Management Discussion and Analysis for the nine-month period ended 30 September 2015

Georgian Railway has shown solid financial performance in the nine-month of 2015. EBITDA of the Company at the end of 30 September 2015 was GEL 248.7 million, which represents a 32 percent (GEL 59.6 million) increase compared to the same period of the previous year. Higher increase in revenue (about 17 percent) and relatively smaller increase in operating expenses (about 3 percent) resulted in improved EBITDA margin as well (57 percent compared to 51 percent in 2014).

Revenue increased due to several factors, which have offset the 13 percent decrease in transportation volume in the nine-month period 2015 compared to the same period in 2014. Increase in transportation revenue is mainly the product of several factors such as the Company's ability to attract more profitable freight; subsidiary of the Company (GR Transit Line) which started its operations in April 2014 and has demonstrated increasing performance through the year and depreciation of GEL against USD as the tariffs of the Company are denominated in USD.

On the other hand, depreciation of domestic currency had a negative effect on the Company's net income. Revaluation of USD denominated Eurobonds, caused significant financial losses and respectively negative net income at the end of the period. The revaluation of liabilities however, has practically no monetary effect for the Company, as the maturity for its main obligation is in 2022.

In July 2015 the Company has repaid its USD 27.5 million bond, the remaining part of bond issued in 2010. CAPEX expenses have increase in the nine-month period of 2015 compared to 2014, mainly due to modernization project as agreement about the renewed design of gorge section was signed and currently project is under active construction with great progress. Despite, this significant cash outflows cash resources of the Company have increased by 15 percent (from GEL 252.9 million to GEL 289.9 million) in the nine-month period of 2015 compared to the same period in 2014, putting the Company in a comfortable position to meet its further financial needs.

Table of Contents

1. Profit & Loss Statement

Profit and loss statement

9 month period ended 30 September

In GEL '000

	9M 2015	9M 2014	% Change	Abs. Change
Revenue	433,107	371,635	16.5%	61,472
Other income	19,483	15,315	27.2%	4,168
Payroll expense	(108,849)	(107,347)	1.4%	(1,502)
Depreciation and amortization	(80,350)	(77,664)	3.5%	(2,686)
Raw materials and consumables used	(32,694)	(35,162)	-7.0%	2,468
Other expenses	(62,350)	(55,348)	12.7%	(7,002)
Result From Operating Activities	**168,347**	**111,429**	**51.1%**	**56,918**
Finance Income	13,305	7,979	66.8%	5,326
Finance Cost	(285,715)	(26,967)	959.5%	(258,748)
Net finance income/(loss)	**(272,410)**	**(18,988)**	**1334.6%**	**(253,422)**
Profit before income tax	**(104,063)**	**92,441**	**-212.6%**	**(196,504)**
Income tax	12,898	(14,940)	-186.3%	27,838
Net income	**(91,165)**	**77,501**	**-217.6%**	**(168,666)**
EBITDA	**248,697**	**189,093**	**31.5%**	**59,604**
EBITDA margin	**57.4%**	**50.9%**	**N/A**	**6.5%**

2. P&L Analysis

Following paragraphs present the analysis of the profit and loss statement of JSC Georgian Railway for the nine-month period ended 30 September 2015 and 2014:

2.1 Revenues

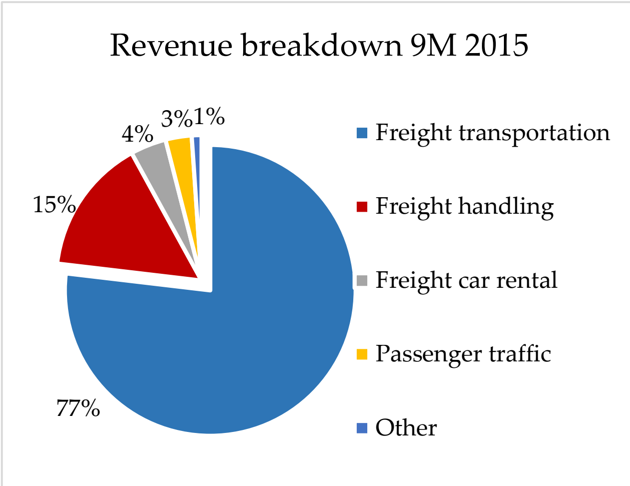
Revenue breakdown

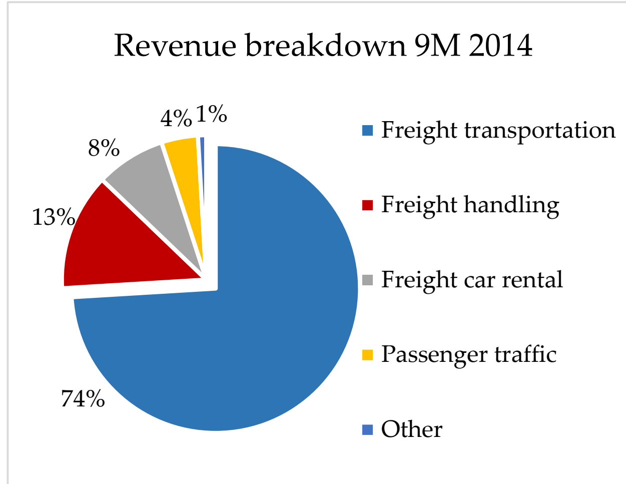
In GEL '000

9 month period ended 30 September

In GEL '000	9M 2015	9M 2014	% Change	% Change at constant currency	Abs. Change
Freight transportation	332,918	275,186	21.0%	-4.8%	57,732
Freight handling	65,617	48,751	34.6%	16.8%	16,866
Freight car rental	17,271	29,060	-40.6%	-50.5%	-11,789
Passenger traffic	12,586	15,228	-17.3%	-17.3%	-2,642
Other	4,714	3,410	38.2%	38.2%	1,304
Revenue	**433,106**	**371,635**	**16.5%**	**-5.7%**	**61,471**
Other income	**19,483**	**15,315**	**27.2%**	**27.2%**	**4,168**
Freight transportation	**332,918**	**275,186**	**21.0%**	**-4.8%**	**57,732**
Liquid cargoes	**182,067**	**147,033**	**23.8%**	**-2.6%**	**35,033**
Oil Products	159,403	114,580	39.1%	9.5%	44,823
Crude Oil	22,663	32,453	-30.2%	-45.1%	-9,790
Dry cargoes	**150,851**	**128,153**	**17.7%**	**-7.4%**	**22,699**
Cement	1,128	2,601	-56.6%	-65.9%	-1,473
Chemicals and fertilizers	8,929	6,939	28.7%	1.3%	1,991
Construction Freight	8,722	9,208	-5.3%	-25.5%	-486
Ferrous metals and scrap	25,848	15,992	61.6%	27.2%	9,856
Grain	18,267	16,422	11.2%	-12.5%	1,844
Industrial freight	3,798	7,764	-51.1%	-61.5%	-3,966
Ores	19,800	21,357	-7.3%	-27.1%	-1,557
Sugar	14,138	13,861	2.0%	-19.7%	277
Other	50,222	34,008	47.7%	16.2%	16,214
Freight turnover (million tkm)	3,229	3,664	-11.9%	N/A	-435
Revenue / tkm (in Tetri)	10.31	7.51	37.3%	8.0%	2.80

The following charts sets forth revenue breakdown for the nine-month period ended 30 September of years 2015 and 2014:





Freight transportation revenues

Freight transportation revenue, which represents about 77 percent of the Company's total revenue, has increased by 21 percent (GEL 57.7 million) in the nine-month period ended 30 September 2015 compared to the same period of the previous year. This increase was mainly due to the fact that the Company managed to attract more profitable cargo and depreciation of GEL against USD. Volume transported by the Company has decreased, which leaded to a decrease in revenue at constant currency by about 5 percent.

Georgian Railway's transportation revenue depends on several factors, including USD/GEL exchange rate. Most of the Company's tariffs are denominated in USD and while reporting currency is Georgian Lari (GEL), GEL/USD exchange rate fluctuation directly effects the revenues generated by the Company. At the same time it effects the Company's profitability, as most of the expenses are denominated in GEL.

In GEL	Average rate			Reporting date spot rate			
	9M 2015	9M 2014	% Change	30-Sep-15	31-Dec-14	30-Sep-14	31-Dec-13
USD	2.23	1.75	27.1%	2.38	1.86	1.75	1.74
CHF	2.34	1.95	20.0%	2.45	1.88	1.84	1.95

In order to expand vertical integration and ensure smooth and reliable service to the customers, starting from 2013, the Company became engaged in freight forwarding of oil and oil products through its subsidiaries - Georgia Transit LLC and GR Transit Line LLC.

Georgia Transit LLC was acquired by Georgian Railway in April 2013 and represents the largest freight forwarding Company in Georgia transporting oil and oil products from Central Asia and Azerbaijan to Black Sea Ports. The acquisition has consolidated freight forwarding margin to the Company's freight transportation revenue.

GR Transit Line LLC is another freight forwarding company, which started its operations in April 2014 and mainly serves oil products transported from Black Sea Ports to Armenia and Azerbaijan. Through 2014, the subsidiary was growing rapidly and contributed to the Company's revenue growth.

Freight transported by the Company during the nine-month period of 2015 compared to the same period in 2014 has decreased both in liquid and dry cargoes (*see Appendix 1 and Appendix 2*) but there were some product categories (oil products, chemicals and fertilizers and other product category) that show an increase in nine-month period.

Oil products

	9M 2015	9M 2014	% Change	% Change at constant currency
Revenues (000'GEL)	159,403	114,580	39.1%	9.5%
Freight turnover (million tkm)	1,473	1,418	3.9%	N/A
Revenue / tkm (in Tetri)	10.82	8.08	34.0%	5.4%

Transportation revenue of oil products in the nine-month period of 2015 increased by GEL 44.8 million, or 39 percent, compared to the same period of 2014. Increase was mainly due to the increased volumes of heavy black oil from Kazakhstan, which has more than offset negative trend in gasoil that took place mainly in Q3 2015 but is expected to restore in the coming month. Increase was also attributed to subsidiaries' margins that were added to the revenue and contributed to the increase in average "effective" freight rates, another factor was depreciation of GEL against USD.

Other category

	9M 2015	9M 2014	% Change	% Change at constant currency
Revenues (000'GEL)	50,222	34,008	47.7%	16.2%
Freight turnover (million tkm)	386	354	9.2%	N/A
Revenue / tkm (in Tetri)	13.01	9.61	35.3%	6.5%

Sub category "Other" increased by GEL 16.2 million, or 48 percent. Increase was mainly due to increased volumes of methanol from Azerbaijan, sulphur from Turkmenistan, cotton from Uzbekistan and not alloyed aluminium from Azerbaijan, Russia and with significant increase from Tajikistan. Increase was also attributed to the positive effect of GEL depreciation and increased transportation of relatively more profitable products like methanol and cotton.

Ferrous metals and scrap

	9M 2015	9M 2014	% Change	% Change at constant currency
Revenues (000'GEL)	25,848	15,992	61.6%	27.2%
Freight turnover (million tkm)	200	203	-1.5%	N/A
Revenue / tkm (in Tetri)	12.93	7.88	64.1%	29.1%

Revenues from Ferrous metals and scrap increased by GEL 9.9 million, or 62 percent, in the nine-month period of 2015 compared to the same period of 2014 while, transportation turnover has decreased slightly (mainly due to bars and rods). Increase in revenue is mainly due to increased average revenue per ton-kilometer caused by the favorable change in product transportation mix, which is due to the increased transportation of oil and gas pipelines to Azerbaijan and depreciation of GEL against USD.

Crude oil

	9M 2015	9M 2014	% Change	% Change at constant currency
Revenues (000'GEL)	22,663	32,453	-30.2%	-45.1%
Freight turnover (million tkm)	287	536	-46.5%	N/A
Revenue / tkm (in Tetri)	7.90	6.05	30.5%	2.7%

Transportation revenue of crude oil decreased by GEL 9.8 million, or 30 percent in the nine-month period of 2015, compared to the same period of 2014. Decrease was mainly due to lower volumes of crude oil from Kazakhstan and Azerbaijan. However, from May 2015 transportation of crude oil started from Turkmenistan and by 30 September it reached to 0.13 million ton. Decrease in overall volume transportation was partially offset by higher average revenue per ton-kilometer and positive impact of weaker GEL.

Industrial freight

	9M 2015	9M 2014	% Change	% Change at constant currency
Revenues (000'GEL)	3,798	7,764	-51.1%	-61.5%
Freight turnover (million tkm)	41	115	-64.1%	N/A
Revenue / tkm (in Tetri)	9.20	6.75	36.3%	7.2%

Transportation revenue of industrial freight decreased by GEL 4.0 million, or 51 percent in the nine-month period of 2015, compared to the same period of 2014. The main reason of this reduction was cement clinker, which was the driver of the cargo category and most of which has gone in September 2014 but returned with significant volumes in June of the current year. The increase in average revenue per ton-kilometer and depreciation of GEL against USD was not sufficient to fully offset the reduction in volume transported.

Freight handling

The increase in freight handling revenue by GEL 16.9 million, or 35 percent in the nine-month period of 2015 compared to the same period of 2014 is mainly due to the higher revenues from wagon delay services. Depreciation of GEL against USD also contributed to increased revenues, as prices for stations services, which in the nine-month period of 2015 represented about 62 percent of total handling revenue, are denominated in USD.

Freight car rental

The reduction in revenue from freight car rental by GEL 11.8 million, or 41 percent in the nine-month period of 2015 compared to the same period of 2014 can be explained by the reduced transportation volume and at the same time decreased transportation by Georgian Railway's own fleet and reduced revenue from Azerbaijan railway.

Reduction in transportation by Georgian Railway's own fleet has been driven by the changes in proportion of wagons belonging (increasing the share of railcars owned by customer companies) in the region.

The reduction in revenue from Azerbaijan railway can be explained by the agreement between Georgian and Azerbaijan railways according to which both sides were exempted from freight car rental payments, during the first 8 days in each month, starting from the beginning of December 2014 until the end of February 2015. The agreement had an effect on both freight car rental revenue and expense.

Other income

There was GEL 4.2 million, or 27 percent increase in other income in the nine-month period of 2015 compared to the same period of the previous year. The increase was mainly due to the gain from the land that was transferred to the government under Bypass project.

2.2 Operating expenses

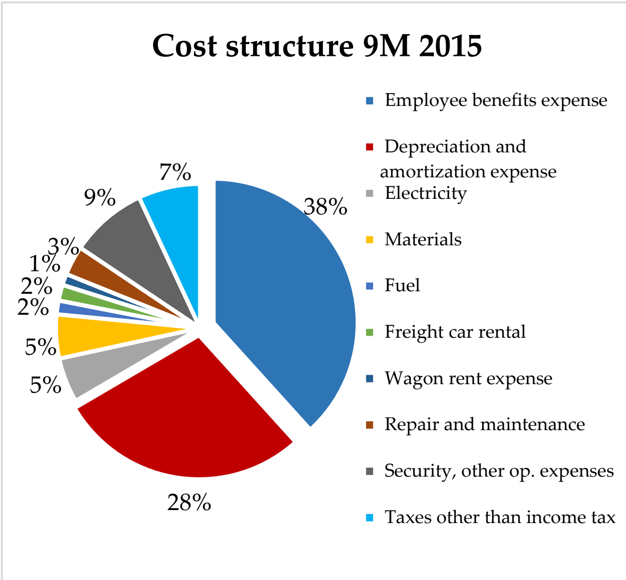
Operating expenses

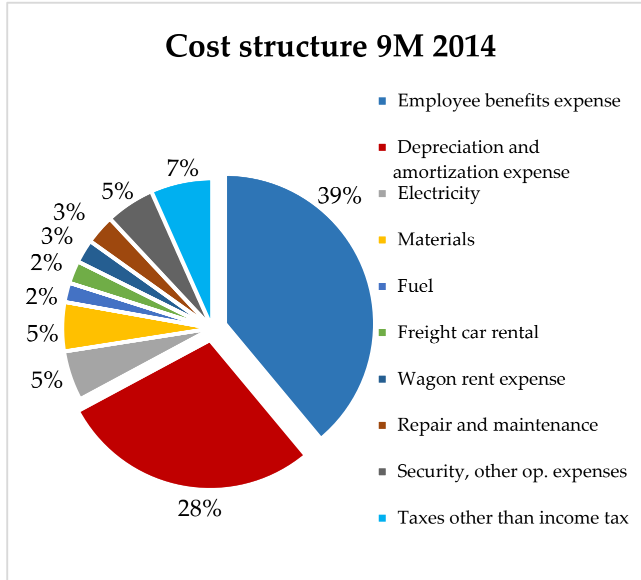
9 month period ended 30 September *In GEL '000*

	9M 2015	9M 2014	% change	Abs. Change
Employee benefits expense	108,849	107,347	1.4%	1,501
Depreciation and amortization expense	80,351	77,664	3.5%	2,687
Electricity	14,307	14,811	-3.4%	(504)
Materials	14,019	14,589	-3.9%	(570)
Fuel	4,368	5,762	-24.2%	(1,394)
Freight car rental	5,058	6,722	-24.8%	(1,664)
Wagon rent expense	3,597	6,969	-48.4%	(3,372)
Repair and maintenance	9,359	8,754	6.9%	605
Security, other op. expenses	24,581	14,556	68.9%	10,024
Taxes other than income tax	19,754	18,347	7.7%	1,407
Total operating expenses	**284,242**	**275,522**	**3.2%**	**8,721**

Total operating expenses for the nine-month period ended 30 September 2015 increased by about GEL 8.7 million (3 percent) compared to the same period of 2014. The main reason of the increase was security and other operating expenses, which was partially offset by the decrease in wagon rent expense, freight car rental and fuel expenses.

The following charts sets forth the cost structure for the nine-month period ended 30 September of years 2015 and 2014:



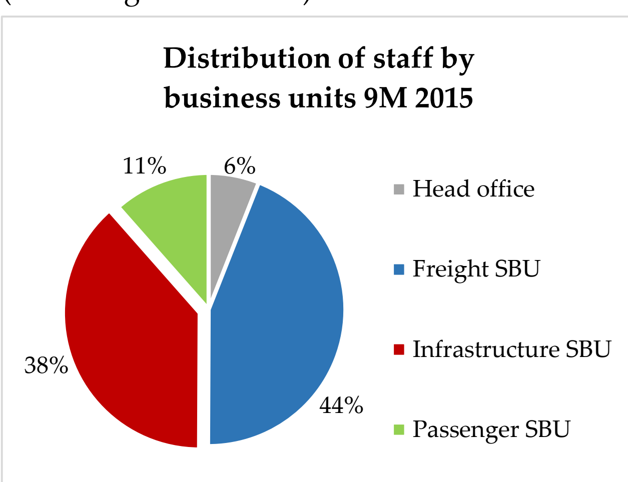


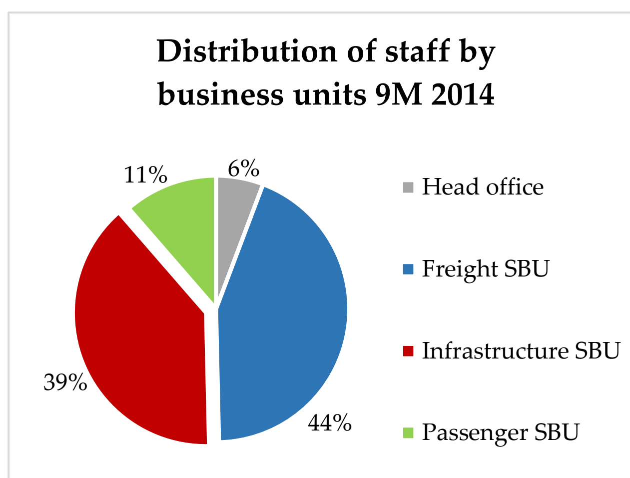
Employee benefit expenses

Employee benefit expense has increased by about Gel 1.5 million (1 percent) during the nine-month period ended 30 September 2015 compared to the same period of 2014. This was mainly due to the increase in salary expense by GEL 1.3 million (1 percent) and the increase in bonuses-rewards by GEL 2.3 million, which was partially offset by the decrease in other benefits, mainly due to reduced insurance expenses.

Employee number (excluding subsidiaries) at the end of September 2015 was equal to 12,582 and at the end of September 2014 the number of employees was 12,730. Average salary for 9M 2015 was GEL 788 compared to GEL 778 in the same period of 2014.

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





Materials, repair and maintenance expenses

The Company's materials, repair and maintenance expenses are tied to its rolling stock equipment balance and subsequent utilization level.

In the nine-month period of 2015 compared to the same period in 2014 there were not significant changes in materials, repair and maintenance expenses.

Electricity expenses

Electricity expenses

In GEL '000

9 month period ended 30 September

	9M 2015	9M 2014	% change	Abs. Change
Electricity consumption for traction	12,489	13,000	-3.9%	-511
Utility expenses	1,818	1,811	0.4%	7
Total electricity expenses	**14,307**	**14,811**	**-3.4%**	**-504**

The decrease in electricity consumption during the nine-month period of 2015 compared to the same period of 2014 is about 4 percent, which is lower than the decrease in gross ton-kilometer (about 12 percent). The smaller decrease can be explained by the increased electricity tariffs. GR's agreement on electricity procurement considers tariff review in case of change in regulated tariffs and in August 2015 Georgian National Energy and Water Supply Regulatory Commission (GNERC) has made a decision about increasing electricity tariffs.

Purchased electricity and weighted average tariff

9 month period ended 30 September

	9M 2015				9M 2014			
	GWh	Gross ton km (mln.)	GWh per gross bln ton.km	Weighted average tariff (GEL)	GWh	Gross ton km (mln.)	GWh per gross bln ton.km	Weighted average tariff (GEL)
January	16.6	763.5	21.8	0.088	16.5	760.7	21.6	0.092
February	14.4	642.3	22.5	0.090	13.6	612.0	22.3	0.092
March	16.2	763.1	21.2	0.089	16.7	806.2	20.8	0.091
April	14.5	681.6	21.3	0.088	15.6	730.7	21.3	0.090
May	14.8	695.1	21.2	0.083	16.2	780.4	20.8	0.082
June	14.1	654.0	21.6	0.083	15.9	759.9	20.9	0.082
July	14.8	678.7	21.7	0.083	18.4	896.6	20.6	0.086
August	14.1	639.3	22.1	0.118	17.9	861.0	20.8	0.089
September	14.4	638.2	22.6	0.118	16.8	789.6	21.2	0.087
Total	**133.9**	**6,155.9**	**21.8**	**0.093**	**147.6**	**6,997.1**	**21.1**	**0.088**

Fuel expenses

Fuel expense *In GEL '000*

9 month period ended 30 September

	9M 2015	9M 2014	% change	Abs. Change
Fuel	4,205	4,846	-13.2%	-641
Lubricants and other fuel	56	798	-93.0%	-742
Subsidiaries	108	118	-8.9%	-11
Total fuel expense	**4,368**	**5,762**	**-24.2%**	**-1,394**

Fuel expenses decreased by GEL 1.4 million (24 percent) in the nine-month period ended 30 September 2015 compared to the same period in 2014. This change does not include lubricants that are classified as material expenses starting from 2015. When adjusted for mentioned reclassification the change is GEL 0.7 million (13 percent), which is attributable to the decreased transportation volume.

Freight car rental expense

Freight car rental expense decreased by GEL 1.7 million (25 percent) mainly due to the reduced transportation volume and due to the agreement between Georgian and Azerbaijan railways according to which both sides were exempted from freight car rental payments, during the first eight days of each month, starting from the beginning of December 2014 until the end of February 2015.

Wagon rent expense

In 2012 the Company had an expectation for the increased transportation of liquid cargoes and in order to be prepared to handle the expected increased volume, starting from 30 March 2012 the Company has rented from AS Spacecom 425 tank cars (rent price is set in USD on daily basis).

The contract expired in April 2015. Currently the Company does not plan to extend the contract, as transportation of liquid cargo decreased significantly due to the decreased transportation in crude oil. As the Company owns tanks that can be used for transportation of both crude oil and oil products, current fleet is expected to be sufficient to handle the expected volume transportation in liquid cargoes.

Decrease by GEL 3.4 million (48 percent) in the nine-month period ended 30 September 2015 compared to the same period in 2014 can be explained by the fact that the contract for 425 wagon rent expired in April 2015. Currently there are no plans to extend the contract.

Security and other expenses

Security and other operating expenses *In GEL '000*

9 month period ended 30 September

	9M 2015	9M 2014	% change	Abs. Change
Security	6,496	6,364	2.1%	132
Other op. expenses	18,085	8,193	120.8%	9,893
Total security and other operating expenses	**24,581**	**14,556**	**68.9%**	**10,024**

The significant increase (by GEL 10 million) in other operating expenses is the nine-month period of 2015 compared to 2014 is mainly due to increased operating activity of the Company's subsidiaries, consultancy fees and higher prior year corrections.

Property and land taxes

Property and land taxes *In GEL '000*

9 month period ended 30 September

	9M 2015	9M 2014	% change	Abs. Change
Property tax	10,273	10,091	1.8%	182
Land tax	8,760	8,083	8.4%	676
Other taxes	721	172	318.4%	549
Total property and land taxes	**19,754**	**18,347**	**7.7%**	**1,407**

Property and land tax increased by about GEL 1.4 million (8 percent) in the nine-month period ended 30 September 2015 compared to the same period of 2014. This is mainly due to the higher land taxes in 2015 compared to 2014, which is due to the decision of local Governments in several regions in Georgia to increase the taxation coefficient on land tax they charge and also increased amount of land held by the Company. Higher other taxes are due to the unpaid VAT.

2.3 Finance costs and income

Breakdown of financial costs and income In GEL '000

9 month period ended 30 September

	9M 2015	9M 2014	% Change	% Change at constant currency	Abs. Change
Interest income	13,304	7,979	67%	48%	5,325
Interest expense on financial liabilities	-45,127	-13,140	243%	170%	-31,986
Impairment loss on trade receivables	-20,309	-2,468	723%	N/A	-17,841
Net foreign exchange loss	-220,279	-11,359	1839%	N/A	-208,920
Net finance loss	**-272,411**	**-18,988**	**1335%**	**N/A**	**-253,422**

Net finance loss increased by GEL 253.4 million in the nine-month period ended 30 September 2015 compared to the same period of 2014. Increase is mainly due to the depreciation of GEL against USD and CHF.

GEL/USD exchange rate fluctuation has significant effect on foreign currency gains/losses. Considering depreciation of Georgian Lari during the nine-month period of 2015, the Company experienced increase in net foreign currency losses. At the same time the Company matches borrowing and revenue generation currencies, thus creating natural economic hedge without need for separate hedge contracts.

Thereby, increase in liabilities was accompanied by increase in revenues in GEL term. Due to the fact that annual revenue base is lower than Eurobond amount (remaining USD 500 million since 7 July 2015, as USD 27.5 million has been repaid in July of the current year), the net effect in the period when the FX change took place is a loss. However, this will be compensated in subsequent years, as revenue in GEL terms stays high, while liabilities do not increase further (in case of stable level of FX). In another case, if GEL will appreciate against USD, FX losses will be reversed by FX gains and liabilities in GEL terms will decrease. In nine-month period of 2015 GEL/USD exchange rate has been highest for last ten years.

The table sets forth average annual GEL/USD exchange rates for previous ten years:

	9M 2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
GEL/USD	2.23	1.77	1.66	1.65	1.69	1.78	1.67	1.49	1.67	1.78	1.81

Due to significant depreciation of GEL against USD the Company's ratio of Net Financial indebtedness to EBITDA (which ensures its compliance to the covenant) has deteriorated. In nine-month period of 2015 the ratio was 2.82 while in the same period of 2014 it was 2.65.

It should also be mentioned that FX loss has practically no monetary effect for the Company, as most of the liabilities (USD 500 million) mature in 2022. Further, the Company shows significant EBITDA improvements, which insures the Company's ability to meet its financial needs at the moment of debt maturity.

Interest expense on financial liabilities has increased by GEL 32.0 million in the nine-month period ended 30 September 2015 compared to the same period of 2014. This increase partially is due to the Bypass project as in the nine-month period of 2014 interest of GEL 20.0 million was capitalized on this project. However, later, as the Tbilisi Bypass project was suspended for studies on possible improvement, no capitalization was made for funds spent on the project. This resulted in an increased interest expense. Depreciation of GEL against USD has also significantly increased interest expense in GEL terms.

Another factor that contributed to the net financial loss is impairment loss on trade receivables, which was mainly caused by the increase in exchange rate, as the receivables of the Company are denominated in foreign currency. The portion of receivables, which was impaired in the previous periods was revaluated to account for the depreciation of Georgian Lari.

2.4 Income tax benefit/expense

According to Georgian tax code, income tax losses can be carried forward up to six years and respective deferred tax asset is created to the extent that it is probable that future taxable profit will be available against which it will be utilized.

2.5 Profitability

Calculation of EBITDA and EBITDA margin

In GEL '000

9 month period ended 30 September

	9M 2015	9M 2014	% Change	Abs. Change
Revenues	433,106	371,635	16.5%	61,471
Other income	19,483	15,315	27.2%	4,168
Operating expenses	-284,242	-275,522	3.2%	-8,721
Result from Operating Activities	**168,347**	**111,429**	**51.1%**	**56,918**
Operating profit margin	**38.9%**	**30.0%**	**29.6%**	**8.9%**
Depreciation add-back	80,351	77,664	3.5%	2,687
EBITDA	**248,697**	**189,093**	**31.5%**	**59,605**
EBITDA Margin	**57.4%**	**50.9%**	**12.9%**	**6.5%**

The reasonable possible depreciation of GEL, as indicated below, at 30 September 2015 would have affected the Company's profit and loss statement in the following way:

Sensitivity analyses*

9 month period ended 30 September *In GEL '000*

	Actual	Scenario 1	Scenario 2	Scenario 3
Revenue	433,107	350,561	443,096	381,406
EBITDA	248,697	167,592	257,962	197,715
EBIT	168,347	87,242	177,612	117,365
EBT	-104,064	47,567	-117,679	-7,515
Net Income	-91,166	60,465	-104,781	5,383

**The analyses assume that all other variables remain constant and ignore any impact of changes in sales and purchases.*

Scenario 1 - No y-o-y exchange rate fluctuations
Scenario 2 - 30% y-o-y depreciation of GEL against foreign currencies
Scenario 3 - 10% y-o-y depreciation of GEL against foreign currencies

3. Cash flows

Cash flow statement

In GEL '000

9 month period ended 30 September

	9M 2015	9M 2014
Cash flows from operating activities		
Cash receipts from customers	417,095	372,217
Cash paid to suppliers and employees	-197,136	-170,680
Cash flows from operations before income taxes and interest paid	**219,959**	**201,537**
Income tax paid	-4,311	-2,335
Net cash from operating activities	**215,647**	**199,202**
Cash flows from investing activities		
Acquisition of property, plant and equipment	-108,159	-71,210
Proceeds from sale of property, plant and equipment	22	71
Interest received	13,431	7,662
Net cash used in investing activities	**-94,706**	**-63,477**
Cash flows from financing activities		
Repayment of borrowings	-62,514	-
Interest paid	-85,731	-72,826
Dividends paid	-21,852	-20,000
Net cash from /(used in) financing activities	**-170,097**	**-92,826**
Net increase/(decrease) in cash and cash equivalents	**-49,156**	**42,899**
Cash and cash equivalents at 1 January	300,983	208,996
Effect of exchange rate fluctuations on cash and cash equivalents	38,042	1,049
Cash and cash equivalents at the end of the period	**289,869**	**252,944**

Operating activities

Net cash from operating activities increased by 8 percent in the nine-month period ended 30 September 2015 compared to the same period of the previous year. The change was driven by the increase in cash receipts from customers by about GEL 44.9 million due to the increased revenue in GEL terms, which was mainly caused by depreciation of GEL against USD. The increase in cash paid to suppliers and employees was mainly due to the taxes other than income taxes, which were netted off against accumulated VAT surplus in 2014 and it was also caused by the increases in operating expenses (*for more details please refer to heading 2.2*).

Investing activities

Net cash used in investing activities in the nine-month period ended 30 September 2015 increased by GEL 31.2 million compared to the same period of the previous year. This was mainly due to the faster implementation pace of Modernization project compared to the nine-month period of 2014 and also due to increased expenditure on modernization of fixed assets (wagons and locomotives modernization) and construction/repair of infrastructural assets.

Financing activities

Net cash used in financing activities increased by GEL 77.3 million in the nine-month period ended 30 September 2015, compared to the same period of the previous year. This increase was mainly due to the repayment of USD 27.5 million bonds, which represented the remaining part of USD 250 million bonds issued in 2010.

The increase is also caused by the interest paid, due to the depreciation of GEL against USD, as the Company's debts are denominated in USD.

4. Balance sheet

Balance sheet

In GEL '000

9 month period ended 30 September

	30-Sep-15	31-Dec-14	% Change	% Change at constant currency	Abs. Change
TOTAL ASSETS	**3,037,061**	**2,968,381**	**2.3%**	**N/A**	**68,680**
Changes are mainly due to:					
Property, plant and equipment	2,456,546	2,378,228	3.3%	3.3%	78,318
Other non-current assets	153,784	170,144	-9.6%	-9.6%	-16,360
Trade and other receivables	76,203	53,944	41.3%	N/A	22,259
Cash and cash equivalents	289,869	300,983	-3.7%	-13.1%	-11,114
TOTAL LIABILITIES	**1,590,432**	**1,405,630**	**13.1%**	**N/A**	**184,802**
Changes are mainly due to:					
Loans and borrowings (LT)	1,188,006	929,373	27.8%	0.0%	258,633
Loans and borrowings (ST)	19,770	87,330	-77.4%	-82.3%	-67,560

Significant changes in assets

GEL 78.3 million increase in PPE was mainly caused by higher investments in fixed assets and increased construction in progress principally due to the higher expenditures on Modernization project.

Decrease in other non-current assets is mainly due to the prepayments and reclassification from inventory to other non-current assets.

Increase in trade and other receivables was mainly caused by depreciation of GEL against USD and CHF as the most part of the Company's trade receivables is denominated in foreign currencies.

Decrease in cash and cash equivalents can be explained by higher investments in the Company's PPP and also repayment of remaining part of bonds USD 27.5 million, issued in 2010 (*for more details please refer to Cash flow section of this report*).

Significant changes in liabilities

The change in long-term liabilities was due to revaluation of the Company's borrowings as they are denominated in USD and there was significant depreciation of GEL against USD. The redemption of the obligations is in July of 2022.

The decrease in short-term liabilities is due to the repayment of USD 27.5 million, remaining part of bonds issued in 2010.

Appendix 1

Breakdown of freight transportation in tons

9 month period ended 30 September — *In thousand tons*

	9M 2015	9M 2014	% Change	Abs. Change
Total liquid & dry cargoes	**10,740**	**12,402**	**-13.4%**	**-1,661**
Liquid cargoes	**5,091**	**5,545**	**-8.2%**	**-454**
Oil Products	4,366	4,178	4.5%	188
Crude Oil	725	1,366	-47.0%	-642
Dry cargoes	**5,650**	**6,857**	**-17.6%**	**-1,207**
Cement	54	338	-84.1%	-284
Chemicals and fertilizers	390	378	3.4%	13
Construction Freight	1,076	1,337	-19.5%	-261
Ferrous metals and scrap	715	793	-9.9%	-79
Grain	514	598	-14.0%	-84
Industrial freight	171	366	-53.2%	-195
Ores	1,150	1,425	-19.3%	-275
Sugar	372	443	-15.8%	-70
Other	1,207	1,180	2.3%	27

Appendix 2

Breakdown of freight transportation in ton-kilometer by freight type

9month period ended 30 September — *In million ton-kilometer*

	9M 2015	9M 2014	% Change	Abs. Change
Total liquid & dry cargoes	**3,229**	**3,664**	**-11.9%**	**-435**
Liquid cargoes	**1,760**	**1,954**	**-10.0%**	**-195**
Oil Products	1,473	1,418	3.9%	55
Crude Oil	287	536	-46.5%	-249
Dry cargoes	**1,469**	**1,710**	**-14.1%**	**-240**
Cement	14	34	-58.1%	-20
Chemicals and fertilizers	120	109	10.2%	11
Construction freight	162	217	-25.3%	-55
Ferrous metals and scrap	200	203	-1.5%	-3
Grain	163	183	-10.7%	-20
Industrial freight	41	115	-64.1%	-74
Ores	248	333	-25.4%	-84
Sugar	134	162	-17.4%	-28
Other	386	354	9.2%	32