



**Georgian
Railway**
Est. 1872

**Management Discussion and Analysis
for the six months ended
30 June 2019**

Financial and non-financial highlights

Revenue

<u>Q2 2019</u>	<u>6M 2019</u>
125,975	230,194
+23% from Q2 2018 +21% from Q1 2019	+16% from 6M 2018

Results from operating activities

<u>Q2 2019</u>	<u>6M 2019</u>
38,752	61,822
+256% from Q2 2018 +68% from Q1 2019	+229% from 6M 2018

EBITDA

<u>Q2 2019</u>	<u>6M 2019</u>
55,088	103,230
+35% from Q2 2018 +15% from Q1 2019	+32% from 6M 2018

EBITDA margin

<u>Q2 2019</u>	<u>6M 2019</u>
43.7%	44.8%
+4 points from Q2 2018 -2 points from Q1 2019	+6 points from 6M 2018

Adjusted EBITDA

<u>Q2 2019</u>	<u>6M 2019</u>
50,052	70,617
+37% from Q2 2018 +6% from Q1 2019	+38% from 6M 2018

Adjusted EBITDA margin

<u>Q2 2019</u>	<u>6M 2019</u>
39.7%	42.19%
+4 points from Q2 2018 -5 points from Q1 2019	+7 points from 6M 2018

Net debt to EBITDA

30 Jun 2019

6.80

4.51 as at 30-Jun-2018
6.20 as at 31-Mar-2019

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1. Profit or Loss Statement

Profit and loss statement:

6 month period ended 30 June

GEL '000	Q2 2019	Q2 2018	y-o-y	Q1 2019	q-o-q	6M 2019	6M 2018	y-o-y % change	y-o-y Abs. change
Revenue	125,975	102,083	23.4%	104,218	20.9%	230,194	198,593	15.9%	31,601
Other income	-389	4,497	-108.6%	8,244	-104.7%	7,856	8,777	-10.5%	-921
Employee benefits expense	-42,328	-37,411	13.1%	-37,551	12.7%	-79,879	-73,988	8.0%	-5,891
Depreciation and amortization	-16,293	-30,079	-45.8%	-25,072	-35.0%	-41,365	-59,333	-30.3%	17,968
Electricity, consumables and maintenance costs	-10,759	-10,423	3.2%	-11,256	-4.4%	-22,014	-20,545	7.1%	-1,469
Impairment loss/gain on trade receivables	-43	0	N/A	0	N/A	-43		N/A	-43
Other expenses	-17,412	-17,778	-2.1%	-15,514	12.2%	-32,927	-34,705	-5.1%	1,778
Result from operating activities	38,752	10,890	255.9%	23,069	68.0%	61,822	18,799	228.9%	43,023
Net finance income/loss	-87,533	-14,134	519.3%	-15,186	476.4%	-102,719	56,860	-280.7%	-159,579
Profit before income tax	-48,780	-3,245	1403.1%	7,883	-718.8%	-40,897	75,659	-154.1%	-116,556
Income tax expense(benefit)	-297	-865	-65.6%	-223	33.2%	-520	-1,214	-57.1%	693
Profit and total comprehensive income	-49,078	-4,111	1093.9%	7,660	-740.7%	-41,417	74,445	-155.6%	-115,862
EBITDA	55,088	40,968	34.5%	48,141	14.4%	103,230	78,132	32.1%	25,098
EBITDA margin	43.7%	40.1%	NA	46.19%	NA	44.8%	39.3%	NA	5.5%
Adjusted EBITDA	50,052	36,621	36.7%	47,073	6.3%	97,125	70,617	37.5%	26,508
Adjusted EBITDA Margin	39.7%	35.9%	NA	45.17%	NA	42.19%	35.6%	NA	6.6%

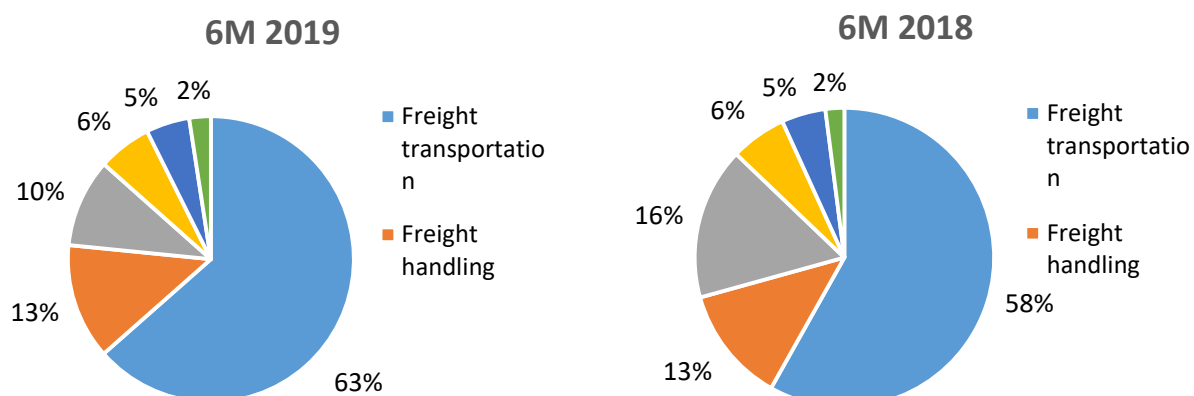
1.1 Revenue

Revenue breakdown

6 month period ended 30 June

GEL '000	Q2 2019	Q2 2018	y-o-y	Q1 2019	q-o-q	6M 2019	6M 2018	% Change	% Change at constant currency	Abs. Change
Freight transportation*	75,431	60,391	24.9%	70,736	6.6%	146,167	115,468	26.6%	15.4%	30,699
Freight handling*	21,972	12,614	74.2%	8,147	169.7%	30,119	24,944	20.7%	10.1%	5,175
Logistical service*	13,008	16,921	-23.1%	9,975	30.4%	22,983	32,653	-29.6%	-35.8%	-9,670
Freight car rental	6,106	4,846	26.0%	7,866	-22.4%	13,972	12,016	16.3%	6.0%	1,956
Passenger traffic	6,609	5,240	26.1%	4,733	39.6%	11,342	9,467	19.8%	9.3%	1,875
Other	2,852	2,070	37.8%	2,761	3.3%	5,613	4,046	38.7%	26.5%	1,567
Revenue	125,978	102,083	23.4%	104,218	20.9%	230,196	198,593	15.9%	5.7%	31,603
Other income	-388	4,497	-108.6%	8,244	-104.7%	7,856	8,777	-10.5%	-18.4%	-921
Freight transportation	75,431	60,391	24.9%	70,736	6.6%	146,167	115,468	26.6%	15.4%	30,699
Liquid cargoes	31,456	22,754	38.2%	27,889	12.8%	59,344	48,416	25.4%	14.3%	12,012
Oil products	31,244	21,374	46.2%	27,879	12.1%	59,122	46,106	31.2%	19.6%	14,048
Crude oil	212	1,380	-84.6%	10	2111.3%	222	2,310	-90.2%	-91.0%	-2,036
Dry cargoes	43,975	37,636	16.8%	42,847	2.6%	86,823	67,052	27.4%	16.2%	18,687
Ores	9,031	7,359	22.7%	8,735	3.4%	17,766	14,162	28.3%	17.0%	3,921
Grain	1,210	1,192	1.5%	1,090	11.0%	2,300	4,821	-51.2%	-55.5%	-2,413
Ferrous metals and scrap	1,886	2,254	-16.3%	2,551	-26.1%	4,437	4,496	0.9%	-7.9%	42
Sugar	5,893	4,810	22.5%	3,638	62.0%	9,531	5,114	90.6%	73.8%	4,531
Chemicals and fertilizers	2,345	3,535	-33.7%	5,945	-60.5%	8,290	7,440	14.0%	3.9%	1,016
Construction freight	2,298	1,501	53.1%	2,432	-5.5%	4,730	3,305	46.4%	33.5%	1,499
Industrial freight	2,357	1,856	27.0%	1,067	120.9%	3,424	2,714	29.1%	17.7%	771
Cement	545	490	11.2%	533	2.3%	1,078	845	30.5%	19.0%	252
Other	18,411	14,638	25.8%	16,857	9.2%	35,268	24,155	34.6%	22.8%	9,069
Freight turnover (million ton-km)	679	665	2.2%	685	-0.9%	1,364	1,298	5.0%	-4.2%	66
Revenue / ton-km (in Tetri)	11.11	9.09	22.3%	10.33	7.6%	10.72	8.90	20.5%	9.9%	1.82

The following charts represent revenue breakdown for the six months ended 30 June 2019 and 2018:



Freight transportation revenue

Most of the Group's revenue (about 63 percent in first 6 months of 2019) is derived from freight transportation. GR's freight transportation revenue consists of liquid and dry cargoes. The split between liquid and dry cargo revenue in first 6 months of 2019 was about 41 and 59 percent, respectively. Freight transportation revenue, has increased by 26.6% percent (GEL 30,699 million) during the six months ended 30 June 2019, compared to the same period of the previous year.

	Average rate			Reporting date spot rates			
	6M 2019	6M 2018	% Change	30-Jun-19	31-Dec-18	30-Jun-18	31-Dec-17
USD	2.70	2.47	9.66%	2.87	2.68	2.45	2.59
CHF	2.70	2.55	5.94%	2.94	2.73	2.47	2.66

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 2019 has increased by 1.2 percent, compared to the same period of previous year. Transported volumes of liquid cargo has decreased by 10.3 percent, while transported volumes of dry cargo has increased by 6.8 percent (see Appendix 1).

Oil Products

6 Month period ended 30 June

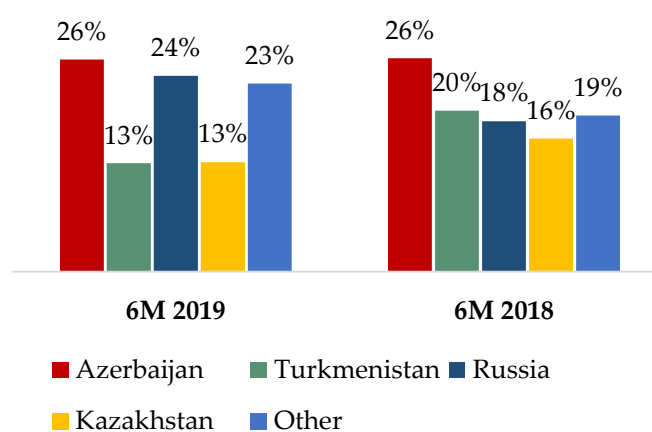
	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	59,122	46,106	28.2%	16.9%
Freight volume (ton '000)	1,450	1,520	-4.6%	NA
Freight turnover (million ton-km)	416	449	-7.4%	NA
Revenue / ton-km (in Tetri)	14.22	10.27	38.5%	26.3%

Main directions of cargo

Oil products currently are the main component of liquid cargo (nearly 100 percent of the transportation volume of liquid cargo in 2019). They are mainly transported by rail, as there is practically no competition from pipelines.

Oil products transported by the Group during six months period ended 30 June 2019 mainly originated from Azerbaijan, Russia, Kazakhstan and Turkmenistan with significant changes in transportation direction mix compared to the same period of 2018. The share of Kazakhstan was down to 13 percent from 16 percent, Turkmenistan to 13 percent from 20 percent. While the share of Russia and other countries increased by about 6 and 4 percentage points, respectively in total oil products transported by the Group. As for Azerbaijan its share comprised 26 percent during six months period ended 30 June of 2018 and 2019.

Transportation volume by countries of origin

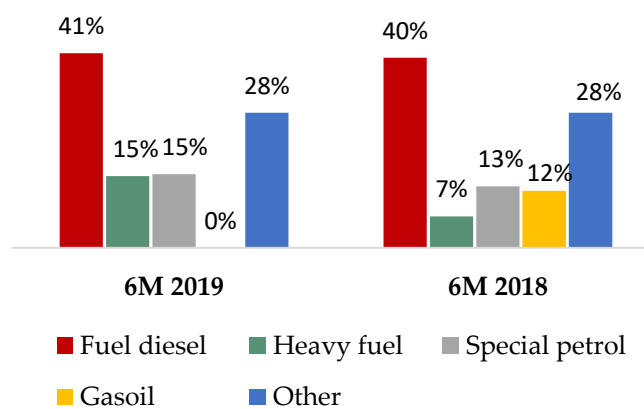


Factors influencing performance

Ton-kilometers – 7.4 percent decrease in transportation turnover was mainly driven by decreased transported volume by 4.6 percent, mainly caused by decreased transportation of gasoil from Kazakhstan by 182,188 tons.

Revenue/ton-km (in Tetri) - increase in average revenue per ton-kilometer during the period under review, compared to the same period of the previous year, was mainly due to increased tariffs on heavy fuel and jet fuel. In addition increase of exchange rate influenced average revenue per ton-kilometer as long as group's tariffs are denominated in USD. The share of

Product Category Mix



fuel diesel and special petrol (which are relatively more profitable products) has increased and share of Gasoil (which is relatively less profitable product) has decreased in total oil products transported by Georgian Railway.

Crude Oil

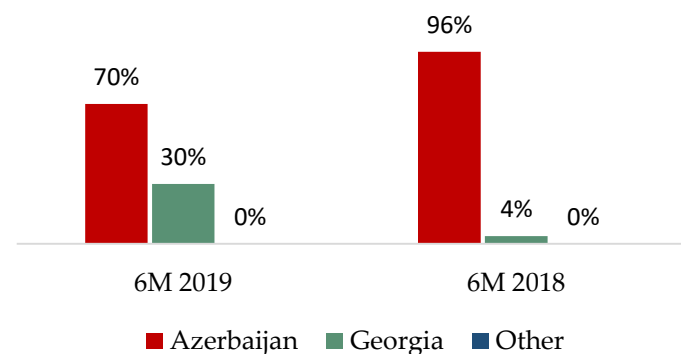
6 Month period ended 30 June

	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	222	2,310	-90.4%	-91.2%
Freight volume (ton '000)	6	103	-94.2%	NA
Freight turnover (million ton-km)	2	41	-95.4%	NA
Revenue / ton-km (in Tetri)	11.91	5.66	110.3%	91.7%

Main directions of cargo

Within the six months ended 30 June 2019, the country of origin was Azerbaijan and Georgia. In 2019 volumes mainly decreased from Azerbaijan compared to same period of 2018.

Transportation volume by countries of origin



Factors influencing performance

Ton-kilometers – Transportation turnover decreased by 95 percent because of significant drop of crude oil transported from Azerbaijan in the first six months of 2019.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was due to product direction mix, in addition increase of exchange rate influenced average revenue per ton-kilometer as long as group's tariffs are denominated in USD.

Ores

6 Month period ended 30 June

	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	17,766	14,162	25.4%	14.4%
Freight volume (ton '000)	867	801	8.3%	NA
Freight turnover (million ton-km)	222	157	41.2%	NA
Revenue / ton-km (in Tetri)	8.00	9.01	-11.2%	-19.0%

Main directions of cargo

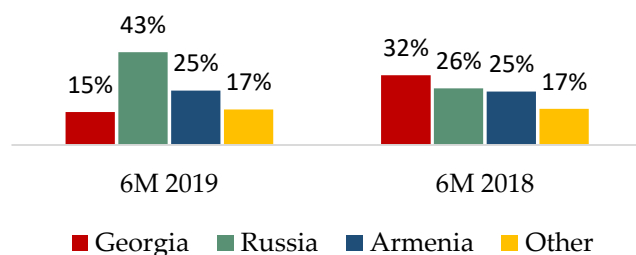
Ore products transported by the Group during six months ended 30 June 2019, mainly originated from Georgia, Armenia and Russia. Main destination countries were Georgia, Cyprus and Bulgaria.

Factors influencing performance

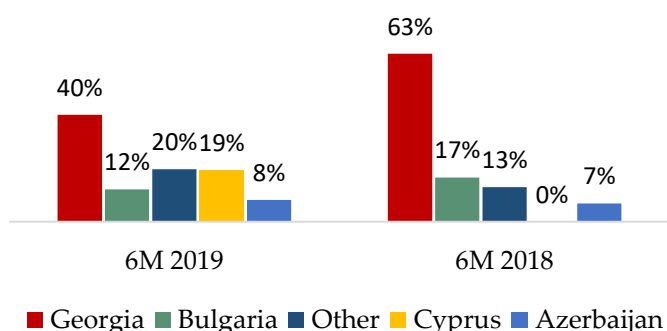
Ton-kilometers – 41 percent increase in transportation turnover was mainly driven by increased transportation from Russia and Jamaica by 163,059 tons and 71,038 tons, respectively. Another reason was increased average haul by 30 percent.

Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was mainly due to change in product direction mix. The share of freight volumes from relatively more profitable directions, such as South Africa, Bulgaria, Vietnam and Kazakhstan decreased.

Transportation volume by countries of origin



Transportation volume by destination countries



Grain

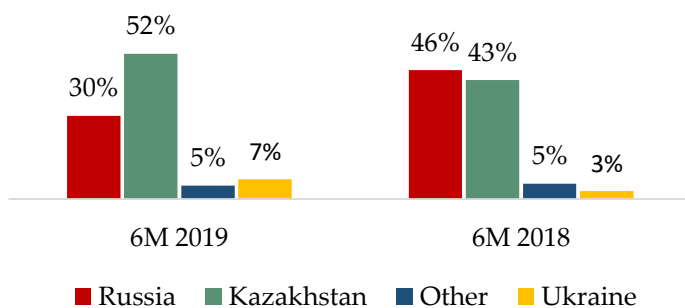
6 Month period ended 30 June

	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	2,300	4,821	-52.3%	-56.5%
Freight volume (ton '000)	168	260	-35.4%	NA
Freight turnover (million ton-km)	31	61	-48.7%	NA
Revenue / ton-km (in Tetri)	7.37	7.93	-7.1%	-15.3%

Main directions of cargo

Grain and grain products transported by the Group during six months ended 30 June 2019, mainly originated from Kazakhstan and Russia, while main destination countries were Georgia, Armenia and Italy.

Transportation volume by countries of origin

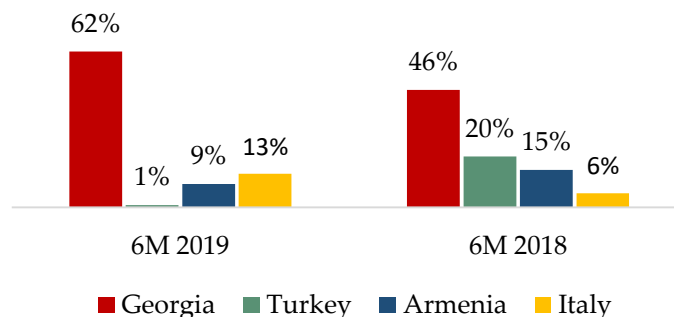


Factors influencing performance

Ton-kilometers – 49 percent decrease in transportation turnover was mainly driven by decreased transportation of wheat originated from Russia by 69,888 tons.

Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was mainly due to change in product direction mix. The share of freight volumes transported from Ukraine (which is relatively less profitable direction) has increased, while share of freight volumes from various countries (which are relatively more profitable directions) has decreased in total grain and grain products transported by the Group.

Transportation volume by destination countries



Sugar

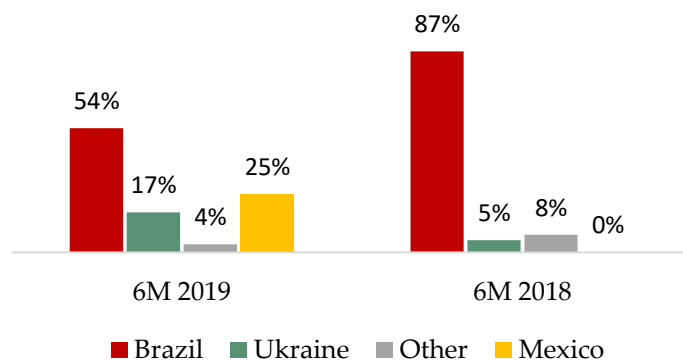
6 Month period ended 30 June

	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	9,531	5,114	86.4%	70.0%
Freight volume (ton '000)	182	154	17.9%	NA
Freight turnover (million ton-km)	70	57	23.7%	NA
Revenue / ton-km (in Tetri)	13.60	9.03	50.7%	37.4%

Main directions of cargo

Product direction mix has significantly changed during six months ended 30 June 2019, with Brazil being main origin country with the share of 87 percent in first six month of 2018, compared to same period of 2019 Ukraine is represented with 17 percent share and Mexico with 25 percent while Brazils share dropped to 54 percent. The main destination countries in six month of 2018 were Azerbaijan, Georgia and Armenia, in the same period of 2019 share of Georgia dropped to 3 percent.

Transportation volume by countries of origin

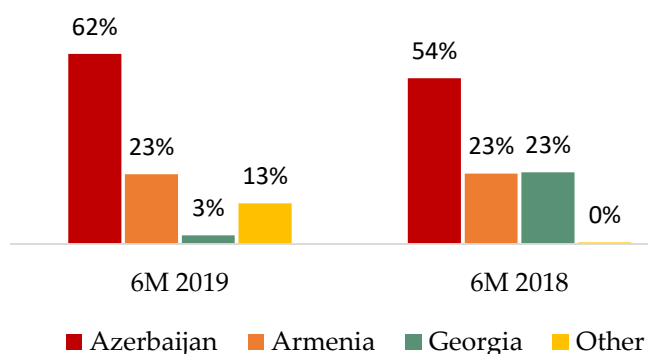


Factors influencing performance

Ton-kilometers – 24 percent increase in freight turnover during the period under review, compared to the same period of the previous year, was mainly driven by recovered volume transportation from Mexico 45,989 tons and increased volumes from Ukraine 23,437 tons in six months ended 30 June 2019.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was due to product direction mix, in addition increase of exchange rate influenced average revenue per ton-kilometer as long as group's tariffs are denominated in USD.

Transportation volume by destination countries



Chemicals and fertilizers

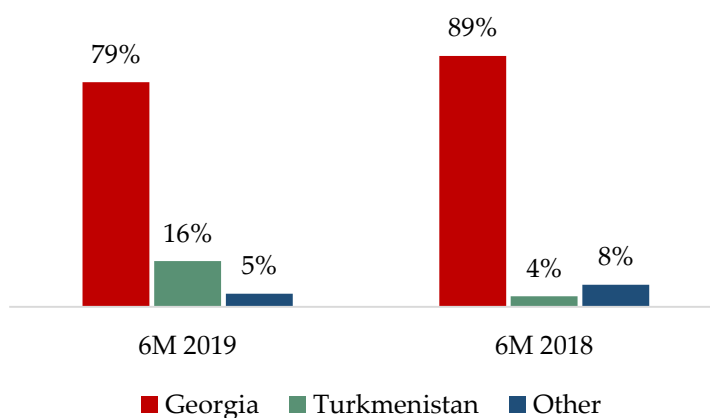
6 Month period ended 30 June

	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	8,290	7,440	11.4%	1.6%
Freight volume (ton '000)	352	313	12.4%	NA
Freight turnover (million ton-km)	110	106	3.4%	NA
Revenue / ton-km (in Tetri)	7.57	7.02	7.7%	-1.8%

Main directions of cargo

Chemicals and fertilizers transported by the Group during six months ended 30 June 2019, mainly originated from Georgia and Turkmenistan (279,005 tons and 56,668 tons, respectively).

Transportation volume by countries of origin

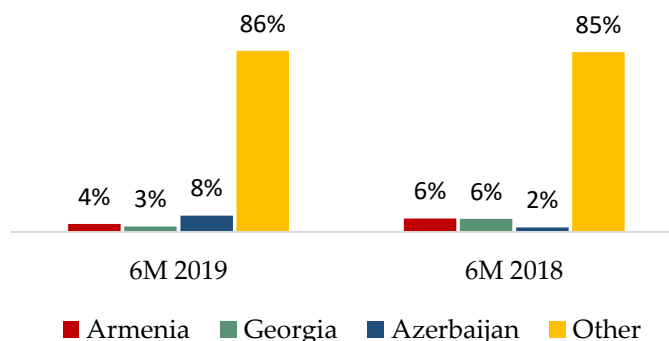


Factors influencing performance

Ton-kilometers – 3 percent increase in freight turnover during the period under review, compared to the same period of the previous year, was mainly driven by increased volumes from Turkmenistan by 45,137 tons.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was caused by change in product category mix. The share of urea products transported from Turkmenistan (relatively more profitable product) has increased significantly.

Transportation volume by destination countries



Other products

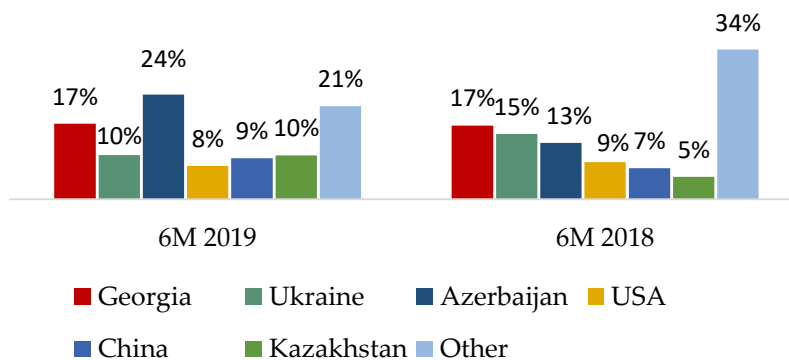
6 Month period ended 30 June

	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	35,267	24,155	46.0%	33.1%
Freight volume (ton '000)	1,040	746	39.3%	NA
Freight turnover (million ton-km)	322	235	37.1%	NA
Revenue / ton-km (in Tetri)	10.96	10.29	6.5%	-2.9%

Main directions of cargo

Freight from other products category in six months ended 30 June 2019 was mainly originated from Azerbaijan, Kazakhstan, Georgia, and Ukraine, with changes in product direction mix, compared to the same period of 2018.

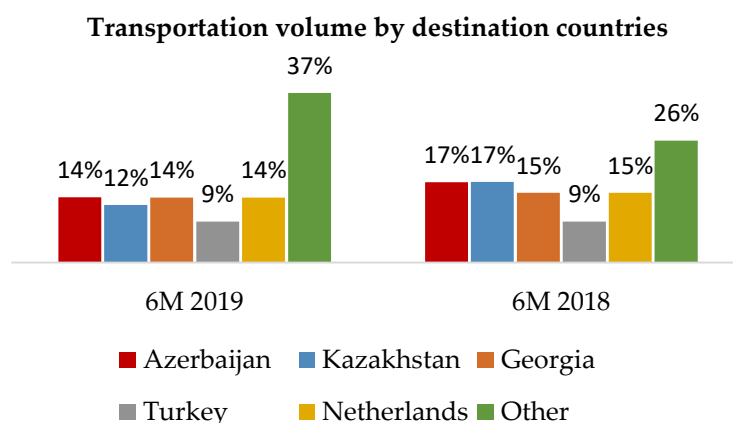
Transportation volume by countries of origin



Factors influencing performance

Ton-kilometers – 37 percent increase in transportation turnover was mainly driven by increased volumes from Azerbaijan, Kazakhstan, Georgia and China, by 153,794 tons, 66,061 tons, 53,766 tons and 44,806 tons, respectively.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was driven by changes in product direction mix and product category mix. The share of profitable directions such as Azerbaijan and Georgia has increased significantly. The share of methanol and p-xylene products (relatively more profitable products) has increased, while the share of unalloyed aluminum (relatively less profitable product) has decreased in total volumes transported.



Freight handling

Freight handling increased by GEL 5.2 million in the first six months of 2019 compared to the same period previous year. It was mainly driven by increased revenues from station services as well as more than 24 hours services.

Logistical services

Decrease in logistical services by GEL 9.7 million during the six months ended 30 June 2019, compared to the same period of the previous year, was mostly caused by completion of two-year contract of oil trade between one significant counterparty company and Georgian Railway's subsidiary company.

Freight car rental

Increase in revenue from freight car rental by 16 percent (GEL 1.9 million) during the six months ended 30 June 2019, compared to the same period of 2018, was mainly caused by increased usage of the Group's tank cars.

Passenger transportation

6 month period ended 30 June

In '000 GEL

	6M 2019	6M 2018	% Change	Abs. change
Revenue	11,356	9,467	20.0%	1,889
Number of passengers	1,277	1,258	1.5%	19

Revenue from passenger transportation has increased by 20 percent (GEL 1.9 million) during the six months ended 30 June 2019, compared to the same period of the previous year, while the number of passengers has increased by 1.5 percent. The disproportional change was due to increased number of passengers on the main line (which is more profitable), while the number of passengers on regional transportation decreased.

Other revenue

The increase in other revenue by GEL 1.567 million during the first two quarter of 2019, compared to the same period of 2018 was mostly attributable to increased revenues from 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 2019	6M 2018	% Change	Abs. change
Continuing operations	1,355	1,079	25.61%	276
Non-continuing operations	6,500	7,698	-15.56%	-1,198
Total	7,856	8,777	-10.50%	-921

Continuing operations increased by GEL 0.3 million during the six months ended 30 June 2019, compared to the same period of the previous year. The non-continuing operations decreased by GEL 1.2 million in six months period ended 30 June 2019, compared to the same period of 2018.

1.3 Operating expenses

Total operating expenses for the six months ended 30 June 2019 decreased by GEL 12.3 million, compared to the same period of the previous year. The decrease was mainly caused by reduction in depreciation and amortization expenses.

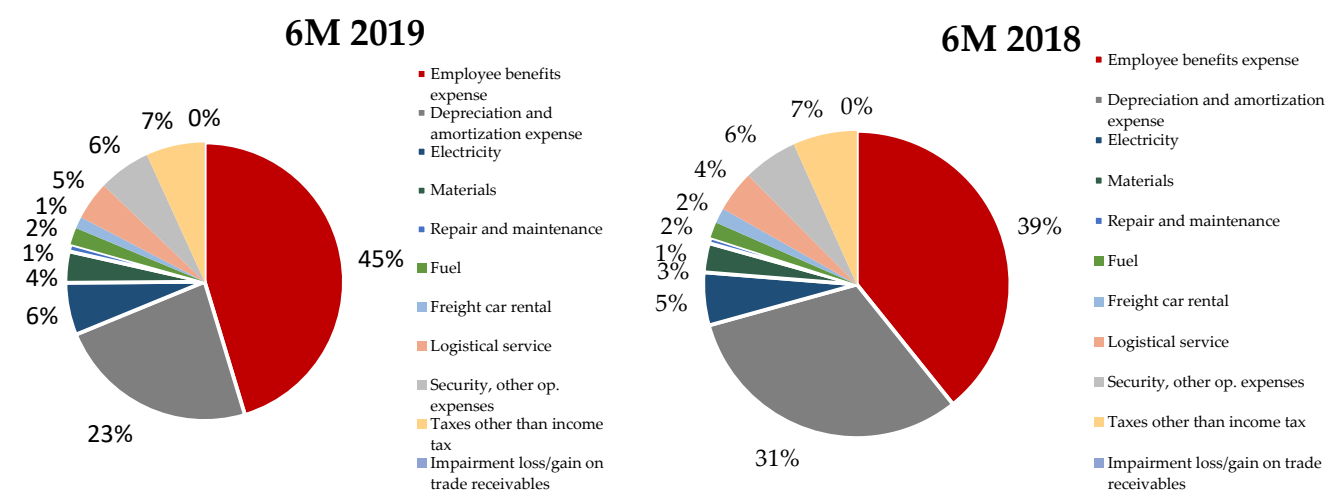
Operating expenses

6 month period ended 30 June

In GEL '000

	6M 2019	6M 2018	% Change	Abs. change
Employee benefits expense	79,879	73,988	7.96%	5,891
Depreciation and amortization expense	41,365	59,333	-30.28%	-17,968
Electricity	10,719	10,495	2.13%	224
Materials	6,401	5,796	10.44%	605
Repair and maintenance	1,480	1,172	26.31%	308
Fuel	3,415	3,082	10.80%	333
Freight car rental	2,384	2,996	-20.42%	-612
Logistical service	7,907	8,194	-3.51%	-287
Security, other op. expenses	10,685	10,821	-1.26%	-136
Taxes other than income tax	11,951	12,694	-5.85%	-743
Impairment loss/gain on trade receivables	43	0	100%	43
Total	176,228	188,571	-6.55%	-12,343

The following charts represent the cost structure for the six months ended 30 June 2019 and 2018:

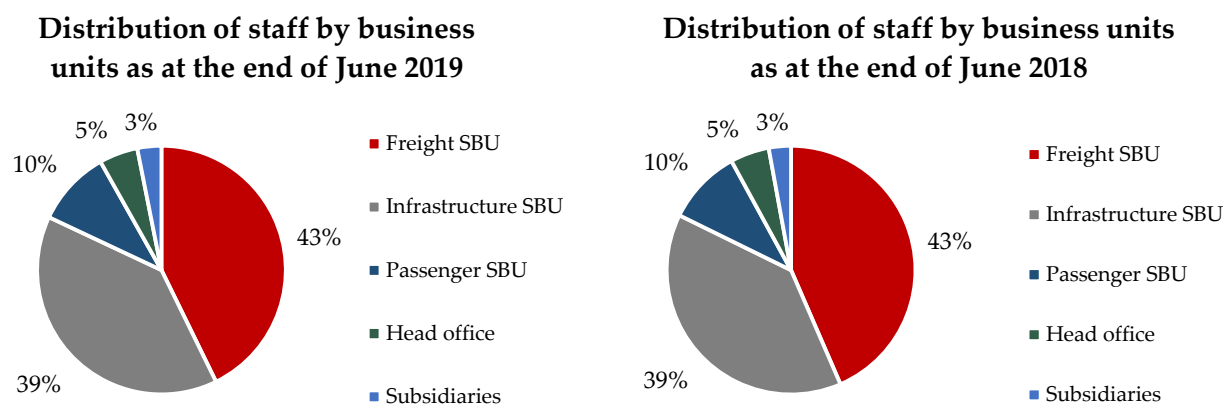


Employee benefits expense

The increase in employee benefits expense during the six months ended 30 June 2019, compared to the same period of the previous year, was mainly due to increased amount of employee bonuses and pension fund expenses. 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 2019 was equal to 12,236 and by the end of June 2018 was 12,338.

Following charts show the headcount by strategic business units and head office of the Company



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 2019 transportation turnover increased compared to the same period of the previous year, consequently, material, repair and maintenance expenses increased by 13 percent (GEL 0.9 million). The increase was mainly caused by increased expenditure on diagnostic and repair of rolling stock and increased expenses on purchase of materials.

Electricity expenses

6 Month period ended 30 June			In GEL '000	
	6M 2019	6M 2018	% Change	Abs. change
Electricity expense of traction	8,793	8,604	2.20%	189
Utility expenses	1,926	1,891	1.87%	35
Total	10,719	10,495	2.14%	224

There was a 2 percent increase in electricity expenses of traction during the six months ended 30 June 2019, compared to the same period of 2018, accordingly gross ton-kilometers have increased by about 5 percent. This change was mainly driven by increased volumes in the first two quarter of 2019 compared to the same period of 2018. 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

6 Month period ended 30 June

	6M 2019			6M 2018		
	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)
January	11.3	389.4	0.130	10.9	361.4	0.130
February	11.0	413.5	0.130	10.9	416.9	0.130
March	12.3	488.7	0.130	11.5	435.8	0.130
April	11.5	458.7	0.130	11.0	424.0	0.129
May	10.4	398.4	0.130	10.1	364.3	0.129
June	11.1	437.4	0.130	11.9	481.4	0.129
Total	67.7	2586.1	0.130	66.4	2,483.9	0.130

Note: The table above includes only electricity consumed of traction

Freight car rental expense

Freight car rental expense in the six months ended 30 June 2019, compared to the same period of the previous year, decreased slightly by about GEL 612,000 mostly due to usage of various freight wagons.

Logistical services

Expenses for logistical services represent operating expenses of Georgian Railway's logistical subsidiaries. The expenses for logistical services in the six months ended 30 June 2019 have decreased by about 4 percent (GEL 0.3 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

6 month period ended 30 June

In GEL '000

	6M 2019	6M 2018	% Change	Abs. change
Property tax	5,480	6,650	-17.6%	-1,170
Land tax	5,928	5,909	0.3%	19
Other taxes*	543	134	304.9%	409
Total	11,951	12,693	-5.8%	-742

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

During the six months ended 30 June 2019, compared to the same period of 2018, property tax has decreased by 18 percent (GEL 1.2 million), which was mainly caused by impairment of property, plant and equipment. Property tax will also 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 decrease in property tax was partly offset by the increase of custom penalties, during the first two quarter of 2019 compared to the same period of previous year.

1.4 Finance income and cost

Finance income and cost

6 month period ended 30 June

In GEL '000

	6M 2019	6M 2018	% Change	Abs. change
Interest income	6,871	8,329	-17.5%	-1,458
Impairment loss on loans	-11	-1,378	-99.2%	1,366
Interest expense	-24,081	-22,526	6.9%	-1,554
FX gain/loss	-85,631	61,607	-239.0%	-147,238
Impairment gain on cash in bank	133	0	100%	133
Impairment loss/gain	-43	10,828	-100.4%	-10,871
Net finance income/loss	-102,762	56,860	-280.7%	-159,622

In the six months ended 30 June 2019 the Group showed GEL 102.8 million net finance loss, compared to net finance income of GEL 56.9 million in the same period of 2018. The negative difference of GEL 159.6 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 depreciation against USD by 7 percent as at 30 June 2019 compared to 31 December 2018 (GEL/USD exchange rate 2.87 versus 2.68), the Group experienced net foreign exchange loss of GEL 85.6 million.

Higher interest expense during the six months ended 30 June 2019, compared to the same period of 2018, was mainly due to depreciation of GEL against USD.

Lower interest income by GEL 1.4 million in the six months ended 30 June 2019 compared to the same period of 2018, 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. During the first six months of 2019 income tax expense decreased by 57 percent (GEL 520,433) compared to the same period of previous year and equaled GEL 1 214.

2. Balance Sheet

Balance sheet

6 Month period ended 30 June

	30-Jun-19	31-Mar-19	% Change	Abs. change	31-Dec-18	% Change	Abs. change
TOTAL ASSETS	2,299,665	2,258,166	1.8%	41,499	2,264,012	1.6%	35,654
<i>Changes are mainly due to:</i>							
Property, plant and equipment	1,839,300	1,828,735	0.6%	10,564	1,826,590	0.7%	12,709
Trade and other receivables	59,316	54,346	9.1%	4,970	40,912	45.0%	18,404
Cash and cash equivalents	246,188	222,377	10.7%	23,812	241,308	2.0%	4,881
TOTAL LIABILITIES	1,812,168	1,717,035	5.5%	95,132	1,734,796	4.5%	77,372
<i>Changes are mainly due to:</i>							
Loans and borrowings (LT)	1,506,228	1,418,320	6.2%	87,908	1,336,665	12.7%	169,562
Trade payables and advances received	168,201	189,305	-11.1%	-21,104	191,610	-12.2%	-23,409
Loans and borrowings (ST)	64,630	35,583	81.6%	29,047	134,194	-51.8%	-69,563

Significant changes in assets

During the first six months of 2019, GEL 12.7 million increase in property, plant and equipment was mainly due to the Construction in Progress (mostly under the Modernization Project).

GEL 18.4 million increase in trade and other receivables, in the six months ended 30 June 2019, mainly was due to depreciation of GEL against USD and increased receivables of GR's subsidiary company that serves container transportation.

Cash and cash equivalents have increased by GEL 4.8 million in the six months ended 30 June 2019, which was mainly caused by Proceeds from sale of property, plant and equipment as well as the effect of exchange rate fluctuations on cash and cash equivalents. (See heading 3 "Cash Flow Statement").

Significant changes in liabilities

The Group has secured loan with long term repayment schedule, but due to waiver letter's arrival on 10 January 2019, the loan was classified as current liability as at 31 December 2018. As at 30 June 2019, the Group has reclassified secured loan back to long-term borrowing. Another reason was debt revaluation, as GEL has depreciated against USD by about 7 percent and the Group's debts are denominated in USD.

GEL 23.4 million decrease in trades and other payables was mainly due decreased amount prepayments received from clients as well as decreased liability on ongoing infrastructure project.

3. Cash Flow Statement

Cash flow statement

6 Month period ended 30 June

In GEL '000

	6M 2019	6M 2018
Cash flows from operating activities		
Cash receipts from customers	228,984	242,327
Cash paid to suppliers and employees	-138,247	-127,717
Cash flows from operations before income taxes paid	90,738	114,610
Income tax paid	-250	-
Net cash from operating activities	90,488	114,610
Cash flows from investing activities		
Acquisition of property, plant and equipment	-54,355	-60,521
Proceeds from sale of property, plant and equipment	10,475	3,364
Interest received	5,855	6,400
Refund of the loan	-	-
Net cash used in investing activities	-38,026	-50,757
Cash flows from financing activities		
Proceeds from borrowings	-	-
Repayment of borrowings	-5,895	-5,337
Interest paid	-53,855	-51,563
Net cash from used in financing activities	-59,750	-56,900
Net increase/(decrease) in cash and cash equivalents	-7,288	6,953
Cash and cash equivalents at 1 January	241,308	243,018
Effect of exchange rate fluctuations on cash and cash equivalents	12,035	-6,485
Cash Provision	133	-
Cash and cash equivalents at the end of the period	246,188	243,486

Operating activities

Net cash from operating activities decreased by GEL 24.1 million in the six months ended 30 June 2019, compared to the same period of the previous year. The change was mainly driven by decrease in cash receipts from customers. In the first two quarter of 2019 Trade and other receivables increased by 18,404 million compared to the end of 2018.

The increase in cash paid to suppliers and employees by about GEL 10.5 million, was mainly caused by increased employee bonuses and increased salary expenses due to pension fund.

Investing activities

Cash used in investing activities has decreased by GEL 12.7 million in the six months ended 31 June 2019, compared to the same period of the previous year. The decrease was mainly due to the decrease in acquisition of property, plant and equipment. This was mainly caused due to lower cash outflows on Modernization Project in first six months' period of 2019, compared to the same period of 2018. Also increased volume of Proceeds from sale of property, plant and equipment.

Financing activities

Higher interest paid in the six months ended 30 June 2019, compared to the same period of the previous year, was mainly due depreciation of GEL against USD, as the Groups debts are denominated in USD.

Appendix 1

Breakdown of freight transportation in tons

6 Month period ended 30 June

In thousand tons

	6M 2019	6M 2018	% Change	Abs. Change
Liquid cargoes	1,456	1,623	-10.3%	-167
Oil products	1,450	1,520	-4.6%	-70
Crude oil	6	103	-94.2%	-97
Dry cargoes	3,622	3,393	6.8%	229
Ores	867	801	8.3%	67
Grain	168	260	-35.4%	-92
Ferrous metals and scrap	255	277	-7.9%	-22
Sugar	182	154	17.9%	28
Chemicals and fertilizers	352	313	12.4%	39
Construction freight	513	587	-12.7%	-74
Industrial freight	189	190	-0.3%	-1
Cement	57	65	-12.5%	-8
Other	1,040	746	39.3%	293
Total	5,078	5,015	1.2%	62

Appendix 2

Breakdown of freight transportation in ton-kilometers

6 Month period ended 30 June

In million ton-kilometers

	6M 2019	6M 2018	% Change	Abs. Change
Liquid cargoes	418	490	-14.7%	-72
Oil products	416	449	-7.4%	-33
Crude oil	2	41	-95.4%	-39
				0
Dry cargoes	946	808	17.1%	138
Ores	222	157	41.2%	65
Grain	31	61	-48.7%	-30
Ferrous metals and scrap	57	60	-5.9%	-4
Sugar	70	57	23.7%	13
Chemicals and fertilizers	110	106	3.2%	3
Construction freight	79	84	-5.9%	-5
Industrial freight	42	33	25.4%	8
Cement	14	14	-2.9%	0
Other	322	235	36.9%	87
Total	1,364	1,298	5.1%	66

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 2019 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 2019 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-19	30-June-18
Financial indebtedness	1,570,858	1,351,021
less:		
Available credit facilities	151,748	152,225
Cash	246,188	243,486
Net Financial Indebtedness:	1,172,921	955,310
	Twelve-month period ended	Twelve-month period ended
The most recent annual financial period	31-Dec-18	31-Dec-17
Results from operating activities	-644,886	-280,467
Depreciation add-back	113,804	109,703
Impairment loss on property, plant and equipment add-back	691,387	382,616
Impairment loss on trade receivables	12,017	
EBITDA	172,320	211,852
Net Financial Indebtedness/EBITDA	6.80	4.51