Georgian Railway
Est. 1872

Management Discussion and Analysis for the six months ended 30 June 2018

Financial and non-financial highlights

Revenue

Q2 2018	6M 2018
102,083	**198,593**
+14% from Q2 2017 +6% from Q1 2018	+2% from 6M 2017

Result from operating activities

Q2 2018	6M 2018
10,890	**18,799**
+4% from Q2 2017 +38% from Q1 2018	-24% from 6M 2017

EBITDA

Q2 2018	6M 2018
40,968	**78,132**
+32% from Q2 2017 +10% from Q1 2018	+2% from 6M 2017

EBITDA margin

Q2 2018	6M 2018
40.13%	**39.34%**
+6 points from Q2 2017 +2 points from Q1 2018	0 points from 6M 2017

Adjusted EBITDA

Q2 2018	6M 2018
36,621	**70,617**
+29% from Q2 2017 +8% from Q1 2018	-1% from 6M 2017

Adjusted EBITDA margin

Q2 2018	6M 2018
35.87%	**35.56%**
+4 points from Q2 2017 +1 points from Q1 2018	-1 points from 6M 2017

Net debt to EBITDA

30 June 2018

4.51

3.49 as at 30-Jun-2017
4.39 as at 31-Mar-2018

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1.Profit or Loss Statement

Profit and loss statement

6 month period ended 30 June

GEL '000 period ended 30 September	Q2 2018	Q2 2017	y-o-y	Q1 2018	q-o-q	6M 2018	6M 2017	y-o-y % change	y-o-y Abs. change
Revenue	102,083	89,911	13.5%	96,510	5.8%	198,593	194,330	2.2%	4,263
Other income	4,497	5,211	-13.7%	4,280	5.1%	8,777	9,883	-11.2%	-1,106
Employee benefits expense	-37,411	-38,380	-2.5%	-36,577	2.3%	-73,988	-73,835	0.2%	-153
Depreciation and amortization	-30,079	-20,462	47.0%	-29,254	2.8%	-59,333	-51,975	14.2%	-7,358
Electricity, consumables and maintenance costs	-10,423	-10,550	-1.2%	-10,122	3.0%	-20,545	-21,299	-3.5%	754
Other expenses	-17,778	-15,266	16.5%	-16,927	5.0%	-34,705	-32,286	7.5%	-2,419
Result from operating activities	**10,890**	**10,464**	**4.1%**	**7,910**	**37.7%**	**18,799**	**24,818**	**-24.3%**	**-6,019**
Net finance income/loss	**-14,134**	**12,862**	**-209.9%**	**70,995**	**-119.9%**	**56,860**	**91,646**	**-38.0%**	**-34,785**
Profit before income tax	**-3,245**	**23,326**	**-113.9%**	**78,904**	**-104.1%**	**75,659**	**116,464**	**-35.0%**	**-40,805**
Income tax expense(benefit)	-865	-243	256.1%	-349	148.3%	-1,214	-448	170.9%	-766
Profit and total comprehensive income	**-4,111**	**23,083**	**-117.8%**	**78,556**	**-105.2%**	**74,445**	**116,016**	**-35.8%**	**-41,571**
EBITDA	40,968	30,927	32.5%	37,164	10.2%	78,132	76,794	1.7%	1,338
EBITDA margin	40.1%	34.4%	NA	38.5%	NA	39.3%	39.5%	NA	-0.2%
Adjusted EBITDA	36,621	28,399	29.0%	33,996	7.7%	70,617	71,350	-1.0%	-734
Adjusted EBITDA Margin	35.9%	31.6%	NA	35.2%	NA	35.6%	36.7%	NA	-1.2%

1.1 Revenue

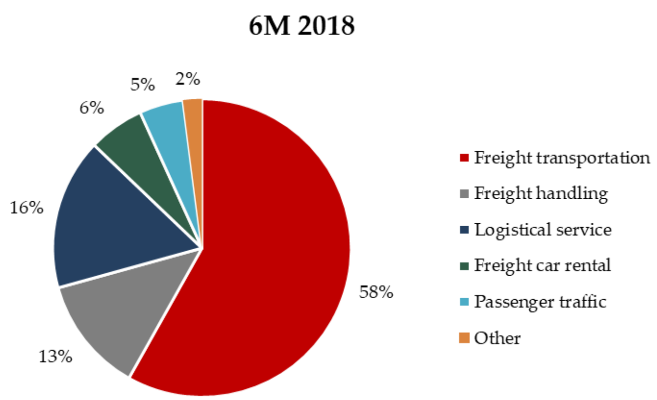
Revenue breakdown

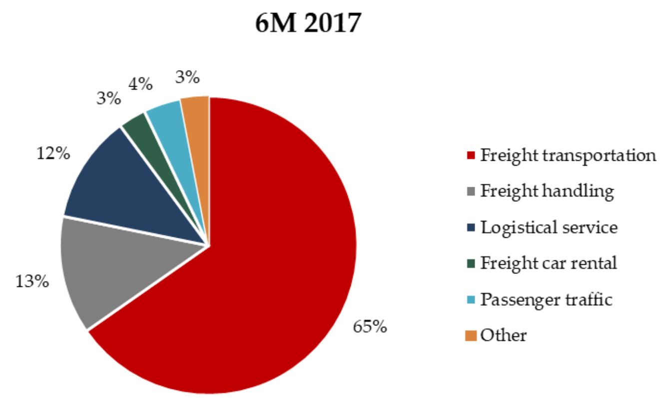
6 month period ended 30 June

GEL '000	Q2 2018	Q2 2017	y-o-y	Q1 2018	q-o-q	6M 2018	6M 2017	% Change	% Change at constant currency	Abs. Change
Freight transportation*	60,391	58,757	2.8%	55,077	9.6%	115,468	126,936	-9.0%	-7.4%	-11,469
Freight handling*	12,614	11,683	8.0%	12,329	2.3%	24,944	24,973	-0.1%	1.7%	-29
Logistical service*	16,921	9,722	74.1%	15,731	7.6%	32,653	22,741	43.6%	46.2%	9,912
Freight car rental	4,846	2,263	114.1%	7,170	-32.4%	12,016	5,866	104.8%	108.5%	6,150
Passenger traffic	5,240	4,135	26.7%	4,227	24.0%	9,467	7,941	19.2%	21.4%	1,526
Other	2,070	3,351	-38.2%	1,976	4.8%	4,046	5,873	-31.1%	-29.9%	-1,827
Revenue	**102,083**	**89,911**	**13.5%**	**96,510**	**5.8%**	**198,593**	**194,330**	**2.2%**	**4.0%**	**4,263**
Other income	**4,497**	**5,211**	**-13.7%**	**4,280**	**5.1%**	**8,777**	**9,883**	**-11.2%**	**-9.6%**	**-1,106**
Freight transportation	**60,391**	**58,757**	**2.8%**	**55,077**	**9.6%**	**115,468**	**126,936**	**-9.0%**	**-7.4%**	**-11,469**
Liquid cargoes	**22,754**	**24,672**	**-7.8%**	**24,578**	**-7.4%**	**47,332**	**56,603**	**-16.4%**	**-14.9%**	**-9,271**
Oil products	21,374	23,018	-7.1%	23,700	-9.8%	45,074	51,184	-11.9%	-10.3%	-6,110
Crude oil	1,380	1,654	-16.6%	878	57.2%	2,258	5,419	-58.3%	-57.6%	-3,161
Dry cargoes	**37,636**	**34,085**	**10.4%**	**30,499**	**23.4%**	**68,136**	**70,333**	**-3.1%**	**-1.4%**	**-2,198**
Ores	7,359	6,087	20.9%	6,486	13.5%	13,845	12,422	11.5%	13.5%	1,423
Grain	1,192	1,739	-31.4%	3,521	-66.1%	4,713	3,976	18.5%	20.7%	737
Ferrous metals and scrap	2,254	2,382	-5.4%	2,141	5.3%	4,395	5,121	-14.2%	-12.6%	-725
Sugar	4,810	4,207	14.3%	189	2440.6%	5,000	8,334	-40.0%	-38.9%	-3,334
Chemicals and fertilizers	3,535	1,676	110.9%	3,739	-5.5%	7,274	5,214	39.5%	42.0%	2,060
Construction freight	1,501	1,811	-17.1%	1,730	-13.2%	3,231	3,343	-3.3%	-1.6%	-111
Industrial freight	1,856	1371	35.4%	797	133.0%	2,653	2,503	6.0%	7.9%	150
Cement	490	506	-3.1%	336	46.1%	826	669	23.5%	25.7%	157
Other	14,638	14,306	2.3%	11,560	26.6%	26,199	28,752	-8.9%	-7.2%	-2,553
Freight turnover (million ton-km)	665	666	-0.2%	633	4.9%	1,298	1,484	-12.5%	-11.0%	-186
Revenue / ton-km (in Tetri)	9.09	8.82	3.0%	8.70	4.5%	8.90	8.55	4.0%	5.9%	0.34

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

The following charts represent revenue breakdown for the six months ended 30 June 2018 and 2017:





Freight transportation revenue

Most of the Group's revenue (about 58 percent in first 6 months of 2018) 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 2018 was about 41 and 59 percent, respectively.

Freight transportation revenue, has decreased by 9 percent (GEL 11.5 million) during the six months ended 30 June 2018, compared to the same period of the previous year.

	Average rate			*Reporting date spot rates*			
	6M 2018	**6M 2017**	**% Change**	**30-Jun-18**	**31-Dec-17**	**30-Jun-17**	**31-Dec-16**
USD	2.47	2.51	-1.78%	2.45	2.59	2.41	2.65
CHF	2.55	2.52	1.21%	2.47	2.66	2.51	2.60

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 2018 has decreased by 5 percent, compared to the same period of the previous year. Transported volumes of liquid cargo has decreased by 30 percent, while transported volumes of dry cargo has increased by 15 percent (*see Appendix 1*).

Oil Products

6 month period ended 30 June

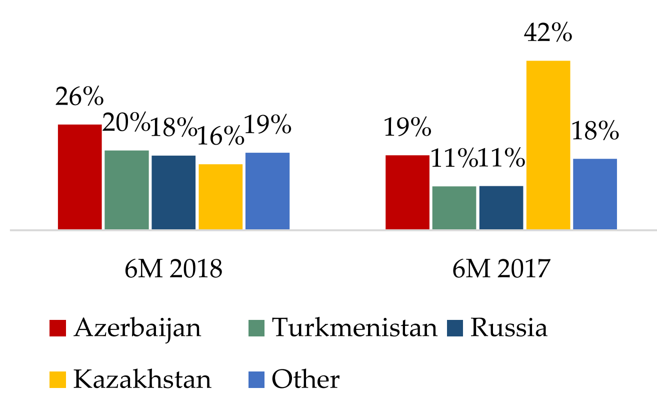
	6M 2018	6M 2017	%Change	% Change at constant currency
Revenue (GEL'000)	45,074	51,184	-11.9%	-10.3%
Freight volume (ton '000)	1,520	2,034	-25.3%	NA
Freight turnover (million ton-km)	449	657	-31.7%	NA
Revenue / ton-km (in Tetri)	10.04	7.79	28.9%	31.3%

Oil products

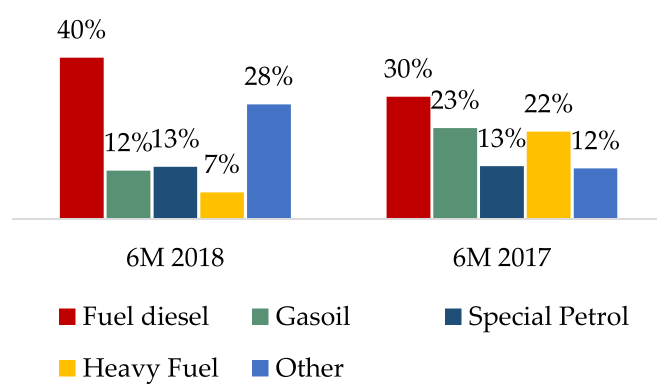
Revenue from the transportation of oil products for Q2 2018 decreased by 7 percent, compared to Q2 2017 and by 10 percent, compared to Q1 2018.

Main directions of cargo

Oil products currently are the main component of liquid cargo (95 percent of the transportation volume of liquid cargo in 6M 2018). 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 2018 mainly originated from Azerbaijan, Turkmenistan, Russia and Kazakhstan, with significant changes in transportation direction mix compared to the same period of 2017. The share of Kazakhstan was down to 16 percent from 42 percent, while the share of Azerbaijan, Turkmenistan and Russia increased by about 7 percent, 9 percent and 7 percent, respectively in total oil products transported by the Group.



Factors influencing performance

Ton-kilometers – 32 percent decrease in transportation turnover was mainly driven by decreased transported volume by 25 percent, mainly caused by decreased transportation of heavy fuel oil and gasoil from Kazakhstan by 339,000 tons and 276,000 tons, respectively. Another reason was decreased average transportation distance by 9 percent, mainly driven by change in product direction mix. Share of transported volume from Kazakhstan (which covers relatively longer distances) in total transportation volume of oil products has significantly decreased.

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 changes in product category mix. The shares of fuel diesel and aviation light fuel (which are relatively more profitable products) have increased and shares of gasoil and heavy fuel (which are relatively less profitable products) have decreased in total oil products transported by Georgian Railway.

Crude Oil

6 month period ended 30 June

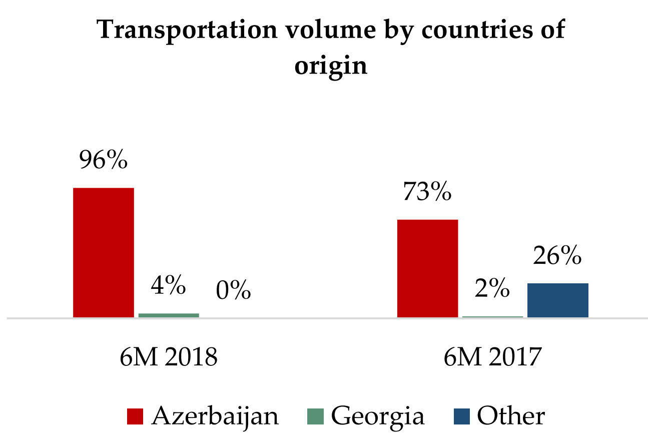
	6M 2018	6M 2017	% Change	% Change at constant currency
Revenue (GEL'000)	2,258	5,419	-58.3%	-57.6%
Freight volume (ton '000)	103	274	-62.5%	NA
Freight turnover (million ton-km)	41	107	-62.0%	NA
Revenue / ton-km (in Tetri)	5.54	5.05	9.7%	11.7%

Crude oil

Revenue from the transportation of crude oil for Q2 2018 decreased by 17 percent, compared to Q2 2017 but increased by 57 percent, compared to Q1 2018.

Main directions of cargo

Within the six months ended 30 June 2018, the country of origin was Azerbaijan and Georgia, while 69,000 tons were transported from Turkmenistan in the same period of the previous year.



Factors influencing performance

Ton-kilometers – 62 percent decrease in transportation turnover was caused by decreased volumes from Azerbaijan and Turkmenistan, by 100,000 tons and 69,000 tons, respectively.

Revenue/ton-km (in Tetri) – 12 percent increase in average revenue per ton-kilometer at constant currency during the period under review, compared to the same period of the previous year was driven by change in product direction mix. The share of freight volumes from Azerbaijan (relatively more profitable direction) was 96 percent in the six months ended 30 June 2018, compared to 73 percent in the same period of 2017, in total transported volumes of crude oil.

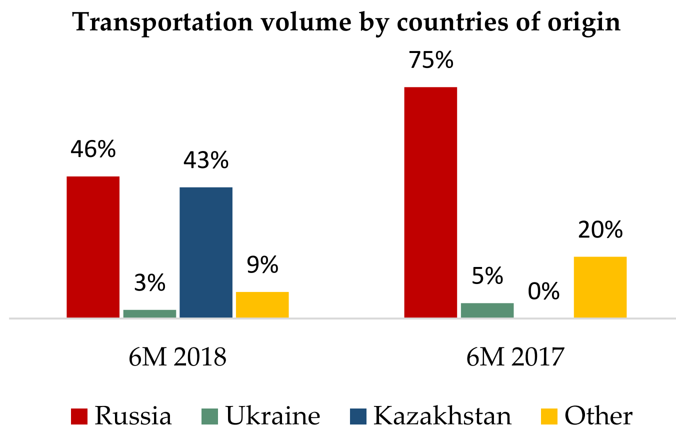
Grain and grain products

6 month period ended 30 June

	6M 2018	6M 2017	% Change	% Change at constant currency
Revenue (GEL'000)	4,713	3,976	18.5%	20.7%
Freight volume (ton '000)	260	157	66.1%	NA
Freight turnover (million ton-km)	61	37	65.0%	NA
Revenue / ton-km (in Tetri)	7.75	10.78	-28.2%	-26.8%

Grain and grain products

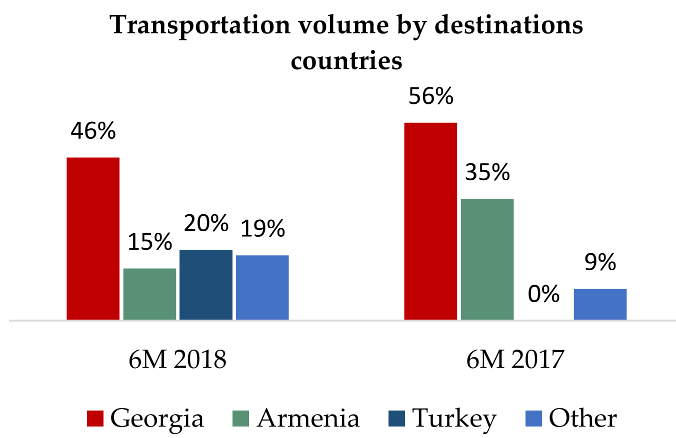
Revenue from the transportation of grain and grain products for Q2 2018 decreased by 31 percent, compared to Q2 2017 and by 66 percent, compared to Q1 2018.



Main directions of cargo

Grain and grain products transported by the Group during six months ended 30 June 2018, mainly originated from Kazakhstan and Russia, while main destination countries were Georgia, Turkey and Armenia.

Factors influencing performance



Ton-kilometers – 65 percent increase in transportation turnover was mainly driven by increased volumes from Kazakhstan by 111,000 tons as well as significant increase of average transportation distance for Kazakhstan (which covers longer distances).

Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was mainly caused by decreased share of transported volumes from Russia (which is relatively more profitable direction) by 29 percent in total volume transported by the Group.

Ferrous metals and scrap

6 month period ended 30 June

	6M 2018	6M 2017	% Change	% Change at constant currency
Revenue (GEL'000)	4,395	5,121	-14.2%	-12.6%
Freight volume (ton '000)	277	244	13.5%	NA
Freight turnover (million ton-km)	60	54	10.9%	NA
Revenue / ton-km (in Tetri)	7.28	9.40	-22.6%	-21.2%

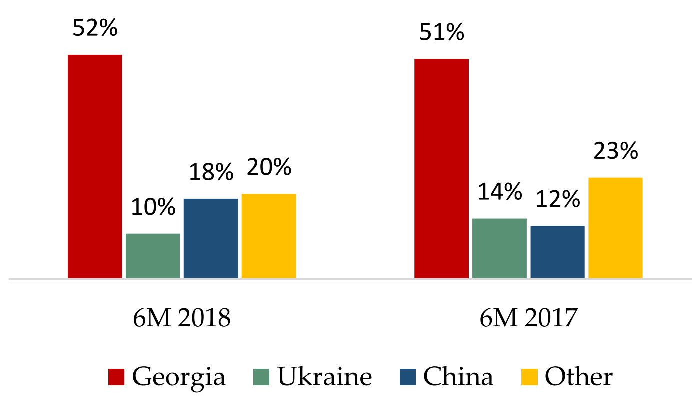
Ferrous metals and scrap

Revenue from the transportation of ferrous metals and scrap for Q2 2018 decreased by 5 percent, compared to Q2 2017 but increased by 5 percent, compared to Q1 2018.

Main directions of cargo

Ferrous metals and scrap transported by the Group during six months ended 30 June 2018 was mainly originated from Georgia, Ukraine and China.

Transportation volume by countries of origin



Factors influencing performance

Ton-kilometers – 11 percent increase in freight turnover was mainly caused by increased transportation of tinplate products from China.

Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was mainly driven by changes in product direction mix and product category mix. The share of freight transported to Turkmenistan (which is relatively more profitable direction) has decreased and the share of iron rods (which is relatively more profitable product) has decreased in total ferrous metals and scrap transported by the Group.

Sugar

6 month period ended 30 June

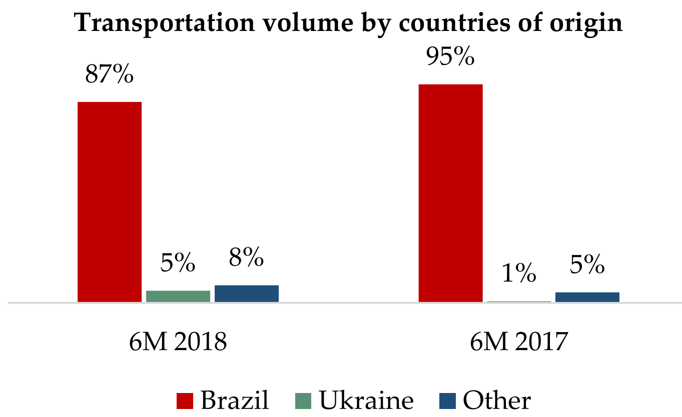
	6M 2018	6M 2017	% Change	% Change at constant currency
Revenue (GEL'000)	5,000	8,334	-40.0%	-38.9%
Freight volume (ton '000)	154	221	-30.2%	NA
Freight turnover (million ton-km)	57	80	-29.5%	NA
Revenue / ton-km (in Tetri)	8.82	10.37	-14.9%	-13.3%

Sugar

Revenue from the transportation of sugar for Q2 2018 increased by 14 percent, compared to Q2 2017 and by GEL 4.6 million, compared to Q1 2018.

Main directions of cargo

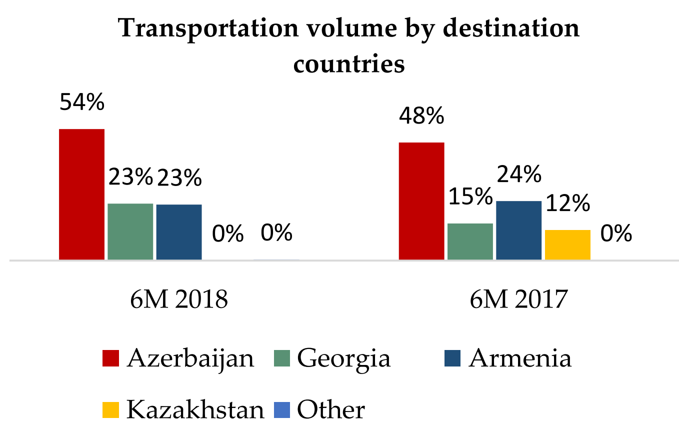
Sugar transported by the Group during six months ended 30 June 2018 was mainly directed to Azerbaijan, Georgia, Armenia and Kazakhstan. Significant country of origin was Brazil with transportation of 134,000 tons in six months of 2018 and 209,000 tons in the same period of the previous year.



Factors influencing performance

Ton-kilometers – 30 percent decrease in freight turnover during the period under review, compared to the same period of the previous year, was mainly driven by reduced transportation of sugar from Brazil by 74,000 tons in six months ended 30 June 2018 compared to same period of 2017.

Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was caused by change in product category mix. The share of reed sugar (relatively more profitable product) has decreased significantly in total sugar transportation volume.



Other

6 month period ended 30 June

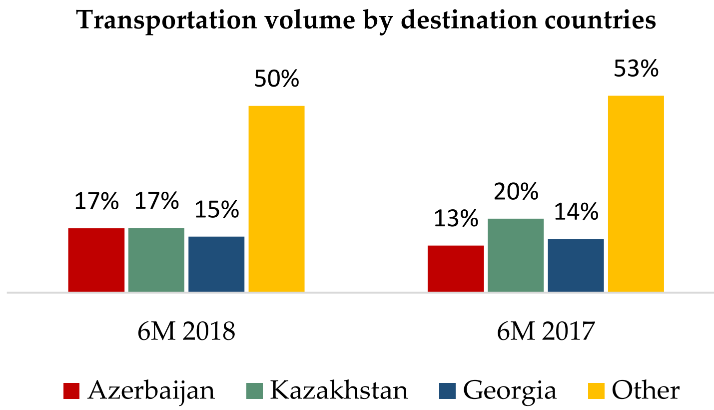
	6M 2018	6M 2017	% Change	% Change at constant currency
Revenue (GEL'000)	26,199	28,752	-8.9%	-7.2%
Freight volume (ton '000)	746	714	4.5%	NA
Freight turnover (million ton-km)	236	226	4.3%	NA
Revenue / ton-km (in Tetri)	11.10	12.71	-12.6%	-11.0%

Other product categories

Revenue from the transportation of other product categories for Q2 2018 increased by 2 percent, compared to Q2 2017 and by 27 percent, compared to Q1 2018.

Main directions of cargo

Freight from other products category in six months ended 30 June 2018 was mainly directed to Azerbaijan, Kazakhstan and Georgia, with changes in product direction mix, compared to the same period of 2017. Main products transported in first 6 months period of 2018 were mineral waters (about 8 percent of total volume), unalloyed aluminum (about 6 percent of total volume), methanol (about 5 percent of total volume) and palm oil (about 4 percent of total volume).



Factors influencing performance

Ton-kilometers – 4 percent increase in transportation turnover was mainly driven by increased volumes transported to Azerbaijan by 39,000 tons.

Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was driven by changes in product direction mix and product category mix. The share of China (relatively less profitable direction) has increased, while the share of Azerbaijan and Georgia (relatively more profitable directions) has decreased in total volumes transported. The share of chicken meat (relatively more profitable product) decreased from 9 percent to 1 percent in total other products category transported.

Logistical services

Revenue from logistical service for Q2 2018 increased by 74 percent, compared to Q2 2017 and by 8 percent, compared to Q1 2018.

The increase in logistical services by GEL 9.9 million during the six months ended 30 June 2018, compared to the same period of the previous year, was mostly attributable to increased logistical revenue from oil products, mainly transported to the direction of Armenia, also increased volumes of container transportation by 266% compared to the first six months of 2017.

Freight car rental

The increase in revenue from freight car rental by 105 percent (GEL 6.1 million) during the six months ended 30 June 2018, compared to the same period of 2017, was mainly caused by increased usage of the Group's semi-wagons and grain carriers by Kazakhstan railway organization.

Passenger transportation

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

	6M 2018	6M 2017	% Change	Abs. change
Revenue	9,467	7,941	19.2%	1,526
Number of passengers	1,258	1,214	3.6%	44

Revenue from passenger transportation has increased by 19 percent (GEL 1.5 million) during the six months ended 30 June 2018, compared to the same period of the previous year, while the number of passengers has increased by 3.6 percent. The higher increase in revenue was driven by significant rise in number of passengers on the main line transportation (which is relatively more profitable direction).

Other revenue

The reduction in other revenue by GEL 1.8 million during the first six months of 2018, compared to the same period of 2017 was mostly attributable to reduced revenues from sales of scrap metal.

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 2018	6M 2017	% Change	Abs. change
Continuing operations	1,079	4,240	-74.6%	-3,161
Non-continuing operations	7,698	5,643	36.4%	2,055
Total	**8,777**	**9,883**	**-11.2%**	**-1,106**

The decrease in other income from continuing operations during the six months ended 30 June 2018, compared to the same period of the previous year, was mainly due to the lower accrued penalty on creditors and debtors. The increase in non-continuing operations was mainly due to the revenue from sales of fixed assets.

1.3 Operating expenses

Operating expenses for Q2 2018 increased by 13 percent, compared to Q2 2017 and by 3 percent, compared to Q1 2018.

Total operating expenses for the six months ended 30 June 2018 increased by GEL 9.2 million, compared to the same period of the previous year. This was mainly caused by increase in depreciation and amortization expense and higher expenses in logistical services. This was partly offset by decrease in material expense and decrease in taxes other than income tax.

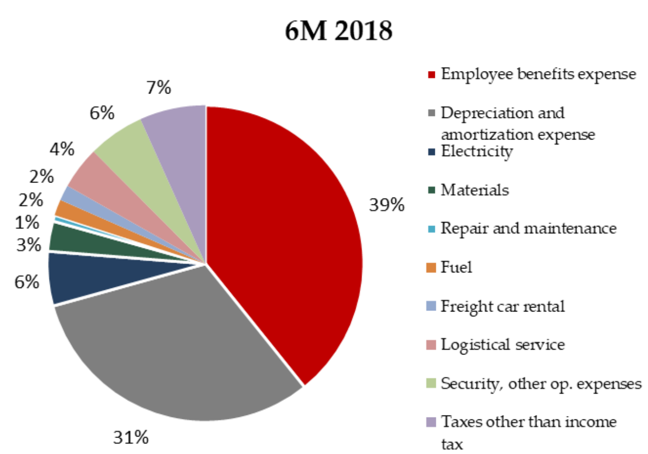
Operating expenses

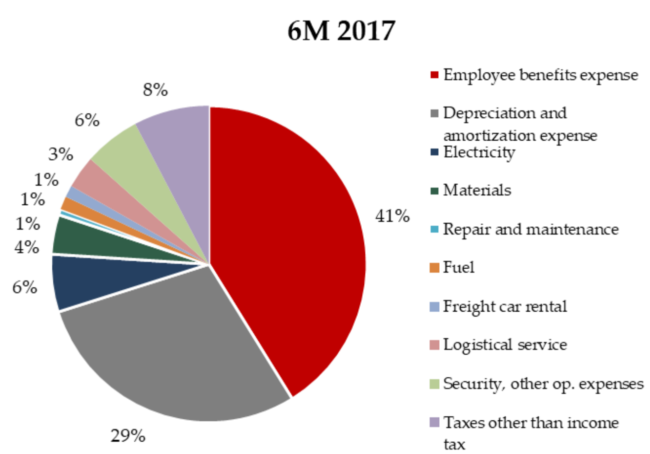
6 month period ended 30 June *In GEL '000*

	6M 2018	6M 2017	% Change	Abs. change
Employee benefits expense	73,988	73,835	0.2%	153
Depreciation and amortization expense	59,333	51,975	14.2%	7,358
Electricity	10,495	10,563	-0.6%	-68
Materials	5,796	7,252	-20.1%	-1,456
Repair and maintenance	1,172	1,081	8.4%	91
Fuel	3,082	2,403	28.3%	679
Freight car rental	2,996	2,170	38.1%	826
Logistical service	8,194	5,994	36.7%	2,201
Security, other op. expenses	10,821	10,290	5.2%	531
Taxes other than income tax	12,694	13,833	-8.2%	-1,139
Total	**188,571**	**179,395**	**5.1%**	**9,176**

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

The following charts represent the cost structure for six months ended 30 June 2018 and 2017:

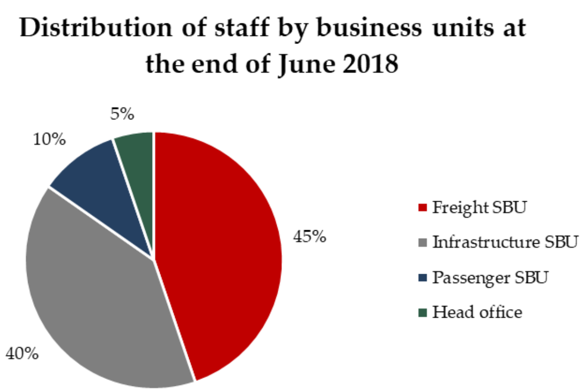


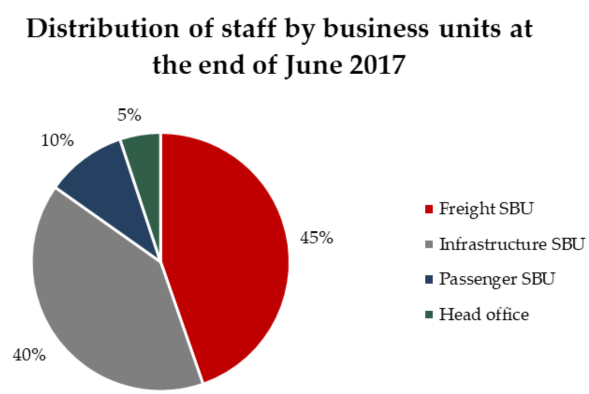


Employee benefits expense

The increase in employee benefits expense during the six months ended 30 June 2018, compared to the same period of the previous year, was mainly due to higher cost of aids provided to employees and other benefits. Employees' salaries are mostly fixed and normally are not affected by changes in transportation volumes.

Number of employees (excluding subsidiaries) by the end of June 2018 was equal to 12,338 and by the end of June 2017 was 12,428.





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 2018 transportation turnover decreased by 13 percent compared to the same period of the previous year, consequently, material, repair and maintenance expenses decreased by 16 percent (GEL 1.4 million).

Electricity expenses

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

	6M 2018	6M 2017	% Change	Abs. change
Electricity expense of traction	8,604	8,734	-1.5%	-130
Utility expenses	1,891	1,828	3.5%	63
Total	**10,495**	**10,562**	**-0.6%**	**-67**

There was a 1 percent decrease in electricity expenses of traction during the six months ended 30 June 2018, compared to the same period of 2017, because gross ton-kilometers have decreased by about 14 percent. This disproportional change was driven by higher weighted average tariff in the first six month of 2018 compared to the same period of 2017. 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 2018			6M 2017		
	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)
January	10.9	361.4	0.130	14.5	620.3	0.121
February	10.9	416.9	0.130	12.6	497.4	0.121
March	11.5	435.8	0.130	12.5	490.7	0.119
April	11.0	424.0	0.129	11.4	416.7	0.118
May	10.1	364.3	0.129	10.9	408.3	0.117
June	11.9	481.4	0.129	11.5	451.7	0.116
Total	**66.4**	**2,483.9**	**0.130**	**73.4**	**2,885.2**	**0.119**

Note: The table above includes only electricity consumed of traction

Freight car rental expense

Freight car rental expense in the first six months ended 30 June 2018, compared to the same period of the previous year, increased by about GEL 826,000 mostly due to the increased usage of semi-wagons by GR from partnering railways.

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 2018 have increased by about 37 percent (GEL 2.2 million), compared to the same period of the previous year. The increase was mainly caused by increased expenses of GR's subsidiary, which serves container transportation, which was partly offset by reduced expenses of another 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 2018	6M 2017	% Change	Abs. change
Property tax	6,650	7,871	-15.5%	-1,221
Land tax	5,909	5,910	0%	0
Other taxes*	134	51	162.8%	-83
Total	**12,693**	**13,832**	**-8.2%**	**-1,139**

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

In the six months ended 30 March 2018, compared to the same period of 2017, property tax has decreased by 15.5 percent (GEL 1.2 million), which was mainly caused by impairment of Tbilisi Bypass Project at the end of 2017. 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 land tax remained at about the same level during the first half of 2018, 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 2018	6M 2017	% Change	Abs. change
Interest income	8,329	9,007	-7.5%	-678
Impairment gain on doubtful debts	10,828	0	100%	10,828
Impairment loss on trade receivables	0	-1,265	-100%	1,265
Impairment loss on loans	-1,378	0	100%	-1,378
Interest expense	-22,527	-26,666	-15.5%	4,139
FX gain	61,607	110,570	-44.3%	-48,963
Net finance income	**56,860**	**91,646**	**-38.0%**	**-34,785**

In the six months ended 30 June 2018 the Group showed GEL 56.9 million net finance income, compared to GEL 91.6 million in the same period of 2017. The negative difference of GEL 34.785 million was mainly due to the fluctuation of GEL against foreign currencies.

GEL/USD exchange rate fluctuation has significant effect on net finance income/cost. Due to GEL appreciation against USD by 5 percent as at 30 June 2018 compared to 31 December 2017 (GEL/USD exchange rate 2.45 versus 2.59), the Group experienced net foreign exchange gain of GEL 61.6 million, however due to relatively larger appreciation of GEL against USD (about 9 percent) as at 30 June 2017 compared to 31 December 2016 (GEL/USD exchange rate 2.41 versus 2.65), the Group showed net foreign exchange gain of GEL 110.6 million.

Lower interest expense during the six months ended 30 June 2018, compared to the same period of 2017, was mainly due to appreciation of GEL against USD.

Lower interest income by GEL 678,000 in the six months ended 30 June 2018 compared to the same period of 2017, was mainly due to the lower average cash balances and lower interest rates.

Impairment loss on loans during first six months of 2018 GEL 1.4 million represents provision made against loan provided to the entity managed by the group.

GEL 10.8 million impairment gain on doubtful debts during first six months of 2018 represents reversal of GEL 9.7 million provision made against trade receivables from the partnering entity, remainder is reversal of receivables for GR's subsidiaries.

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 2018 income tax expense increased by GEL 0.8 million compared to the same period of previous year and equaled GEL 1.2 million.

2. Balance Sheet

Balance sheet

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

	30-Jun-18	31-Mar-18	% Change	Abs. change	31-Dec-17	% Change	Abs. change
TOTAL ASSETS	**2,881,083**	**2,858,704**	**0.8%**	**22,379**	**2,862,237**	**0.7%**	**18,846**
Changes are mainly due to:							
Property, plant and equipment	2,426,963	2,420,490	0.2%	6,473	2,368,380	2.5%	58,583
Other non-current assets	98,923	106,041	-6.7%	-7,118	123,516	-19.9%	-24,593
Trade and other receivables	54,974	47,880	14.8%	7,094	73,614	-25.3%	-18,640
Cash and cash equivalents	243,486	232,759	4.6%	10,727	243,018	0.2%	468
TOTAL LIABILITIES	**1,559,787**	**1,535,082**	**1.6%**	**24,705**	**1,617,389**	**-3.6%**	**-57,602**
Changes are mainly due to:							
Loans and borrowings (LT)	1,295,665	1,280,685	1.2%	14,981	1,374,363	-5.7%	-78,698
Trade and other payables	140,118	148,131	-5.4%	-8,013	112,221	25.0%	27,897

Significant changes in assets

During the first six months of 2018, GEL 58.6 million increase in property, plant and equipment was mainly due to the Construction In Progress (mostly under the Modernization Project).

GEL 24.6 million decrease in other non-current assets was mainly due to the decrease in prepayments for non-current assets, mostly attributable to Modernization project and reduction in construction materials that were reclassified from inventory as non-current assets.

There was GEL 18.6 million decrease in trade and other receivables in the first six months ended 30 June 2018. The decrease was mainly due to appreciation of GEL against hard currencies that affected foreign currency denominated receivables, also cash inflows from partnering railway who paid part of it's payables in the beginning of current year.

Cash and cash equivalents have increased by GEL 468,000 in the six months ended 30 June 2018, compared to the 31 December 2017, which was mainly caused by the increased cash receipts from customers. (*see heading 3 "Cash Flow Statement"*).

Significant changes in liabilities

The decrease of GEL 78.7 million in long-term borrowings, in the first six month of 2018, was mainly due to debt revaluation, as GEL has appreciated against USD by about 5 percent and the Group's debts are denominated in USD as well as GEL 5.3 million principal payment of long-term debt issued for acquisition of four new passenger trains.

GEL 27.9 million increase in trades and other payables in 30 June 2018 compared to the end of 2017, was caused by the increase in trade payables, which was mainly due to the new agreement on Modernization project, according to which, GR renegotiated with Chinese partner on bulk payments before completion of project and rest of the payables will be paid within two years after project is finalized.

3. Cash Flow Statement

Cash flow statement

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

	6M 2018	6M 2017
Cash flows from operating activities		
Cash receipts from customers	242,327	216,577
Cash paid to suppliers and employees	-127,717	-133,518
Cash flows from operations before income taxes paid	**114,610**	**83,058**
Income tax paid	-	-2,685
Net cash from operating activities	**114,610**	**80,373**
Cash flows from investing activities		
Acquisition of property, plant and equipment	-60,521	-129,459
Proceeds from sale of property, plant and equipment	3,364	1,581
Interest received	6,400	6,771
Repayment of the issued loans	-	1,036
Net cash used in investing activities	**-50,757**	**-120,071**
Cash flows from financing activities		
Proceeds from borrowings	-	50,248
Repayment of borrowings	-5,337	-5,310
Interest paid	-51,563	-55,203
Net cash from used in financing activities	**-56,900**	**-10,265**
Net increase/(decrease) in cash and cash equivalents	**6,953**	**-49,963**
Cash and cash equivalents at 1 January	243,018	277,953
Effect of exchange rate fluctuations on cash and cash equivalents	-6,485	-10,852
Cash and cash equivalents at the end of the period	**243,486**	**217,138**

Operating activities

Net cash from operating activities increased by GEL 34.2 million in the six months ended 30 June 2018, compared to the same period of the previous year. The change was driven by increase in cash receipts from customers by GEL 25.6 million, mostly caused by higher cash generated from VAT tax return, and also due to the cash collection from partnering railway to cover its old accounts payables.

The decrease in cash paid to suppliers and employees by about GEL 5.8 million, was mainly caused by lower taxes due to property tax paid and VAT, lower cash payments for electricity as well as lower cash outflows for fuel.

Investing activities

Cash used in investing activities has decreased by GEL 69.3 million in the six months ended 30 June 2018, compared to the same period of the previous year. In the first half of 2017, GR invested in the two new double decker trains, causing the significant reduction of investment in PPE in the first half of 2018.

The decrease in interest received was mainly caused by lower average cash balance and lower interest rates during the period under review, compared to the same period of the previous year.

Financing activities

Proceeds from borrowings in the first six month of 2017 represents the loan for new double decker passenger trains purchased in the first half of previous year.

Lower interest paid in the six months ended 30 June 2018, compared to the same period of the previous year, was mainly due to appreciation of GEL against USD, as the Group's debts are denominated in USD.

Appendix 1

Breakdown of freight transportation in tons

6 month period ended 30 June *In thousand tons*

	6M 2018	6M 2017	% Change	Abs. Change
Liquid cargoes	**1,623**	**2,307**	**-29.68%**	**-685**
Oil products	1,520	2,034	-25.27%	-514
Crude oil	103	274	-62.49%	-171
Dry cargoes	**3,393**	**2,957**	**14.73%**	**436**
Ores	801	659	21.42%	141
Grain	260	157	66.11%	104
Ferrous metals and scrap	277	244	13.47%	33
Sugar	154	221	-30.18%	-67
Chemicals and fertilizers	313	251	24.89%	62
Construction freight	587	551	6.58%	36
Industrial freight	190	124	53.11%	66
Cement	65	37	76.68%	28
Other	746	714	4.50%	32
Total	**5,015**	**5,264**	**-4.73%**	**-249**

Appendix 2

Breakdown of freight transportation in ton-kilometers

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

	6M 2018	6M 2017	% Change	Abs. Change
Liquid cargoes	**490**	**765**	**-35.95%**	**-275**
Oil products	449	657	-31.69%	-208
Crude oil	41	107	-62.02%	-67
				0
Dry cargoes	**808**	**720**	**12.34%**	**89**
Ores	157	139	12.91%	18
Grain	61	37	64.97%	24
Ferrous metals and scrap	60	54	10.88%	6
Sugar	57	80	-29.53%	-24
Chemicals and fertilizers	106	75	41.41%	31
Construction freight	84	74	13.92%	10
Industrial freight	33	24	35.75%	9
Cement	14	9	54.15%	5
Other	236	226	4.29%	10
Total	**1,298**	**1,484**	**-12.54%**	**-186**

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 2018 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 2018 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-June-18**	**30-June-17**
Financial indebtedness	1,351,021	1,334,534
less:		
Available credit facilities	152,225	133,288
Cash	243,486	217,138
Net Financial Indebtedness:	**955,310**	**984,108**

	Twelve-month period ended	**Twelve-month period ended**
The most recent annual financial period	**31-Dec-17**	**31-Dec-16**
Results from operating activities	-280,467	175,488
Depreciation add-back	109,703	106,267
Impairment loss on property, plant and equipment add-back	382,616	
EBITDA	**211,852**	**281,755**
Net Financial Indebtedness/EBITDA	**4.51**	**3.49**