



**Georgian  
Railway**  
Est. 1872

## **Management Discussion and Analysis for the six-month period ended 30 June 2016**

The Group managed to maintain solid EBITDA margin in the industry (40 percent in the six-month period ended 30 June 2016) despite, the decrease in cargo transportation volume by approximately 1.6 million tons, which was mostly due to the decreased transportation activity in the region. The reduction in transportation volume is expected to partly recover in the second half of the year.

The reduction in revenue in the first half of 2016 compared to the same period of 2015 was mainly caused by the reduced transportation volume. Operating expenses remained at about the same level. In the first half of 2016 the Group showed GEL 49.6 million net profit compared to GEL 64.0 million net loss in the same period of 2015. The appreciation of GEL against USD as at the balance date 30 June 2016 had positive effect on the Group's net profit contributing GEL 21.8 million from the net foreign exchange gain, while the depreciation of GEL against USD as for 30 June 2015 resulted in net foreign exchange loss of GEL 154.1 million.

Revenue from passenger transportation during the first half of 2016 has increased by 5 percent compared to the same period of 2015 and is expected to increase further after offering the customers two new trains of Stadler Kiss in summer 2016 and another two units in the beginning of 2017. These trains will be financed by new loan of about USD 43.7 million and partly by the Group's internal funds.

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# 1. Profit & Loss Statement

## Profit and loss statement

In GEL '000

6 month period ended 30 June

	H1 2016	H1 2015	% Change	Abs. Change
Revenue	204,336	288,340	-29.1%	-84,004
Other income	9,040	6,212	45.5%	2,828
Employee benefits expense	-72,450	-73,188	-1.0%	738
Depreciation and amortization	-52,630	-52,596	0.1%	-34
Electricity and materials used	-19,976	-21,461	-6.9%	1,485
Other expenses	-39,539	-36,926	7.1%	-2,613
<b>Result from operating activities</b>	<b>28,781</b>	<b>110,381</b>	<b>-73.9%</b>	<b>-81,600</b>
Finance income	34,994	8,492	312.1%	26,502
Finance cost	-29,300	-202,799	-85.6%	173,499
<b>Net finance income/(loss)</b>	<b>5,694</b>	<b>-194,307</b>	<b>-102.9%</b>	<b>200,001</b>
<b>Profit before income tax</b>	<b>34,475</b>	<b>-83,926</b>	<b>-141.1%</b>	<b>118,401</b>
Income tax	15,094	19,888	-24.1%	-4,794
<b>Net income</b>	<b>49,569</b>	<b>-64,038</b>	<b>-177.4%</b>	<b>113,607</b>
<b>EBITDA</b>	<b>81,411</b>	<b>162,977</b>	<b>-50.0%</b>	<b>-81,566</b>
<b>EBITDA margin</b>	<b>39.8%</b>	<b>56.5%</b>	<b>N/A</b>	<b>-16.7%</b>

## 2. P&L Analysis

Following paragraphs present the analysis of the profit and loss statement for the six-month period ended 30 June 2016 and 2015:

### 2.1 Revenues

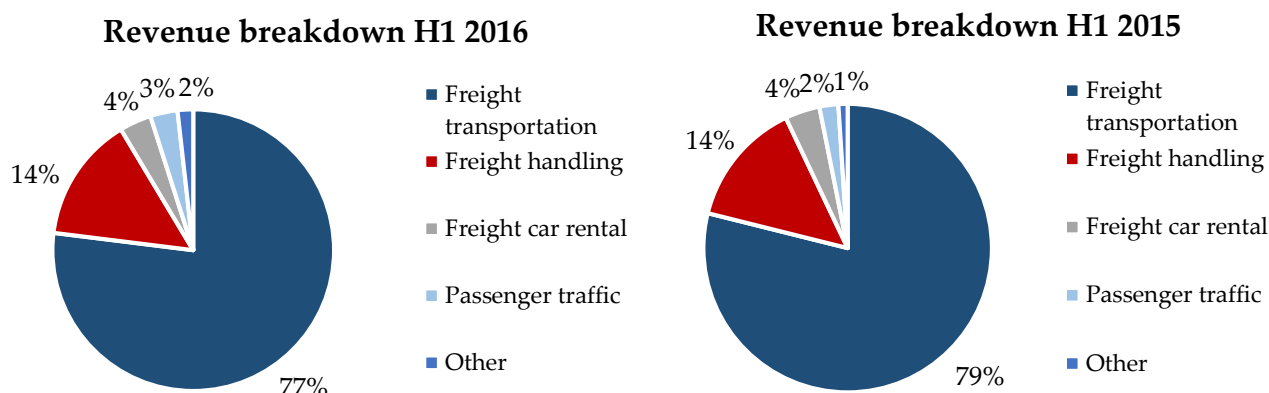
#### Revenue breakdown

In GEL '000

6 month period ended 30 June

In GEL '000	H1 2016	H1 2015	% Change	% Change at constant currency	Abs. Change
Freight transportation	157,274	227,489	-30.9%	-35.2%	-70,215
Freight handling	29,517	40,525	-27.2%	-31.1%	-11,008
Freight car rental	7,481	11,255	-33.5%	-35.2%	-3,774
Passenger traffic	6,402	6,093	5.1%	5.0%	309
Other	3,663	2,978	23.0%	NM	685
<b>Revenue</b>	<b>204,336</b>	<b>288,340</b>	<b>-29.1%</b>	<b>-33.2%</b>	<b>-84,003</b>
<b>Other income</b>	<b>9,040</b>	<b>6,212</b>	<b>45.5%</b>	<b>NM</b>	<b>2,829</b>
<b>Freight transportation</b>	<b>157,274</b>	<b>227,489</b>	<b>-30.9%</b>	<b>-35.2%</b>	<b>-70,215</b>
<b>Liquid cargoes</b>	<b>78,785</b>	<b>127,281</b>	<b>-38.1%</b>	<b>-42.0%</b>	<b>-48,496</b>
Oil products	62,884	107,225	-41.4%	-45.0%	-44,342
Crude oil	15,902	20,056	-20.7%	-25.7%	-4,154
<b>Dry cargoes</b>	<b>78,489</b>	<b>100,207</b>	<b>-21.7%</b>	<b>-26.6%</b>	<b>-21,718</b>
Cement	404	630	-36.0%	-40.0%	-227
Chemicals and fertilizers	4,998	5,135	-2.7%	-8.8%	-137
Construction freight	3,288	5,673	-42.0%	-45.7%	-2,385
Ferrous metals and scrap	13,182	18,577	-29.0%	-33.5%	-5,395
Grain	4,249	12,230	-65.3%	-67.4%	-7,981
Industrial freight	1,758	3,093	-43.2%	-46.7%	-1,335
Ores	12,278	13,963	-12.1%	-17.6%	-1,686
Sugar	11,483	7,931	44.8%	35.7%	3,553
Other	26,850	32,976	-18.6%	-23.7%	-6,126
Freight turnover (million tkm)	1,624	2,226	-27.1%	NM	-603
Revenue / tkm (in Tetri)	9.69	10.22	-5.2%	-11.2%	-0.5

The following charts represent revenue breakdown for the six-month period ended 30 June 2016 and 2015:



### Freight transportation revenue

Freight transportation revenue, which represents about 77 percent of the Group's total revenue, has decreased by 31 percent (GEL 70.2 million) during the first half of 2016 compared to the same period of the previous year. This decrease was mainly caused by reduced transportation turnover by 27 percent, which was partially offset by depreciation of GEL against USD during the period.

As the Group's tariffs for freight transportation are denominated in USD, the Group's transportation revenue depends on several factors, including GEL/USD exchange rate. Depreciation of GEL against USD also effects the Group's profitability, as far as significant part of the expenses are denominated in GEL.

### In GEL

	Average rate			Reporting date spot rate			
	H1 2016	H1 2015	% Change	30-Jun-16	31-Dec-15	30-Jun-15	31-Dec-14
USD	2.32	2.18	6.71%	2.34	2.39	2.25	1.86
CHF	2.36	2.30	2.61%	2.39	2.42	2.41	1.88

Freight volume transported by the Group during the first half of 2016 has decreased in both liquid and dry cargoes (see Appendix 1 and Appendix 2) compared to the same period of 2015. However, there were some product categories (crude oil, chemicals, fertilizers and sugar) that showed an increase.

### Oil products

	H1 2016	H1 2015	% Change	% Change at constant currency
Revenues (000'GEL)	62,884	107,225	-41.4%	-45.0%
Freight turnover (million tkm)	545	1,004	-45.7%	NM
Revenue / tkm (in Tetri)	11.55	10.69	8.1%	1.3%

Transportation turnover of oil products during the first half of 2016 has decreased by 46 percent compared to the same period of 2015, which was mainly due to the reduced transportation of heavy fuel oil from Kazakhstan and gas oil from Azerbaijan and Kazakhstan.

Transportation volume of oil products has increased from Russia by about 0.1 million ton during the first half of 2016 compared to the same period of 2015. In Q4 2015 the Group started to transport motor fuel from Russia, which continued in 2016. Transportation volume of diesel fuel from Russia has also increased.

The increase in average revenue per ton-kilometer in the first half of 2016 compared to the same period of 2015 was mostly due to the depreciation of GEL against USD.

## Crude oil

	H1 2016	H1 2015	% Change	% Change at constant currency
Revenues (000'GEL)	15,902	20,056	-20.7%	-25.7%
Freight turnover (million tkm)	316	251	25.6%	NM
Revenue / tkm (in Tetri)	5.04	7.99	-36.9%	-40.9%

Transportation revenue from crude oil has decrease by 21 percent during the first half of 2016 compared to the same period of 2015, while transportation turnover has increased by 26 percent. This was caused by reduction in average revenue per ton-kilometer by 37 percent.

The decrease in average revenue per ton-kilometer can be explained by the reduction in tariffs for crude oil transportation in the first half of 2016 and changes in transportation direction mix. The changes in transportation direction mix were caused by the fact that in the first half of 2015 the freight was mostly transported from Azerbaijan and Kazakhstan. These countries are more profitable directions than Turkmenistan, which in the first half of 2016 was the main transporter of crude oil.

## Construction freight

	H1 2016	H1 2015	% Change	% Change at constant currency
Revenues (000'GEL)	3,288	5,673	-42.0%	-45.7%
Freight turnover (million tkm)	76	107	-28.3%	NM
Revenue / tkm (in Tetri)	4.30	5.32	-19.2%	-24.3%

Transportation revenue of construction freight during the first half of 2016 has decreased by 42 percent compared to the same period of 2015, which was higher than the decrease in transportation turnover (28 percent). This can be explained by the increased share of construction freight transported within Georgia, which is less profitable direction and thus caused the reduction in average revenue per ton-kilometer.

## Industrial freight

	H1 2016	H1 2015	% Change	% Change at constant currency
Revenues (000'GEL)	1,758	3,093	-43.2%	-46.7%
Freight turnover (million tkm)	20	34	-40.4%	NM
Revenue / tkm (in Tetri)	8.77	9.19	-4.7%	-10.7%

Transportation turnover of industrial freight decreased by 40 percent in the first half of 2016 compared to the same period of 2015, while there was 12 percent increase in transportation volume (see appendix 1 and appendix 2). This was mainly caused by reduced transportation volume to Azerbaijan and increased transportation volume to Georgia, which covers smaller distances.

The change in product category mix due to reduced transportation of natural barium sulfate to Azerbaijan and increased transportation of clinker cement to Georgia, combined with changes in transportation direction mix contributed to the reduction in average revenue per ton-kilometer.

## Grain

	H1 2016	H1 2015	% Change	% Change at constant currency
Revenues (000'GEL)	4,249	12,230	-65.3%	-67.4%
Freight turnover (million tkm)	45	104	-56.9%	NM
Revenue / tkm (in Tetri)	9.50	11.79	-19.4%	-24.5%

Transportation revenue of grain has decreased by 65 percent during the first half of 2016 compared to the same period of 2015, which was caused by reduction in freight transportation turnover and also by the reduction in average revenue per ton-kilometer. About 57 percent reduction in total grain transportation turnover was mainly caused by reduced turnover from Russia to Armenia.

The decrease in average revenue per ton-kilometer was caused by reduced transportation to Armenia, which is one of the most profitable directions.

## Sugar

	H1 2016	H1 2015	% Change	% Change at constant currency
Revenues (000'GEL)	11,483	7,931	44.8%	35.7%
Freight turnover (million tkm)	96	78	23.8%	NM
Revenue / tkm (in Tetri)	11.90	10.18	16.9%	9.6%

The increase in transportation turnover by 24 percent in the first half of 2016 compared to the same period of 2015 was mainly driven by the increased transportation of cane sugar from Brazil to Azerbaijan and Armenia.

The increase in average revenue per ton-kilometer by 17 percent was mainly caused by increased transportation volume and transportation share to more profitable directions.

The increase in transportation turnover, in revenue per ton-kilometer and depreciation of GEL against USD contributed to the increase in revenue from sugar transportation by 45 percent during the first half of 2016 compared to the same period of 2015.

### **Freight handling**

The decrease in freight handling revenue by GEL 11.0 million, (27 percent) during the first half of 2016 compared to the same period of 2015 was mainly caused by reduced revenues from wagon delay services.

### **Freight car rental**

The reduction in revenue from freight car rental by GEL 3.8 million (34 percent) during the first half of 2016 compared to the same period of 2015 can be explained by the reduced transportation volume and at the same time decreased share of freight transportation by Georgian Railway's own fleet.

### **Passenger transportation**

Revenue from passenger transportation has increased by GEL 0.3 million (5 percent) during the first half of 2016 compared to the same period of the previous year, while the number of passengers has remained at about the same level. 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.

### **Other income**

The increase in other income by GEL 2.8 million in the first half of 2016 compared to the same period of 2015 was mainly due to the deduction in dividends payable to the state by the amount which was spent by the Company on the capital expenditures on railroad infrastructure for the new passenger station in Batumi. As the project had social significance, the government agreed to offset the dividend, payable by the Company, in return of the capital expenditures on the project.



## 2.2 Operating expenses

### Operating Expenses

6 month period ended 30 June

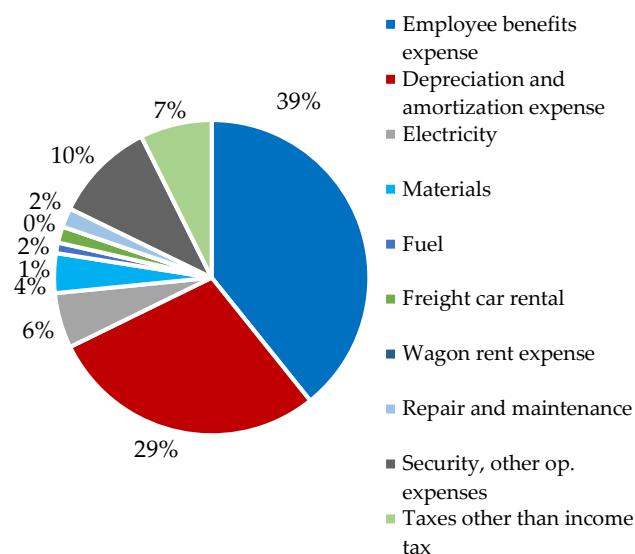
In GEL '000

	H1 2016	H1 2015	% Change	Abs. Change
Employee benefits expense	72,450	73,188	-1.0%	-738
Depreciation and amortization expense	52,630	52,596	0.1%	34
Electricity	10,457	9,196	13.7%	1,261
Materials	7,526	9,387	-19.8%	-1,861
Fuel	1,993	2,878	-30.8%	-885
Freight car rental	3,076	3,483	-11.7%	-407
Wagon rent expense	0	3,597	-100.0%	-3,597
Repair and maintenance	3,633	4,987	-27.1%	-1,354
Security, other op. expenses	19,226	12,344	55.7%	6,882
Taxes other than income tax	13,604	12,514	8.7%	1,089
<b>Total</b>	<b>184,595</b>	<b>184,171</b>	<b>0.2%</b>	<b>424</b>

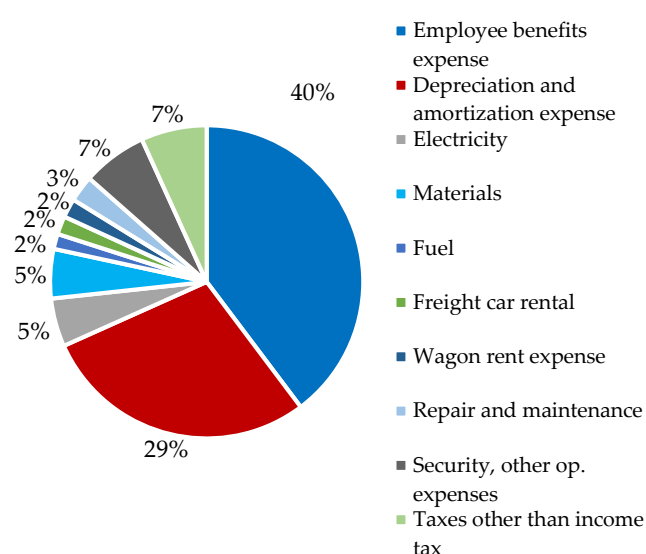
Total operating expenses for the first half of 2016 remained at about the same level as they were in the first half of 2015. The increase was shown in security and other operating expenses, electricity expenses and taxes other than income tax, but they were offset by the reduction in wagon rent expenses, material, repair and maintenance expenses.

The following charts represent the cost structure for the first half of 2016 and 2015:

Cost structure H1 2016



Cost structure H1 2015

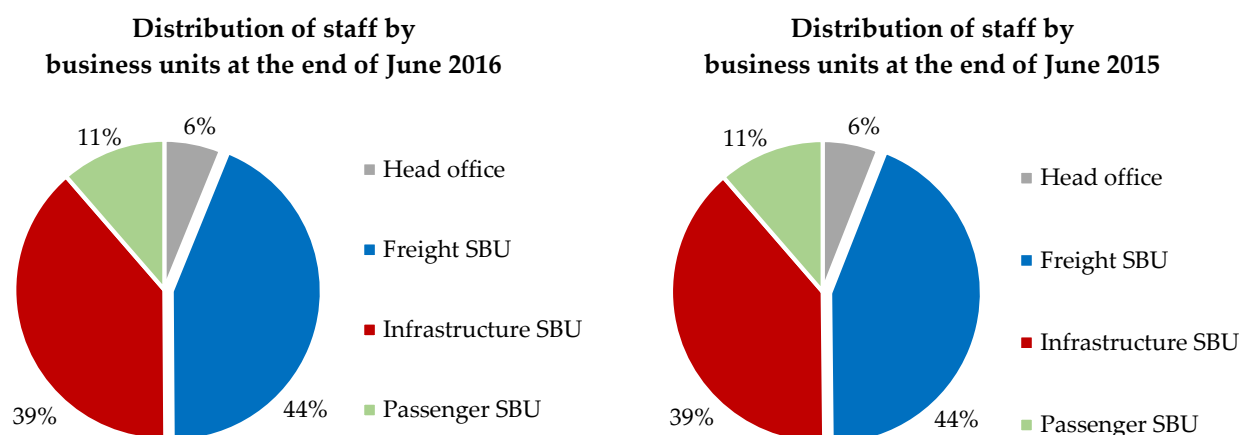


## Employee benefits expense

Employee benefits expense has decreased by 1 percent (GEL 0.7 million) during the first half of 2016 compared to the same period of 2015. This was mainly due to the lower bonuses.

Employee number (excluding subsidiaries) by the end of June 2016 was equal to 12,704 and by the end of June 2015 the number of employees was 12,675.

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



## Materials, repair and maintenance expenses

The Group's materials, repair and maintenance expenses are tied to its rolling stock equipment balance and subsequent utilization level. During the first half of 2016 transportation turnover decreased by 27 percent compared to the same period of the previous year, subsequently the utilization rate of rail cars has decreased to 56 percent from 65 percent. Material, repair and maintenance expenses decreased by 22 percent (GEL 3.2 million) during the first half of 2016 compared to the same period of 2015.

## Electricity expenses

### Electricity expenses

6 month period ended 30 June

In GEL '000

	H1 2016	H1 2015	% Change	Abs. Change
Electricity expense for traction	8,776	7,888	11.3%	888
Utility expenses	1,681	1,308	28.5%	372
<b>Total electricity expenses</b>	<b>10,457</b>	<b>9,196</b>	<b>13.7%</b>	<b>1,261</b>

Electricity expense for traction increased by 11 percent during the first half of 2016 compared to the same period of 2015, despite the decrease in gross ton-kilometers (about 25 percent). The increase in electricity expenses was due to the increase in electricity tariffs. GR's agreement on electricity procurement considers fixed tariffs until 2021 but it also considers review in case of change in regulated

tariffs, Georgian National Energy and Water Supply Regulatory Commission (GNERC) has made a decision about increasing electricity tariffs in August 2015. In the following years (until 2021), according to the agreement, electricity tariffs will be fixed at the current level, unless another decision about tariff changes from the GNERC.

## Purchased electricity and average tariff

6 month period ended 30 June

	H1 2016				H1 2015			
	GWh	Gross tkm (mln.)	GW per gross bln tkm	Average tariff (GEL)	GWh	Gross tkm (mln.)	GWh per gross bln tkm	Average tariff (GEL)
January	12.4	491.3	25.3	0.119	16.6	763.5	21.8	0.088
February	13.5	586.8	22.9	0.119	14.4	642.3	22.5	0.090
March	12.7	536.2	23.7	0.115	16.2	763.1	21.2	0.089
April	12.0	498.5	24.0	0.116	14.5	681.6	21.3	0.088
May	12.0	502.9	23.9	0.116	14.8	695.1	21.2	0.083
June	12.4	537.8	23.1	0.116	14.1	654.0	21.6	0.083
<b>Total</b>	<b>75.0</b>	<b>3,153.4</b>	<b>23.8</b>	<b>0.117</b>	<b>90.6</b>	<b>4,199.7</b>	<b>21.6</b>	<b>0.087</b>

### Fuel expenses

Total fuel expenses decreased by 31 percent (GEL 0.9 million) in the first half of 2016 compared to the same period of 2015. This change was mainly driven by the reduced handling services led by reduction in transportation volume during the given period, cost reduction was also contributed by the decrease in fuel prices.

### Freight car rental expense

Freight car rental expense decreased by 12 percent (GEL 0.4 million) in the first half of 2016 compared to the same period of the previous year. The decrease was mainly due to the reduced usage of box cars for cargo transportation.

### Wagon rent expense

In 2012 the Group 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 the contractor 425 tank cars (rent price was 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 cargoes decreased significantly due to the decreased transportation in crude oil. As the Group owns some quantity of tanks that can be used for transportation of liquid cargoes, current fleet along with the use of other railway's tanks is considered to be sufficient to handle the expected volume transportation in liquid cargoes.

In the first half of 2016 the Group had no wagon rent expenses, which was due to the expired contract for 425 wagon rent in April 2015.

## Security and other operating expenses

### Security and other operating expenses

6 month period ended 30 June

In GEL '000

	H1 2016	H1 2015	% Change	Abs. Change
Security	4,457	4,254	4.8%	203
Other op. expenses	14,769	8,090	82.5%	6,678
<b>Total security and other operating expenses</b>	<b>19,226</b>	<b>12,344</b>	<b>55.7%</b>	<b>6,882</b>

The increase in other operating expenses by GEL 6.7 million (83 percent) during the first half of 2016 compared to the same period of the previous year was significantly influenced by the gain from realization of assets in 2015, which in the first half of 2015 was included in other operating expenses and partly offset the expenses, later this item was moved to other operating income.

## Taxes other than income tax

### Taxes other than income tax

6 month period ended 30 June

In GEL '000

	H1 2016	H1 2015	% Change	Abs. Change
Property tax	6,766	6,519	3.8%	247
Land tax	5,624	5,491	2.4%	133
Other taxes	1,214	505	140.5%	709
<b>Total taxes other than income tax</b>	<b>13,604</b>	<b>12,514</b>	<b>8.7%</b>	<b>1,089</b>

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

Taxes other than income tax increased by GEL 1.1 million in the first half of 2016 compared to the same period of 2015. The increase was mainly caused by other taxes, namely unaccounted VAT.

## 2.3 Finance costs and income

### Breakdown of financial costs and income

6 month period ended 30 June

In GEL '000

	H1 2016	H1 2015	% Change	Abs. Change
Interest income	13,226	8,492	55.7%	4,734
Interest expense on financial liabilities	-25,202	-30,349	-17.0%	5,147
Impairment loss on trade receivables	-4,098	-18,355	-77.7%	14,257
Net foreign exchange gain/loss	21,768	-154,095	-114.1%	175,863
<b>Net finance gain/loss</b>	<b>5,694</b>	<b>-194,307</b>	<b>-102.9%</b>	<b>200,001</b>

In the first half of 2016 the Group showed GEL 5.7 million net finance gain, compared to GEL 194.3 million net finance loss in the same period of 2015. The positive difference of GEL 200.0 million was mainly due to the fluctuation of GEL against foreign currencies.

GEL/USD exchange rate fluctuation has significant effect on net finance gain/loss. Due to GEL appreciation against USD during the first half of 2016, the Group experienced net foreign exchange gain of GEL 21.8 million, however due to the depreciation of GEL against USD in the first half of 2015, the Group showed net foreign exchange loss of GEL 154.1 million.

In the six-month period ended 30 June 2016 impairment loss on trade receivables was GEL 4.1 million, which was 77 percent smaller compared to the same period of the previous year.

Lower interest expense on financial liability in the first half of 2016 compared to the same period of 2015 can be explained by higher capitalization rate due to faster implementation pace of the Modernization project and USD 27.5 million of Eurobonds that were repaid in July 2015.

Higher interest income by GEL 4.7 million in the first half of 2016 compared to the same period of 2015, was mainly due to the higher interest rates on cash deposits and higher average GEL/USD exchange rate. Another reason was interest income from the loan receivable of USD 16 million.

## 2.4 Income tax benefit/expense

In May 2016, the Parliament of Georgia adopted amendments to the Tax Code of Georgia, according to which current profit tax regulations will change to so-called "tax on distributed profits" model, similar to Estonian one. The new tax rules are announced to be effective from 1 January 2017.

## 2.5 Profitability

### Calculation of EBITDA and EBITDA margin

In GEL '000

6 month period ended 30 June

	H1 2016	H1 2015	% Change	Abs. Change
Revenues	204,336	288,340	-29.1%	-84,004
Other income	9,040	6,212	45.5%	2,828
Operating expenses	-184,595	-184,171	0.2%	-424
<b>Result from operating activities</b>	<b>28,781</b>	<b>110,381</b>	<b>-73.9%</b>	<b>-81,600</b>
<b>Operating profit margin</b>	<b>14.1%</b>	<b>38.3%</b>	<b>-63.2%</b>	<b>-24.2%</b>
Depreciation add-back	52,630	52,596	0.1%	34
<b>EBITDA</b>	<b>81,411</b>	<b>162,977</b>	<b>-50.0%</b>	<b>-81,566</b>
<b>EBITDA Margin</b>	<b>39.8%</b>	<b>56.5%</b>	<b>-29.5%</b>	<b>-16.7%</b>

In the first half of 2016, GEL fluctuation against foreign currencies as described in the scenarios below, would have affected the Group's profit and loss statement in the following way:

### Sensitivity analyses\*

6 month period ended 30 June

	<u>Actual</u>	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
Revenue	204,336	192,668	166,309	228,362
EBITDA	81,411	69,822	44,000	104,916
EBIT	28,781	17,192	(8,630)	52,286
EBT	34,475	2,602	26,417	(13,128)

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

### Description of scenarios

	31 Dec 2015 – 30 June 2016	H1 2015 – H1 2016
	FX changes at balance date	Average rate change
Scenario 1	0%	0%
Scenario 2	-5%	-20%
Scenario 3	5%	20%

### 3. Cash flows

#### Cash flow statement

In GEL '000

6 month period ended 30 June

	H1 2016	H1 2015
<b>Cash flows from operating activities</b>		
Cash receipts from customers	202,325	281,797
Cash paid to suppliers and employees	-124,838	-137,543
<b>Cash flows from operations before income taxes paid</b>	<b>77,487</b>	<b>144,254</b>
Income tax paid	-2,669	-2,776
<b>Net cash from operating activities</b>	<b>74,818</b>	<b>141,478</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-84,029	-72,091
Proceeds from sale of property, plant and equipment	369	4
Interest received	12,888	8,720
Issuance of the loan	-15,127	0
Refund of the loan	21,512	0
<b>Net cash used in investing activities</b>	<b>-64,387</b>	<b>-63,368</b>
<b>Cash flows from financing activities</b>		
Interest paid	-46,800	-39,126
Dividends paid	-1,607	-300
<b>Net cash from / (used in) financing activities</b>	<b>-48,407</b>	<b>-39,426</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>-37,976</b>	<b>38,684</b>
Cash and cash equivalents at 1 January	294,784	300,983
Effect of exchange rate fluctuations on cash and cash equivalents	-2,990	30,754
<b>Cash and cash equivalents at 30 June</b>	<b>253,818</b>	<b>370,421</b>

#### Operating activities

Net cash from operating activities decreased by GEL 66.7 million in the first half of 2016 compared to the same period of the previous year. The change was driven by the decrease in cash receipts from customers by about GEL 79.5 million mainly due to the decreased transportation volume. The decrease in cash paid to suppliers and employees by GEL 12.7 million was mainly due to the lower payments for taxes, materials and repair works and no payment for wagon rent as contract was terminated in April 2015.

#### Investing activities

Cash paid for acquisition of property, plant and equipment in the first half of 2016 increased by GEL 11.9 million, this was mainly due to the faster implementation pace of the Modernization project compared to the same period of 2015.

Higher interest received was mainly due to the higher average GEL/USD exchange rate and higher interest rates on cash deposits. Another reason was interest income from the loan receivable of USD 16 million.

By the end of 2015 and during 2016 the Company has provided loans to other government controlled entities from which part of the amount was collected during H1 2016.

#### **Financing activities**

Net cash used in financing activities increased by GEL 9.0 million in the first half of 2016, compared to the same period of the previous year. This increase was mainly due to higher interest payments driven by depreciation of GEL against USD.



## 4. Balance sheet

### Balance sheet

In GEL '000

6 month period ended 30 June

	30-Jun-16	31-Dec-15	% Change	% Change at constant currency	Abs. Change
<b>TOTAL ASSETS</b>	<b>3,101,106</b>	<b>3,093,917</b>	<b>0.2%</b>	<b>N/A</b>	<b>7,189</b>
<i>Changes are mainly due to:</i>					
Property, plant and equipment	2,508,954	2,483,393	1.0%	1.0%	25,561
Loan receivable non-current	16,396	0	NM	NM	16,396
Other non-current assets	175,450	147,998	18.5%	18.5%	27,452
Loan receivable current	16,099	38,341	-58.0%	-57.0%	-22,242
Cash and cash equivalents	253,818	294,784	-13.9%	-12.8%	-40,966
<b>TOTAL LIABILITIES</b>	<b>1,580,146</b>	<b>1,622,707</b>	<b>-2.6%</b>	<b>N/A</b>	<b>-42,561</b>
<i>Changes are mainly due to:</i>					
Loans and borrowings (LT)	1,167,092	1,193,301	-2.2%	0.0%	-26,209

#### Significant changes in assets

GEL 25.6 million increase in property plant and equipment in the first half of 2016 compared to the year end of 2015 was mainly due to the construction in progress works, mostly within the scope of Modernization project.

By the end of 2015 and during 2016 the Company has provided loans to other government controlled entities from which part of the short term loan was collected during H1 2016.

GEL 27.5 million increase in other non-current assets was mainly due to the prepayments under the Modernization project.

#### Significant changes in liabilities

The change in long term loans and borrowings was mainly due to GEL appreciation against USD as for 30 June 2016 compared to 31 December 2015.

## Appendix 1

### Breakdown of freight transportation in tons

6 month period ended 30 June

*In thousand tons*

	H1 2016	H1 2015	% Change	Abs. Change
<b>Total liquid &amp; dry cargoes</b>	<b>5,700</b>	<b>7,306</b>	<b>-22.0%</b>	<b>-1,606</b>
<b>Liquid cargoes</b>	<b>2,590</b>	<b>3,579</b>	<b>-27.6%</b>	<b>-989</b>
Oil products	1,792	2,945	-39.1%	-1,152
Crude oil	798	634	25.8%	163
<b>Dry cargoes</b>	<b>3,110</b>	<b>3,727</b>	<b>-16.6%</b>	<b>-617</b>
Cement	26	31	-15.6%	-5
Chemicals and fertilizers	244	224	8.9%	20
Construction freight	569	711	-20.0%	-142
Ferrous metals and scrap	381	489	-22.1%	-108
Grain	148	314	-52.9%	-166
Industrial freight	131	116	12.1%	14
Ores	686	785	-12.6%	-99
Sugar	263	216	21.8%	47
Other	663	841	-21.2%	-178

## Appendix 2

### Breakdown of freight transportation in ton-kilometers by freight type

6 month period ended 30 June

In million ton-kilometers

	H1 2016	H1 2015	% Change	Abs. Change
<b>Total liquid &amp; dry cargoes</b>	<b>1,624</b>	<b>2,226</b>	<b>-27.1%</b>	<b>-603</b>
<b>Liquid cargoes</b>	<b>860</b>	<b>1,255</b>	<b>-31.4%</b>	<b>-395</b>
Oil products	545	1,004	-45.7%	-459
Crude oil	316	251	25.6%	64
<b>Dry cargoes</b>	<b>763</b>	<b>972</b>	<b>-21.4%</b>	<b>-208</b>
Cement	8	7	3.2%	0
Chemicals and fertilizers	71	64	10.9%	7
Construction freight	76	107	-28.3%	-30
Ferrous metals and scrap	98	140	-30.1%	-42
Grain	45	104	-56.9%	-59
Industrial freight	20	34	-40.4%	-14
Ores	153	169	-9.3%	-16
Sugar	96	78	23.8%	19
Other	197	271	-27.2%	-74