude oil

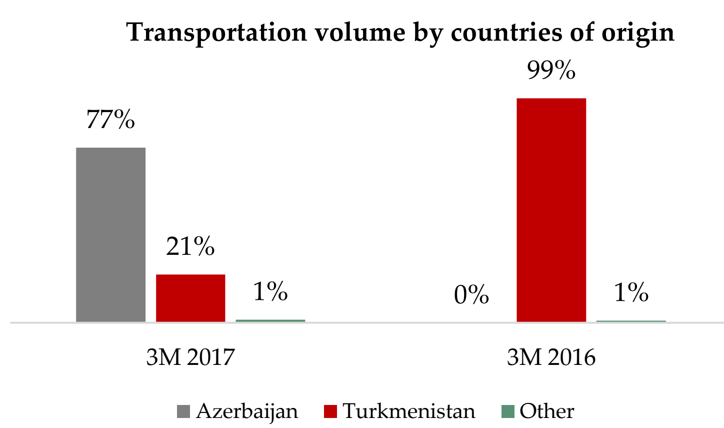
3 month period ended 31 March

	3M 2017	3M 2016	% Change	% Change at constant currency
Revenue (GEL'000)	3,765	5,885	(36.0%)	(40.1%)
Freight volume (ton '000)	182	377	(51.8%)	(51.8%)
Freight turnover (million ton-km)	72	149	(51.6%)	(51.6%)
Revenue / ton-km (in Tetri)	5.22	3.95	32.3%	23.8%

**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 three months ended 31 March 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 36 percent in the three months ended 31 March 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 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.

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 increase during the three months ended 31 March 2017, compared to the same period of the previous year, while transportation volume from Turkmenistan has declined significantly.

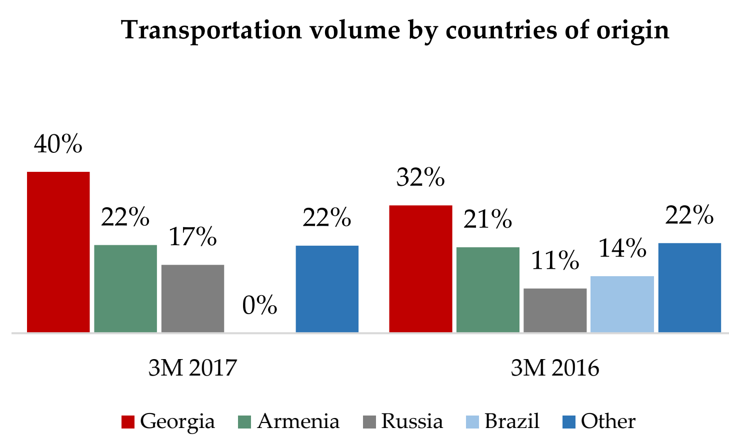
Ores

3 month period ended 31 March

	3M 2017	3M 2016	% Change	% Change at constant currency
Revenue (GEL'000)	6,335	6,634	(4.5%)	(10.7%)
Freight volume (ton '000)	336	318	5.5%	5.5%
Freight turnover (million ton-km)	68	81	(16.4%)	(16.4%)
Revenue / ton-km (in Tetri)	9.33	8.17	14.2%	6.8%

**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 origin countries for ore products during the period under review were Georgia, Armenia and Russia. No transportation was made from Brazil during the three months ended 31 March 2017, while the share of transportation volume from Brazil for the three months ended 31 March 2016 was 14 percent.



Transportation revenue of ore products has decreased by 5 percent. Even though transportation volume increased by 6 percent, transportation turnover was down by 16 percent. The disproportional changes in transportation turnover and transportation volume was caused by reduced average transportation distance for two main origin countries, Russia and Georgia, 75 percent and 30 percent respectively.

Average revenue per ton-kilometer has increased during the three months ended 31 March 2017, compared to the same period of the previous year. The increase was mainly caused by changes in country of origin of aluminum oxide transported by the Group and reduced transportation volume of relatively less profitable product (stone coal), while transportation volume of relatively more profitable products, like bituminous coal and copper ores, has increased.

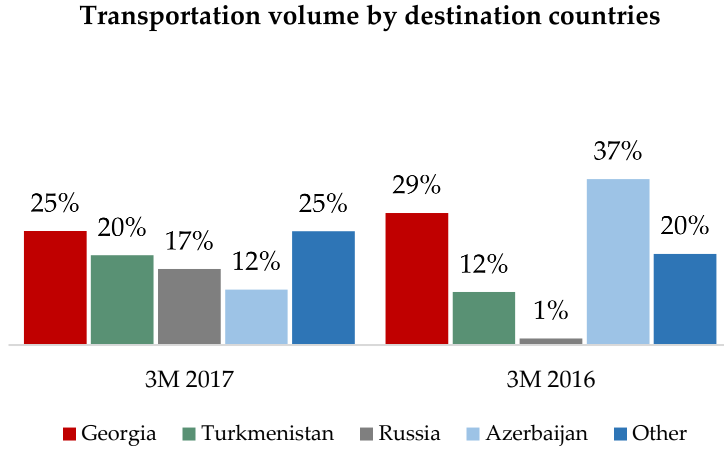
Ferrous metals and scrap

3 month period ended 31 March

	3M 2017	3M 2016	% Change	% Change at constant currency
Revenue (GEL'000)	2,739	6,802	(59.7%)	(62.3%)
Freight volume (ton '000)	123	177	(30.4%)	(30.4%)
Freight turnover (million ton-km)	28	47	(41.5%)	(41.5%)
Revenue / ton-km (in Tetri)	9.95	14.47	(31.2%)	(35.6%)

**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, Turkmenistan, Russia and Azerbaijan, together creating 75 percent of total volume transported for the three months ended 31 March 2017.



The decrease in transportation revenue by 60 percent during the three months ended 31 March 2017, compared to the same period of the previous year, was driven by reduced transportation turnover and average tariffs.

During the three months ended 31 March 2017, transportation volume has decreased by 30 percent, compared to the same period of 2016, while transportation turnover has decreased by 42 percent. This was caused by the reduced transportation volume to Azerbaijan (which covers longer distances) and at the same time reduction in transportation distance to Azerbaijan by 29 percent while, transportation volume to Russia (which covers shorter distances) has increased.

The decrease in average revenue per ton-kilometer was due to the ceased transportation of pipes for oil and gas pipelines to Azerbaijan, which are relatively more profitable products.

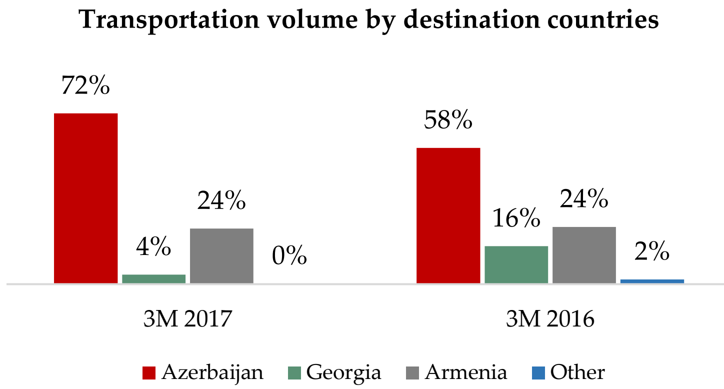
Sugar

3 month period ended 31 March

	3M 2017	3M 2016	% Change	% Change at constant currency
Revenue in GEL'000	4,127	5,865	(29.6%)	(34.2%)
Freight volume (ton '000)	98	125	(21.1%)	(21.1%)
Freight turnover (million ton-km)	38	46	(17.8%)	(17.8%)
Revenue / ton-km (in Tetri)	10.92	12.75	(14.4%)	(19.9%)

**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 three months ended 31 March 2017 and 2016, with the share of 96 percent and 98 percent, respectively. Main destination countries of the sugar were Azerbaijan, Armenia and Georgia.



The decrease in transportation revenue by 30 percent during the three months ended 31 March 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 three months ended 31 March 2017, compared to the same period of 2016, was mainly due to the decline in freight volume transported to Georgia by 80 percent and to Armenia by 23 percent, although the share of freight volume transported to Armenia remained at the same level.

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.

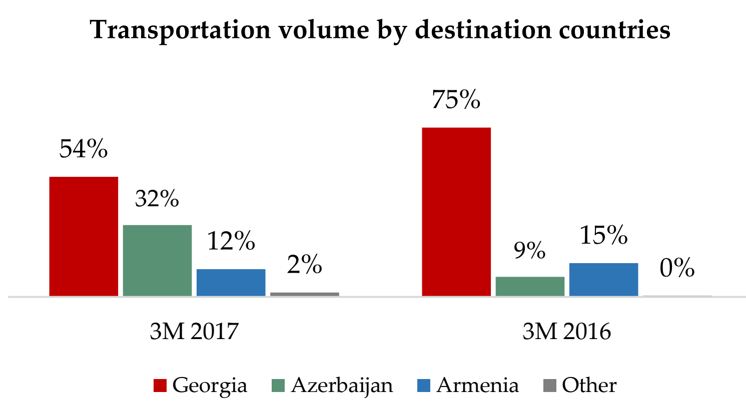
Industrial freight

3 month period ended 31 March

	3M 2017	3M 2016	% Change	% Change at constant currency
Revenue in GEL'000	1,132	758	49.4%	39.8%
Freight volume (ton '000)	49	59	(16.1%)	(16.1%)
Freight turnover (million ton-km)	11	9	18.2%	18.2%
Revenue / ton-km (in Tetri)	10.49	8.30	26.4%	18.2%

**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 period under review were Georgia, Azerbaijan and Armenia, with the shares of 54 percent, 32 percent and 12 percent, respectively.



The increase in transportation revenue for the three months ended 31 March 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 three months ended 31 March 2017, compared to the same period of the previous year, although transportation volume has decreased by 16 percent. This was caused by the increased average transportation distance for one of the main destination countries, Armenia by 53 percent. The change in transportation distance to Armenia direction was due to the fact that in the three months ended 31 March 2016 main country of origin for the freight was Georgia, while in the same period of 2017 significant part of freight volume was originated from China, therefore in 2017 freight was transported mainly from Poti port and covered significantly longer distance.

Increase in average revenue per ton-kilometer for the three months ended 31 March 2017, compared to the same period of 2016, was mainly due to the increased average revenue per ton-kilometer (by 33 percent) on the freight transported to Georgia. This increase was mainly due to the transportation of relatively more profitable product to Georgia, wood-timbers, with 10 percent share of industrial freight transported for the three months ended 31 March 2017, while in the same period of 2016 this freight was not transported by the Group. The increase in average revenue per ton-kilometer on freight transported to Georgia was also caused by changes in country of origin of slag granulated transported to Georgia, resulting in higher average revenue per-ton kilometer for this product.

Freight handling

Most of the freight handling revenue, about 86 percent in the three months ended 31 March 2017 was denominated in USD, while the rest was denominated in GEL. The revenue from this source mainly changes in line with transportation volumes in tons. The correlation however is not perfect as there are many factors influencing the revenue. Changes in transportation volume in the three months ended 31 March 2017, compared to the same period of 2016, were not significant consequently revenue from freight handling remained at about the same level.

Logistic services

The increase in logistic services by GEL 3.3 million during the three months ended 31 March 2017, compared to the same period of the previous year, was mostly attributable to increased logistic revenue from oil products, mainly transported to the direction of Azerbaijan and Armenia.

Freight car rental

The reduction in revenue from freight car rental by 18 percent (GEL 0.8 million) during the three months ended 31 March 2017, compared to the same period of 2016, was mainly caused by reduced usage of the Group's railcars from Turkmenistan (mainly tank cars and grain hoppers).

Passenger transportation

Passenger transportation

3 month period ended 31 March

	3M 2017	3M 2016	% Change	Abs. change
Revenue (in GEL '000)	3,806	3,079	23.6%	727
Number of passengers (in '000)	574	524	9.5%	50

Revenue from passenger transportation has increased by 24 percent (GEL 0.7 million) during the three months ended 31 March 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 (which is more profitable), while there was a reduction in regional transportation. The average loading rate of the trains on the main line during the three months ended 31 March 2017 was about 61 percent.

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

3 month period ended 31 March *In GEL '000*

	3M 2017	3M 2016	% Change	Abs. change
Continuing operations	1,710	2,726	(37.3%)	(1,016)
Non-continuing operations	2,962	1,958	51.3%	1,004
Total	**4,672**	**4,684**	**(0.3%)**	**(12)**

The decrease in other income from continuing operations during the three months ended 31 March 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 three months ended 31 March 2017 increased by GEL 3.0 million, compared to the same period of the previous year. The increase was mainly caused by depreciation and amortization expense.

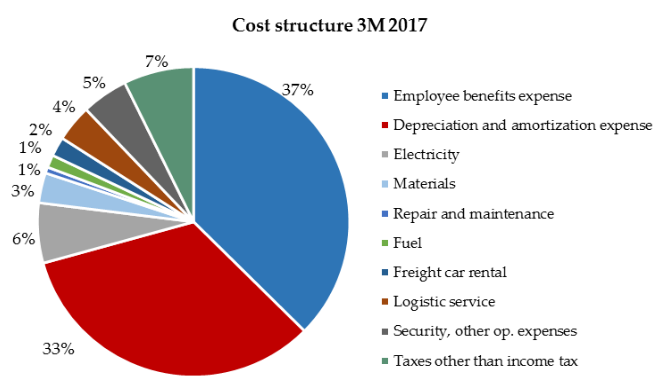
Operating expenses

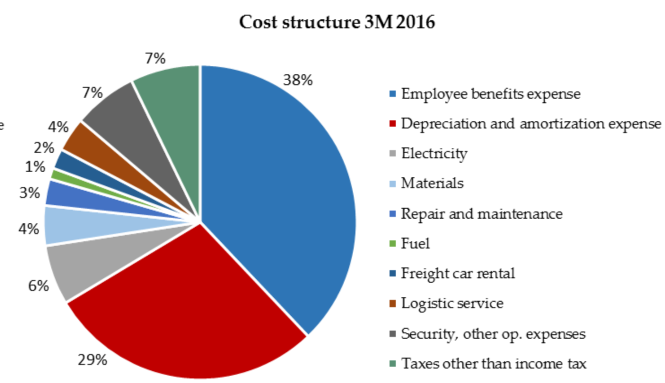
3 month period ended 31 March *In GEL '000*

	3M 2017	3M 2016	% Change	Abs. change
Employee benefits expense	35,455	34,762	2.0%	693
Depreciation and amortization expense	31,513	26,185	20.3%	5,328
Electricity	5,935	5,639	5.2%	296
Materials	2,965	3,766	(21.3%)	(801)
Repair and maintenance	601	2,509	(76.0%)	(1,908)
Fuel	1,248	1,045	19.4%	203
Freight car rental	1,904	1,899	0.3%	5
Logistic services	3,637	3,219	13.0%	418
Security, other op. expenses	4,587	6,061	(24.3%)	(1,474)
Taxes other than income tax	6,893	6,637	3.9%	256
Total	**94,738**	**91,722**	**3.3%**	**3,016**

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

The following charts represent the cost structure for the three months ended 31 March 2017 and 2016:





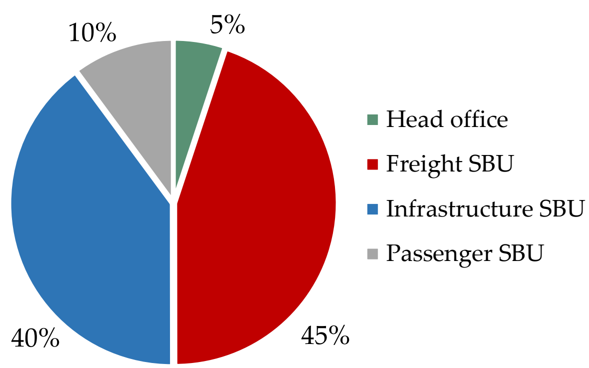
Employee benefits expense

The increase in employee benefits expense during the three months ended 31 March 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.

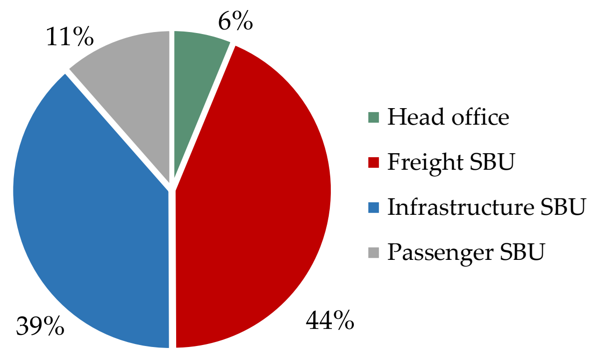
Number of employees (excluding subsidiaries) by the end of March 2017 was equal to 12,435 and by the end of March 2016 was 12,659.

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

Distribution of staff by business units at the end of March 2017



Distribution of staff by business units at the end of March 2016



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 three months ended 31 March 2017 transportation turnover decreased by 2 percent compared to the same period of the previous year consequently, material, repair and maintenance expenses decreased by GEL 2.7 million.

Electricity expenses

Electricity expenses

3 month period ended 31 March *In GEL '000*

	3M 2017	3M 2016	% Change	Abs. change
Electricity expense on traction	4,768	4,551	4.8%	217
Utility expenses	1,167	1,087	7.3%	79
Total	**5,935**	**5,639**	**5.2%**	**296**

There was 5 percent increase in electricity expenses for traction during the three months ended 31 March 2017, compared to the same period of 2016. Increase 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 open market.

Purchased electricity and weighted average tariff

3 month period ended 31 March

	3M 2017			3M 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
Total	**39.6**	**1,608.4**	**0.120**	**38.6**	**1,614.2**	**0.118**

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

Freight car rental expense

Freight car rental expense in the three months ended 31 March 2017, compared to the same period of the previous year, remained at about the same level despite the reduction in transportation volume, which was mainly due to about 6 percent higher average GEL/CHF exchange rate.

Logistic services

Expenses for logistic services represent operating expenses of Georgian Railway's logistic subsidiaries. The expenses for logistic services in the three months ended 31 March 2017 have increased by about 13 percent (GEL 0.4 million), compared to the same period of the previous year. The increase was mainly caused by increased average GEL/USD exchange rate.

Taxes other than income tax

Taxes other than income tax

3 month period ended 31 March *In GEL '000*

	3M 2017	3M 2016	% Change	Abs. change
Property tax	3,693	3,360	9.9%	333
Land tax	2,813	2,812	0.0%	1
Other taxes*	386	464	(16.8%)	(78)
Total	**6,893**	**6,637**	**3.9%**	**256**

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

In the three months ended 31 March 2017, compared to the same period of 2016, taxes other than income tax show slight increase (GEL 0.3 million), mostly due to the property tax driven by increase in taxable assets. 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.

1.4 Finance income and cost

Finance income and cost

3 month period ended 31 March *In GEL '000*

	3M 2017	3M 2016	% Change	Abs. change
Interest income	4,547	7,003	(35.1%)	(2,456)
Impairment loss on trade receivables	(1,066)	(2,179)	(51.1%)	1,113
Interest expense	(13,915)	(13,497)	3.1%	(418)
Net foreign exchange gain	89,218	12,634	606.2%	76,584
Net finance income/(cost)	**78,784**	**3,961**	**1889.0%**	**74,823**

In the three months ended 31 March 2017 the Group showed GEL 78.8 million net finance income, compared to GEL 4.0 million in the same period of 2016. The positive difference of GEL 74.8 million was mainly due to the fluctuation of GEL against foreign currencies.

GEL/USD exchange rate fluctuation has significant effect on net finance income/(cost). Due to GEL appreciation against USD as at 31 March 2017 compared to 31 December 2016 (GEL/USD exchange rate 2.45 versus 2.65), the Group experienced net foreign exchange gain of GEL 89.2 million, however due to relatively smaller appreciation of GEL against USD as at 31 March 2016 compared to 31 December 2015 (GEL/USD exchange rate 2.37 versus 2.39), the Group showed net foreign exchange gain of GEL 12.6 million.

Higher interest expense during the three months ended 31 March 2017, compared to the same period of 2016, was mainly due to new passenger loan.

Lower interest income by GEL 2.5 million in the three months ended 31 March 2017 compared to the same period of 2016, was mainly due to the lower average cash balances 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

3 month period ended 31 March *In GEL '000*

	31-Mar-17	31-Dec-16	% Change	Abs. change
TOTAL ASSETS	**3,212,317**	**3,225,683**	**(0.4%)**	**(13,366)**
Changes are mainly due to:				
Other non-current assets	188,892	147,565	28.0%	41,327
Current tax assets	14,433	7,129	102.4%	7,304
Trade and other receivables	92,047	99,649	(7.6%)	(7,602)
Cash and cash equivalents	208,487	277,953	(25.0%)	(69,466)
TOTAL LIABILITIES	**1,519,934**	**1,626,407**	**(6.6%)**	**(106,473)**
Changes are mainly due to:				
Loans and borrowings (LT)	1,295,726	1,361,602	(4.8%)	(65,876)
Loans and borrowings (ST)	32,491	57,172	(43.1%)	(24,681)
Trade and other payables	92,189	109,638	(15.9%)	(17,449)

Significant changes in assets

GEL 41.3 million increase in other non-current assets was mainly due to the increase in prepayments for non-current assets, mostly attributable to the new passenger trains.

In the three months ended 31 March 2017 current tax assets has increased by GEL 7.3 million, increase was mostly due to the accumulated VAT surplus, mainly due to the acquisition of new passenger trains.

There was GEL 7.6 million decrease in trade and other receivables in the three months ended 31 March 2017. The decrease was mainly due to appreciation of GEL against hard currencies that affected foreign currency denominated receivables.

Cash and cash equivalents have decreased by GEL 69.5 million in the three months ended 31 March 2017. Significant cash outflows have occurred due to the acquisition of fixed assets and interest payments (*see heading 3 "Cash Flow Statement"*).

Significant changes in liabilities

There was GEL 65.9 million decrease in long term borrowings in the three months ended 31 March 2017, the decrease was mainly due to debt revaluation as GEL has appreciated against USD.

In the first three months of 2017, short term borrowings has decreased by GEL 24.7 million as the Group has paid its interest payables for Eurobonds in January, in addition decrease was contributed by the appreciation of GEL against USD.

Trade and other payables have decreased by GEL 17.4 million in the three months ended 31 March 2017. The decrease was mainly driven by the reduction in payables for the Modernization Project and in advances received for freight transportation.

3. Cash Flow Statement

Cash flow statement

3 month period ended 31 March — *In GEL '000*

	3M 2017	3M 2016
Cash flows from operating activities		
Cash receipts from customers	108,344	102,769
Cash paid to suppliers and employees	(65,612)	(54,479)
Cash flows from operations before income taxes paid	**42,732**	**48,290**
Income tax paid	(1,904)	(1,915)
Net cash from operating activities	**40,828**	**46,375**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(94,717)	(62,655)
Proceeds from sale of property, plant and equipment	1,436	0
Interest received	3,352	5,860
Repayment of the issued loans	691	0
Net cash used in investing activities	**(89,238)**	**(56,795)**
Cash flows from financing activities		
Proceeds from borrowings	42,117	0
Interest paid	(54,542)	(46,800)
Dividends paid	0	(1,607)
Net cash from used in financing activities	**(12,425)**	**(48,407)**
Net increase/(decrease) in cash and cash equivalents	**(60,835)**	**(58,827)**
Cash and cash equivalents at 1 January	277,953	294,784
Effect of exchange rate fluctuations on cash and cash equivalents	(8,631)	(1,302)
Cash and cash equivalents at the end of the period	**208,487**	**234,655**

Operating activities

Net cash from operating activities decreased by GEL 5.5 million in the three months ended 31 March 2017, compared to the same period of the previous year. The change was driven by the increase in cash paid to suppliers and employees by about GEL 11.1 million, mainly caused by higher taxes due to VAT paid for new passenger trains and for the transaction of land transfers to the Government. The increase in cash paid to suppliers and employees was partly offset by the increase in cash receipts from customers, driven by higher cash generated from logistic services.

Investing activities

Cash used in investing activities has increased by GEL 32 million in the three months ended 31 March 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 three months ended 31 March 2017, compared to the same period of 2016.

Financing activities

Proceeds from borrowings GEL 42 million represents the loan for financing the purchase of the new passenger trains.

Higher interest paid in the three months ended 31 March 2017, compared to the same period of the previous year, was mainly due to the interest paid on loan for passenger trains, which was taken for new passenger trains and depreciation of GEL against USD, as the Groups debts are denominated in USD.

Appendix 1

Breakdown of freight transportation in tons

3 month period ended 31 March *In thousand tons*

	3M 2017	3M 2016	% Change	Abs. change
Liquid cargoes	**1,360**	**1,327**	**2.5%**	**33**
Oil products	1,178	949	24.1%	229
Crude oil	182	377	(51.8%)	(196)
Dry cargoes	**1,412**	**1,510**	**(6.5%)**	**(98)**
Ores	336	318	5.5%	18
Grain	70	64	9.5%	6
Ferrous metals and scrap	123	177	(30.4%)	(54)
Sugar	98	125	(21.1%)	(26)
Chemicals and fertilizers	159	127	25.0%	32
Construction freight	241	289	(16.6%)	(48)
Industrial freight	49	59	(16.1%)	(9)
Cement	9	18	(51.6%)	(9)
Other	326	333	(2.2%)	(7)
Total	**2,771**	**2,837**	**(2.3%)**	**(65)**

Appendix 2

Breakdown of freight transportation in ton-kilometers

3 month period ended 31 March *In million ton-kilometers*

	3M 2017	3M 2016	% Change	Abs. change
Liquid cargoes	**465**	**452**	**2.8%**	**13**
Oil products	392	303	29.6%	90
Crude oil	72	149	(51.6%)	(77)
Dry cargoes	**354**	**385**	**(8.1%)**	**(31)**
Ores	68	81	(16.4%)	(13)
Grain	20	19	3.5%	1
Ferrous metals and scrap	28	47	(41.5%)	(19)
Sugar	38	46	(17.8%)	(8)
Chemicals and fertilizers	52	39	34.4%	13
Construction freight	33	42	(20.9%)	(9)
Industrial freight	11	9	18.2%	2
Cement	2	5	(60.0%)	(3)
Other	103	97	5.9%	6
Total	**818**	**837**	**(2.2%)**	**(19)**

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 31 March 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 31 March 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:	**31-Mar-17**
Financial Indebtedness	1,328,217
less:	
Available Credit Facilities	151,924
Cash	208,487
Net Financial Indebtedness:	**967,806**
	Twelve-month period ended
The most recent annual financial period	**31-Dec-16**
Results from operating activities	175,488
Depreciation add-back	106,267
EBITDA	**281,755**
Net Financial Indebtedness/EBITDA	**3.43**