საქართველოს რკინიგზა
GEORGIAN RAILWAY

Management Discussion and Analysis of three month period ended 31 March 2013

Contents

1. Executive Summary

Net income of Georgian Railway JSC for the three-month period ended 31 March 2013 amounted to GEL 20.4 million compared to GEL 33.1 million in the same period of the previous year, representing a decrease of 38.5 per cent. Revenue increased by 1.0 per cent to GEL 106.9 million, whereas operating expenses increased by 8.8 per cent. Adjusted EBITDA (earnings before interest, tax, depreciation and amortization) in the three-month period ended 31 March 2013 amounted to GEL 52.6 million compared to GEL 60.2 million in the three-month period ended 31 March 2012.

The main contributor to the increase in revenue was significant increase of freight transportation revenue. Revenue from freight transportation in the three month period ended 31 March 2013 increased by 13.3 per cent (GEL 9.9 million) compared to the same period in 2012. The increase was caused by the increase of tariffs for transportation of liquid products and the increase of liquid products transportation itself, which was partly offset by decrease in transportation of dry cargo. The increase of revenue from transportation was partly offset by the decrease of revenue from freight car rental.

Increase in expenses was mainly due to the increase in staff costs by 27.7 per cent (GEL 6.6 million), which was caused by the increase of salaries.

2. Profit & Loss Statement

	3 month period ended 31 March			
’000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Revenues	106,884	1.0%	1,086	105,798
Other income	3,430	-40.0%	-2,287	5,717
Payroll expenses	-30,458	27.7%	-6,612	-23,846
Depreciation and amortization expense	-24,645	-0.5%	120	-24,765
Electricity and materials used	-12,116	-1.9%	230	-12,346
Other expenses	-15,117	2.8%	-414	-14,703
Result From Operating Activities	**27,978**	-22.0%	-7,877	**35,855**
Finance Income	3,318	-68.2%	-7,107	10,425
Finance Cost	-4,954	-24.5%	1,604	-6,558
Net finance income/(cost)	**-1,636**	-142.3%	-5,503	**3,867**
Profit before income tax	**26,342**	-33.7%	-13,380	**39,722**
Income tax	-5,986	-9.5%	632	-6,618
Net income	**20,356**	-38.5%	-12,748	**33,104**
Adjusted EBITDA	**52,612**	**-12.5%**	**-7,540**	**60,152**
Adjusted EBITDA margin	**49.2%**			**56.9%**

Net income amounted to GEL 20.4 million in the three month period ended 31 March 2013 compared to GEL 33.1 million in the same period of the previous year.

Adjusted EBITDA of Georgian Railway JSC for the three-month period ended 31 March 2013 decreased by 12.5 per cent (GEL 7.5 million) compared to the same period in previous year.

3. P&L Analysis

Following paragraphs present the analysis of the profit and loss statement of Georgian Railway JSC for the three-month period ended 31 March 2013.

3.1. Revenues

Revenues in 3 month period ended 31 March, 2013 amounted to GEL 106.9 million, representing a increase of 1.0 per cent (GEL 1.1 million) compared to the same period in the previous year. Revenue from freight transportation increased by 13.3 per cent (GEL 9.9 million), which was caused by the increase cargo transportation tariffs. This was offset by the decrease in dry cargo transportation. The decrease was mainly caused by the decrease of grain. Decrease in freight handling by 11.4 per cent (GEL 1.4 million) was caused by the decrease in the revenue from station services. Revenue from freight car rental decreased by 48.8 per cent (GEL 6.7 million), which was caused by several reasons: Georgian Railway has received back its own OTB (Open Top Box) railcars from Ukraine, there is decrease of freight in destination of Afghanistan and Turkmenistan has improved railcar turnover by adding diesel locomotives for handling operations. Passenger revenues decreased by 7.5 per cent (GEL 0.2 million) due smaller number of passengers served. Other revenues decreased by 38.8 per cent (GEL 0.4 million) which was caused by the delay in scrap realization and decrease in rent of real estate.

The following table sets forth revenue breakdown and comparison of 3 month-periods ended 31 March 2013 and 2012:

	3 month period ended 31 March			
’000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Freight transportation	84,589	13.3%	9,932	74,657
Freight handling	11,178	-11.4%	(1,441)	12,619
Freight car rental	7,063	-48.8%	(6,726)	13,789
Passenger transportation	3,417	-7.5%	(277)	3,694
Other revenue	636	-38.8%	(403)	1,039
Total Revenue	**106,884**	**1.0%**	**1,085**	**105,798**
Other Income	**3,430**	**-40.0%**	**(2,287)**	**5,717**

3.1.1 Freight revenues

Freight transportation revenues:

Freight transportation revenues increased by 13.3 per cent (GEL 9.9 million) in three-month period ended 31 March 2013 compared to the same period of the previous year. The increase was mainly caused by the increase in freight transportation tariffs, mainly for liquid.

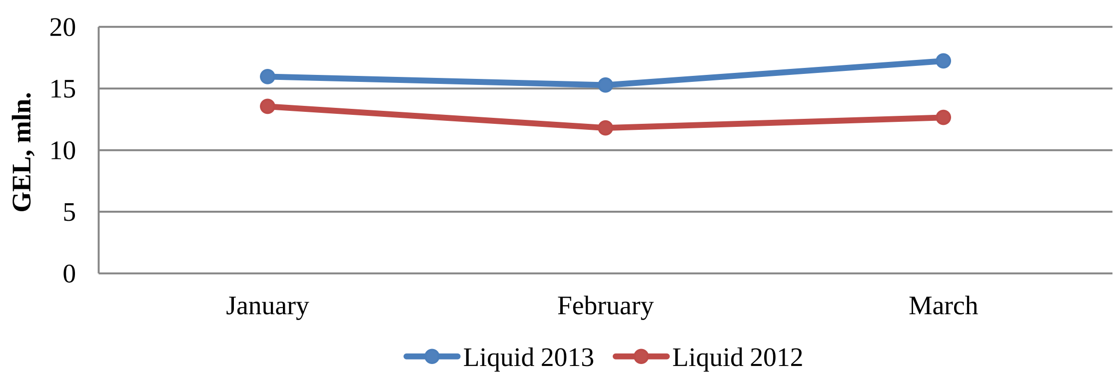
For the three-month period of the year 2013 freight transportation revenues, liquid cargoes contributed ca. 57.3 per cent and dry cargoes ca. 42.7 per cent, while in first 3 month of 2012 liquid cargos contributed ca. 50.9% and dry cargos ca. 49.1%. The types of freight that positively contributed to the three-month period-over-period change in freight transportation revenue were mainly Crude Oil and Oil products. However this was offset by the decrease in revenue from transportation of dry cargo.

The following table sets forth freight transportation revenue by types of freight for the three-month periods ended 31 March 2013 and 2012:

GEL, Millions	**Three-month periods ended 31 March**			
	2013	***% Change***	***Abs. Change***	**2012**
Liquid Cargoes	48.5	27.6%	10.5	38.0
of which				
Crude Oil	22.3	36.6%	6.0	16.3
Oil Products	26.2	20.8%	4.5	21.7
Dry Cargoes	36.1	-1.5%	-0.5	36.7
of which				
Grain	3.2	-13.9%	-0.5	3.8
Construction Freight	2.5	11.1%	0.2	2.2
Cement	0.6	23.8%	0.1	0.5
Industrial Freight	1.4	-20.6%	-0.4	1.8
Ferrous Metals and Scrap	4.5	3.8%	0.2	4.4
Ores	8.3	-10.9%	-1.0	9.3
Sugar	2.4	-10.2%	-0.3	2.7
Chemicals, fertilizers	2.1	10.1%	0.2	1.9
Other	11.1	9.1%	0.9	10.2
Total	84.6	13.3%	9.9	74.7

Liquid cargo revenues:

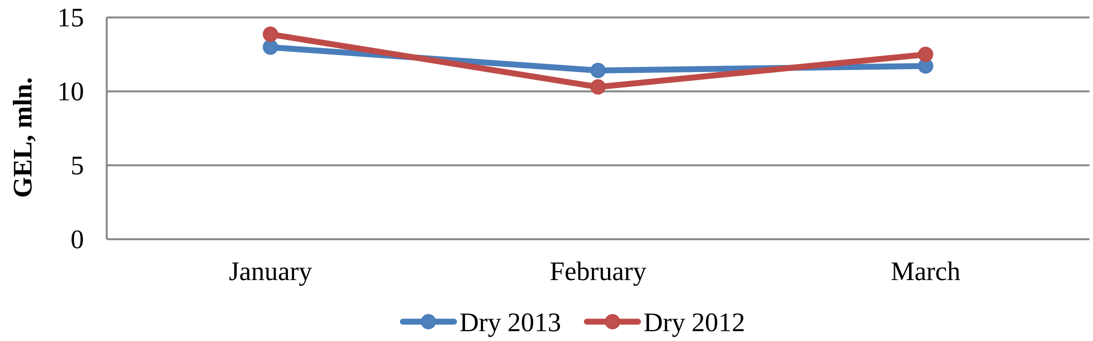
The following graph presents distribution of revenue from liquid cargo transportation by quarters, for the three-month periods ended 31 March 2013 and 2012:



Liquid cargo volumes increased by 12.6 per cent (0.3 million ton) in first 3 month of the year 2013 compared to the same period of the previous year. Revenue from transportation of liquid cargo increased by 27.6 per cent. The disproportion between liquid freight volume change and liquid freight revenue change was caused by the increase in transportation tariffs for liquid cargo.

Dry cargo revenues:

The following graph shows distribution of revenues from dry cargo transportation by month in three-month periods ended 31 March 2013 and 2012:



Dry cargo volumes in three-month period ended 31 march 2013 decreased by 11.7 per cent and revenues decreased by 1.0 per cent compared to the previous year. It must be noted that disproportion between changes of volumes and revenues is caused by the changing of dry cargo mix. Also the significant factor was privatization of freight fleet by Ukrainian, Russian and Kazakh railways, as the usage of private railcars creates additional revenue from transportation of empty wagons on GR's infrastructure, which is not the case when using other railways' railcars. The main reasons for the reduced transportation were Grain (due to smaller harvest in Russia and Kazakhstan as a result of bad weather conditions) and construction materials (due to temporary slow-down of construction projects within the country).

Freight handling revenue:

The following table sets forth the revenues from freight handling for the three-month periods ended 31 March 2013 and 2012:

	3 month period ended 31 March			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Freight handling	11,178	-11.4%	(1,441)	12,619

Revenue from freight handling decreased by 11.4 per cent (GEL 1.4 million) in the three-month period ended 31 March 2013 compared to the same period of the previous year. This is mostly attributable to the decrease in revenue from station services, which was caused by the fact that more of the customers began to use their own diesel locomotives for the mentioned services. In case of own locomotive usage tariff for station services is lower compared to the case when GR's locomotive is being used.

Freight car rental revenue:

The following table sets forth the revenues from freight car rental for the three-month periods ended 31 March 2013 and 2012:

	3 month period ended 31 March			
’000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Freight car rental revenue	7,063	-48.8%	(6,726)	13,789

Revenue from freight car rental decreased by 48.8 per cent (GEL 6.7 million) in 3 month period ended 31 March 2013 compared to the same period in 2012. The decrease was primarily due to the additional diesel locomotives acquired by Turkmenistan Railway in order to improve turnover of the cargo. Previously GR’s wagons were delayed in Turkmenistan due to the bottlenecks on Afghanistan border. When railcars were delayed for 30-45 days, freight car rental daily tariff received a coefficient of 1.3, while for the delay of more than 45 days the tariff tripled. As the bottlenecks were dealt with by Afghanistan, turnover improved significantly and railcar delays decreased, returning the tariff to normal amounts. Another reason was the end of the agreement between Georgian and Ukrainian Railways for the exchange of 200 grain hoppers for GR’s 200 open top box railcars, which caused both freight car rental revenue and expense.

3.1.2. Passenger revenues

The following table sets forth the revenues from passenger transportation for the three-month periods ended 31 March 2013 and 2012:

	3 month period ended 31 March			
’000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Passenger revenues	3,417	-7.5%	(277)	3,694

Passenger revenues decreased by 7.5 per cent (GEL 0.2 million) in the three-month period ended 31 March 2013 compared to the same period of the previous year, which was caused by the decrease of number of passengers transported by 9.3 per cent of 66 thousand compared to the same period of the previous year. Decrease of passengers transported was caused by the write-off of obsolete wagons. Average number of passengers transported per wagon increased by 5 per cent showing increased utilization of remaining wagons and offsetting the decrease in capacity.

3.1.3. Other revenues

The following table sets forth other revenue for three-month periods ended 31 March 2013 and 2012:

	3 month period ended 31 March			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Other revenue	636	-38.8%	(403)	1,039

Other revenues comprise of items such as: revenue from rent of space in buildings, sale of scrap, repair services and such. Decrease in three-month period ended 31 March 2013 compared to the same period in 2012 was caused by the delay of scrap realization to the later periods and decrease in rental of real estate.

3.1.4. Other income

The following table sets forth other income for 3 month period ended 31 march 2013 and 2012:

	3 month period ended 31 March			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2012**
Other Income	**3,430**	***-40.0%***	***(2,287)***	**5,717**
Of which:				
Continuing Operations	3,262	-37.9%	(1,987)	5,249
Non-Continuing Operations	168	-64.1%	(300)	468

Other income mostly comprises of items such as penalties accrued on debtors or creditors, gain on inventory revaluation, revenue from communication services, revenue for inflicted loss on company from third parties, revenue from the surplus of inventory, revenue from heavy equipment services and other. In the three-month period ended 31 March 2013 other income decreased by 40.0 per cent (GEL 2.3 million), compared to the same period of the previous year. The decrease was mainly caused by the decrease in continuing operations by 37.9 per cent (GEL 2.0 million), mainly caused by the reduced accrued penalty on creditors (GEL 1.9 million), which was high in Q1 2012 due to a single company.

3.2. Operational expenses

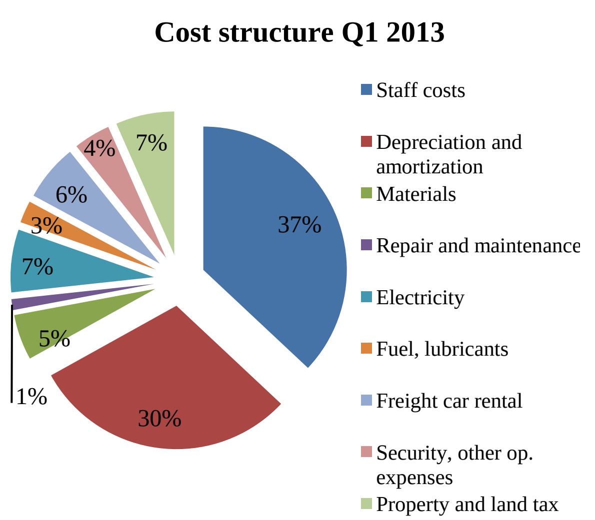
3.2.1. Main operational expenditure items

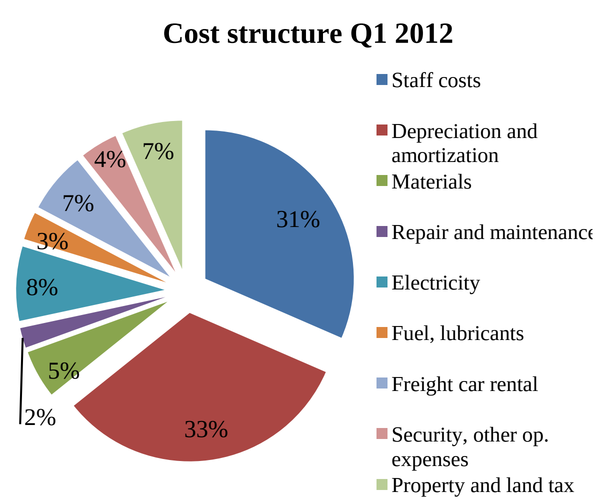
The following table sets forth total expenses of Georgian Railway JSC, excluding Finance Costs, Interest Income/Expense and Profit Tax, for the three month period ended 31 March of years 2013 and 2012:

	3 month period ended 31 March			
	2013	***% Change***	**Abs. Change**	**2012**
Staff costs	-30,458	27.7%	(6,612)	-23,846
Depreciation and amortization	-24,645	-0.5%	120	-24,765
Materials	-4,233	7.1%	(280)	-3,953
Repair and maintenance	-1,012	-38.3%	629	-1,641
Electricity	-5,829	-4.7%	285	-6,114
Fuel, lubricants	-2,054	-9.9%	225	-2,279
Freight car rental	-5,249	5.1%	(254)	-4,995
Security, other op. expenses	-3,411	10.9%	(336)	-3,075
Property and land tax	-5,446	9.1%	(454)	-4,992
Total	**-82,337**	**8.8%**	**(5,702)**	**-75,660**

Total expenses for three month period ended 31 March 2013 increased by 8.8 per cent (GEL 5.7 million) compared to the three month period ended 31 March 2012, the main reasons of which was the increase in staff costs.

The following charts sets forth the cost structure for the three month period ended 31 March of years 2013 and 2012:





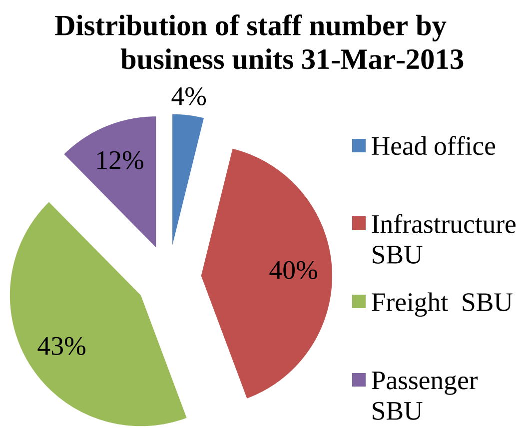
3.2.2. Staff cost

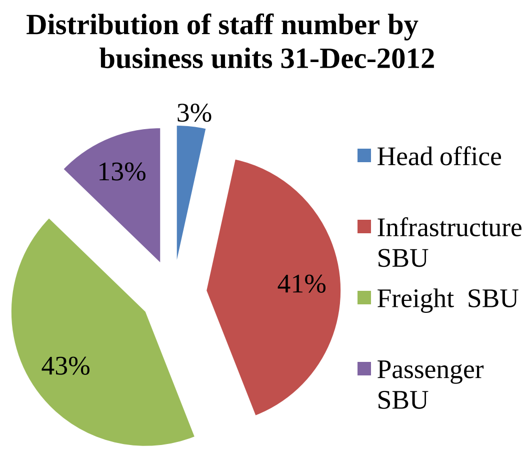
The following table sets forth staff costs for the three month period ended 31 March for years 2013 and 2012:

	3 month period ended 31 March			
'000 GEL	**2012**	***% Change***	***Abs. Change***	**2011**
Staff cost	(30,458)	27.7%	(6,612)	(23,846)

Main reason of increase in staff costs by 27.7% (GEL 6.6 million) was increase in salary expenses at the end year 2012 and in first months of 2013. Employee number at the end of first three months of 2012 was equal to 12,719 and accordingly in the end of first three month of 2013 the number of employees was 12,518. Average salary at the end of first three month of the year 2013 was GEL 811.

Following charts show the distribution of staff number by strategic business units and head office of the company (excluding subsidiaries):





The following table sets forth average salaries for the three-month period ended 31 March 2013 and twelve-month period ended 31 December 2012:

'GEL	**3 month period ended 31 March 2013**	***% Change***	***Abs. Change***	**12 month period ended 31 December 2012**
Average Salary	811	*7.30%*	*48*	708

3.2.3. Materials, Repair and Maintenance Expenses

The following table sets forth materials and repair and maintenance expenses for the three-month period ended 31 March for years 2013 and 2012:

	3 month period ended 31 March			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Materials	(4,233)	*7.1%*	*(280)*	(3,953)
Repair and maintenance	(1,012)	*-38.3%*	*629*	(1,641)
TOTAL	**(5,245)**	***-6.2%***	***349***	**(5,594)**

Total expense for materials and repair and maintenance services for the three-month period ended 31 March 2013 decreased by 6.2 per cent (GEL 0.3 million) compared to the three-month period ended 31 March 2012. Materials expenses increased by 7.1 per cent (GEL 0.3 million). Material expenses are not evenly distributed during the year and this variance for the first three months is not unusual. Repair and maintenance expense decreased by 38.3 per cent in first three months of 2013 compared to the same period in 2012. High expense in 2012 was caused by a single contract for the repairs of TwinHeads of freight railcars (2000 pieces), while in 2013 there were three significantly smaller contracts for TwinHead repairs of passenger electric locomotives, EMUs and diesel locomotives (a total of 82 pieces).

3.2.4. Consumption of utility – Electricity and Fuel Expenses

The following table sets forth electricity expense for the three-month period ended 31 March for years 2013 and 2012:

Electricity Expense:

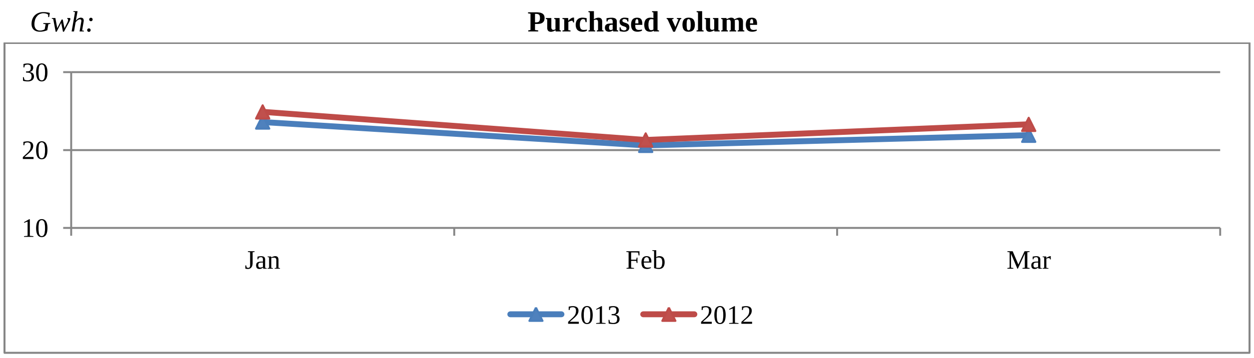
	3 month period ended 31 March			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Electricity	(5,829)	*-4.7%*	*285*	(6,114)

Electricity expense for the three-month period ended 31 March 2013 decreased by 4.7 per cent (GEL 0.3 million) compared to the three-month period ended 31 March 2012. Change in electricity expense is a function of two major variables: price per purchased KWh and consumed electricity, which in the three month period ended 31 March 2012 decreased by 5.0 per cent (3.4 GWh), to ca. 66.1 GWh compared to the consumption in the three-month period ended 31March 2012.

The following table shows purchased electricity and weighted average tariff paid by Georgian Railway JSC:

	2013			2012		
	GWh	**Amount paid (GEL m.)**	**WA.tariff (Tetri per KWh)**	**GWh**	**Amount paid (GEL m.)**	**WA tariff (Tetri per KWh)**
January	23.6	2.09	8.85	24.9	2.19	8.80
February	20.6	1.82	8.83	21.3	1.89	8.87
March	21.9	1.92	8.77	23.3	2.05	8.80
Total	**66.1**	**5.83**	**8.82**	**69.5**	**6.13**	**8.82**

The following graph shows comparison of purchased volumes by months for the three-month period ended 31 March of years 2013 and 2012:



Fuel expenses:

The following table sets forth fuel expense for the three-month period ended 31 March for years 2013 and 2012:

	3 month period ended 31 March			
’000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Fuel, lubricants	(2,054)	*-9.9%*	*225*	(2,279)

Fuel (and lubricants) expense in the three-month period ended 31 March 2013 decreased by 9.9 per cent compared to the three-month period ended 31 March 2012. The main reason for the decrease was the decrease in revenue from freight handling services (a result of usage of own diesel locomotives rather than GR’s). As diesel locomotives are mainly used for freight handling operations, fuel expense is closely tied to the level of their operations.

3.2.5. Freight car rental expense

The following table sets forth freight car rental expense for the three-month period ended 31 March for years 2013 and 2012:

	3 month period ended 31 March			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Freight car rental	(5,249)	*5.1%*	*(254)*	(4,995)

Freight car rental expenses for the three-month period ended 31 march 2013 increased by 5.1 per cent compared to the three-month period ended 31 March 2012. The increase was mainly due to the rental of additional 425 tank cars by Georgian Railway in mid 2012 to decrease the deficit of tank cars in the transportation corridor. This increase was partly offset by privatization of Ukrainian, Russian and Kazakh wagon fleet, causing the decrease of freight car rental fees that GR has to pay when using other railway's wagons for transportation on its territory.

3.2.6. Security and other expenses

The following table sets forth security and other operational expenses for the three month period ended 31 March for years 2013 and 2012:

	3 month period ended 31 March			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Security	(1,794)	*-2.6%*	*48*	(1,842)
Other op. expenses	(1,617)	*31.1%*	*(384)*	(1,233)
Total	**(2,436)**	***10.9%***	***(336)***	**(3,075)**

Total security and other operating expenses for the three-month period ended 31 March 2013 decreased by 10.9 per cent (GEL 0.3 million) compared to the three month period ended 31 March 2012. Other operating expenses mainly consist of such items as: municipal, communication, legal costs, consultancy, membership fees, administrative expenses and etc. The decrease in other operating expenses was mainly caused by the decrease in consultancy expenses and membership fees of GEL 0.4 million.

3.2.7. Property and land taxes

The following table sets forth the breakdown of Property and Land taxes for the three month periods ended 31 March 2013 and 2012:

	3 month period ended 31 March			
’000 GEL	**2013**	***% change***	***Abs. change***	**2012**
Property tax	-2,897	*27.0%*	*(616)*	-2,281
Land Tax	-2,302	*-0.8%*	*18*	-2,320
Other taxes	-247	*-36.8%*	*144*	-391
Total	**-5,446**	***9.1%***	***(454)***	**-4,992**

Property tax increased due to the increase in Construction in Progress due the Modernization and Bypass projects. Other taxes consists additional expenses for tax purposes and unpaid VAT.

3.3. Financial costs and income

The following table sets forth the breakdown of financial costs and income for the three-month periods ended 31 March 2013 and 2012:

	3 month period ended 31 March			
’000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Provisions	-35	*100.0%*	*-35*	0
FX gain/loss	-2,089	*-132.5%*	*-8,514*	6,426
Interest income	3,318	*-17.0%*	*-681*	3,999
Impairment loss on trade receivables	-761	*-88.4%*	*5,775*	-6,536
Interest expense	-2,104	*9351.4%*	*-2,082*	-22
Net finance income/(cost)	**-1,671**	***-143.2%***	***-5,537***	**3,866**

Finance income in the three-month period ended 31 March 2013 decreased by GEL 5.5 million compared to the three-month period ended 31 march 2012 and resulted in a financial cost. The decrease was mainly caused by the fact that FX gain has decreased significantly due the depreciation of GEL against USD by 0.1% in Q1 2013 causing revaluation of company’s liabilities denominated in USD (mainly Eurobonds) with a total effect of GEL 564 thousand FX loss and depreciation of CHF against GEL by 3.4% causing revaluation of company’s trade receivable denominated in CHF (mainly receivables from other railways due to freight car rental) with a total effect of GEL 1,132 thousand FX loss. Another reason for the increase of financial expenses was interest expense, which was fully capitalized in Q1 2012, but after the new emission of Eurobonds is being capitalized partly causing an expense of GEL 2.1 million in Q1 2013.

3.4. Income Tax Expense

The following table shows the Income Tax Expense for the three-month period ended 31 March of years 2013 and 2012:

	3 month period ended 31 march			
’000 GEL	**2013**	***% change***	**Abs. change**	**2012**
Income Tax Expense	(5,986)	-9.5%	632	(6,618)

The decrease in income tax expense in the three-month period ended 31 March 2013 is caused by the fact that profit before income tax in Q1 2013 decreased by 33.7 per cent (GEL 13.4 million) compared to the same period in the previous year mainly due to an increase in salaries and financial expenses.

3.5. Profitability

The following Table show the calculation of Adjusted EBITDA and Adjusted EBITDA margin for the three-month periods ended 31 March, 2013 and 2012:

	3 month period ended 31 March			
'000 GEL	**2013**	***% Change***	***Abs. Change***	**2012**
Revenues	106,884	1.0%	1,086	105,798
Other income	3,430	-40.0%	(2,287)	5,717
Expenses	-82,337	8.8%	(6,677)	-75,660
Result from Operating Activities	**27,977**	**-22.0%**	**(7,878)**	**35,855**
Depreciation add-back	24,645	-0.5%	(120)	24,765
Non-continuing operations from other income	-168	-64.1%	300	-468
Wright-offs	158	100.0%	158	0
Adjusted EBITDA	**52,612**	**-12.5%**	**(7,540)**	**60,152**
Adjusted EBITDA Margin	**49.2%**			**56.9%**

Adjusted EBIDA for the three-month period ended 31 march 2013 amounted to GEL 52.6 million, representing a decrease of 12.5 per cent (GEL 7.5 million) compared to the same period of previous year. Adjusted EBITDA margin reached 49.2 per cent, compared to the 56.9 per cent for the three-month period ended 31 March 2012.

4. Cash flows

'000GEL	Three-month period ended 31 March 2013	Three-month period ended 31 March 2012
Cash flows from operating activities		
Cash receipts from customers	103,888	101,042
Cash paid to suppliers and employees	-52,652	-50,362
Cash flows from operations before income taxes and interest paid	**51,236**	**50,680**
Income tax paid	-15,000	-
Interest paid	0	-
Net cash from operating activities	**36,236**	**50,680**
Cash flows from investing activities		
Acquisition of property, plant and equipment	-63,180	-49,581
Proceeds from sale of property, plant and equipment	0	0
Decrease/Increase in term deposits	33,925	-10,747
Increase in restricted cash	0	-101
Interest received	5,141	4,733
Net cash used in investing activities	**-24,114**	**-55,696**
Cash flows from financing activities		
Proceeds from borrowings	0	190
Repayment of borrowings	-9	0
Interest paid	-35,444	-20,647
Dividends paid	0	0
Contribution of cash by owners	0	0
Distribution of cash to owners	0	0
Net cash from /(used in) financing activities	**-35,453**	**-20,457**
Net increase/(decrease) in cash and cash equivalents	**-23,331**	**-25,473**
Cash and cash equivalents at 1 January	115,076	61,553
Effect of exchange rate fluctuations on cash and cash equivalents	26	2,966
Cash and cash equivalents at 31 December	**91,771**	**39,046**
Bank deposits	64,252	87,196
Restricted Cash	0	3,064
Total Cash and cash equivalents	**156,023**	**129,306**

The Company's cash flow management policies focus on maintaining a flexible capital expenditure programs and maximizing cash flow generation, in line with potential future changes in passenger numbers and freight volumes transported. Through these policies, management aims to permit both the maintenance of infrastructure and the pursuit of selective growth opportunities. Management seeks to rely on operating cash flows to finance capital expenditures, but also seeks to maintain a diversified funding structure for strategic initiatives.

4.1. Net cash from operating activities

Following table shows cash from operating activities for the three-month periods ended 31 March 2012 and 2011:

’000GEL	Three-month period ended 31 March 2013	Abs. Change	% change	Three-month period ended 31 March 2012
Cash flows from operating activities				
Cash receipts from customers	103,888	2,846	3%	101,042
Cash paid to suppliers and employees	(52,652)	(2,290)	5%	(50,362)
Cash flows from operations before income taxes and interest paid	**51,236**	**556**	**1%**	**50,680**
Income tax paid	(15,000)	(15,000)	N/A	-
Interest paid	-	-	0%	-
Net cash from operating activities	**36,236**	**(14,444)**	**-29%**	**50,680**

Net cash from operating activities in three-month period ended 31 March 2013 has decreased by 29 per cent (GEL 14.4 million) compared to the same period in 2012. This was primarily a result of increase in income tax paid by GEL 15.0 million, due to an advance payment of income tax.

4.2. Net cash used in investing activities

Following table shows cash from investing activities for the three-month periods ended 31 March 2012 and 2011:

Cash flows from investing activities	Three-month period ended 31 March 2013	Abs. change	% change	Three-month period ended 31 March 2012
Acquisition of property, plant and equipment	(63,180)	(13,599)	27%	(49,581)
Proceeds from sale of property, plant and equipment	-	-	0%	-
Decrease/Increase in term deposits	33,925	44,672	-416%	(10,747)
Increase in restricted cash	-	101	-100%	(101)
Interest received	5,141	408	9%	4,733

Net cash used in investing activities	**(24,114)**	**31,582**	**-57%**	**(55,696)**

Net cash used in investing activities has decreased by 57 per cent (GEL 31.6 million), which is primarily a result of decrease in term deposits, which represents just a reclassification of term deposits to cash and cash equivalents and does not have an impact on company's total cash. Excluding the changes in term deposits total cash spent on investing activities has increased by 29 per cent (GEL 13.1 million), which is primarily a result of increase in acquisition of property, plant and equipment.

Cash paid for Bypass project was GEL 14.9 million in the three-month period ended 31 March 2013 and GEL 2.1 million in the three-month period ended 31 March 2012. Cash paid for Modernization Project was GEL 18.6 million in the three-month period ended 31 March 2013 and GEL 15.6 million in the three-month period ended 31 March 2012.

4.3. Net cash used in financing activities

Following table shows cash from financing activities for the three-month periods ended 31 March 2012 and 2011:

Cash flows from financing activities	**Three-month period ended 31 March 2013**	**Abs. change**	**% change**	**Three-month period ended 31 March 2012**
Proceeds from borrowings	-	(190)	-100%	190
Repayment of borrowings	(9)	(9)	0%	-
Interest paid	(35,444)	(14,797)	72%	(20,647)
Dividends paid	-	-	0%	-
Contribution of cash by owners	-	-	0%	-
Distribution of cash to owners	-	-	0%	-
Net cash from /(used in) financing activities	**(35,453)**	**(14,996)**	**73%**	**(20,457)**

The Company's total net cash used in financing activities increased by 73% or GEL 15.0 million. This was primarily attributable to the increase in interest paid by GEL 14.8 million. The reason behind this is the increased amount of debt due to new issue of Eurobonds (USD 500 million), which was offset by the tender of old Eurobond issue (88.9 per cent of USD 250 million were bought back by the company along with the new issue).

5. Balance Sheet

’000GEL	31-Mar 2013	Abs. change	% change	31-Dec 2012
ASSETS				
Non-current assets				
Property, plant and equipment	2,224,671	27,436	1%	2,197,235
Deferred tax assets	1,557	-	0%	1,557
Other non-current assets	286,103	5,219	2%	280,884
Total non-current assets	**2,512,331**	**32,655**	**1%**	**2,479,676**
Current assets				
Inventories	30,895	(4,676)	-13%	35,571
Current tax assets	10,998	10,998	100%	-
Trade and other receivables	41,929	2,676	7%	39,253
Prepayments and other current assets	58,168	(3,480)	-6%	61,648
Term deposits	64,252	(36,069)	-36%	100,321
Cash and cash equivalents	91,771	(23,305)	-20%	115,076
Total current assets	**298,013**	**(53,856)**	**-15%**	**351,869**
Total assets	**2,810,344**	**(21,201)**	**-1%**	**2,831,545**
EQUITY AND LIABILITIES				
Equity				
Share capital	1,049,789	38	0%	1,049,751
Non-cash owner contribution reserve	31,673	-	0%	31,673
Retained earnings	467,722	18,346	4%	449,376
Total equity	**1,549,184**	**18,384**	**1%**	**1,530,800**
Non-current liabilities				
Loans and borrowings	871,557	623	0%	870,934
Advance received from the Government	231,592	-	0%	231,592
Trade and other payables	52	-	0%	52
Deferred tax liabilities	61,132	3,830	7%	57,302
Total non-current liabilities	**1,164,333**	**4,453**	**0%**	**1,159,880**
Current liabilities				
Loans and borrowings	14,792	(18,628)	-56%	33,420
Trade and other payables	51,069	(30,576)	-37%	81,645
Liabilities to Government	11,926	(1,030)	-8%	12,956
Provisions	4,167	35	1%	4,132
Current tax liabilities	-	(1,542)	-100%	1,542
Other current liabilities	14,873	7,703	107%	7,170
Total current liabilities	**96,827**	**(44,038)**	**-31%**	**140,865**
Total liabilities	**1,261,160**	**(39,585)**	**-3%**	**1,300,745**
Total equity and liabilities	**2,810,344**	**(21,201)**	**-1%**	**2,831,545**

5.1. Non-current Assets

The following table sets forth breakdown of non-current assets as of March 31 2013 and 2012:

’000GEL	**31-Mar 2013**	**Abs. change**	**% change**	**31-Dec 2012**
ASSETS				
Property, plant and equipment	2,224,671	27,436	1.2%	2,197,235
Deferred tax assets	1,557	-	0.0%	1,557
Other non-current assets	286,103	5,219	1.9%	280,884
Total non-current assets	**2,512,331**	**32,655**	**1.3%**	**2,479,676**

Total non-current assets increased by 1.3 per cent (GEL 32.7 million) in 2013 comparing to the same period of the previous year. The increase was mainly caused by increase in property, plant and equipment by 1.2 per cent (GEL 27.4 million). This increase was due increase in construction in progress within the framework of Modernization and Tbilisi Bypass project. Acquisition of other railway assets also contributed to the increase in PPE.

5.2. Current Assets

The following table sets forth breakdown of current assets as of ended March 31 2013 and 2012:

’000GEL	**31-Mar 2013**	**Abs. change**	**% change**	**31-Dec 2012**
Inventories	30,895	(4,676)	-13.1%	35,571
Current tax assets	10,998	10,998	100.0%	-
Trade and other receivables	41,929	2,676	6.8%	39,253
Prepayments and other current assets	58,168	(3,480)	-5.6%	61,648
Term deposits	64,252	(36,069)	-36.0%	100,321
Cash and cash equivalents	91,771	(23,305)	-20.3%	115,076
Total current assets	**298,013**	**(53,856)**	**-15.3%**	**351,869**

Total current assets decreased by 15.3 per cent (GEL 53.9 million) for the three-month period ended 31 March 2013, comparing to the same period in the previous year. The decrease was mainly caused by the decrease in cash and cash equivalents and term deposits. The decrease was mainly caused by implementation of capital projects such as Bypass and Modernisation and other capital expenditure needs. The decrease was partially offset by the increase in current tax asset due to the advance payment of income tax.

5.3. Equity

The following table sets forth breakdown of equity as of March 31 2013 and 2012:

'000GEL	31-Mar 2013	Abs. change	% change	31-Dec 2012
Share capital	1,049,789	38	0.0%	1,049,751
Non-cash owner contribution reserve	31,673	-	0.0%	31,673
Retained earnings	467,722	18,346	4.1%	449,376
Total equity	**1,549,184**	**18,384**	**1.2%**	**1,530,800**

Total equity increased by 1.2 per cent (GEL 18.4 million) for the three-month period ended 31 March 2013 comparing to the same period of the previous year. The increase was caused by an increase in retained earnings due to net income of the company during the three-month period ended 31 March 2013. Net income for the period amounted to GEL 20.4 million, which was partly offset by non-cash dividend distribution of GEL 2.0 million.

5.4. Non-current liabilities

The following table sets forth breakdown of non-current liabilities as of March 31 2013 and 2012:

'000GEL	31-Mar 2013	Abs. change	% change	31-Dec 2012
Loans and borrowings	871,557	623	0.1%	870,934
Advance received from the Government	231,592	-	0.0%	231,592
Trade and other payables	52	-	0.0%	52
Deferred tax liabilities	61,132	3,830	6.7%	57,302
Total non-current liabilities	**1,164,333**	**4,453**	**0.4%**	**1,159,880**

Total increase in non-current liabilities was 0.4 per cent (GEL 4.5 million), which was mainly caused by the increase in deferred tax liabilities, which originates from temporary differences between tax asset base and IFRS asset base. The increase in difference was caused by additions to PPE.

5.5. Current liabilities

The following table sets forth breakdown of current liabilities as of March 31 2013 and 2012:

’000GEL	31-Mar 2013	Abs. change	% change	31-Dec 2012
Loans and borrowings	14,792	(18,628)	-55.7%	33,420
Trade and other payables	51,069	(30,576)	-37.4%	81,645
Liabilities to Government	11,926	(1,030)	-7.9%	12,956
Provisions	4,167	35	0.8%	4,132
Current tax liabilities	-	(1,542)	-100.0%	1,542
Other current liabilities	14,873	7,703	107.4%	7,170
Total current liabilities	**96,827**	**(44,038)**	**-31.3%**	**140,865**

Total current liabilities decreased by 31.3 per cent (GEL 44.0 million), which was caused by the decrease in trade and other payables and loans and borrowings. Main contributor of the decrease in trade and other payables was the payment of temporary payables to the contractor for the works conducted in connection with Modernization project which were included into the payables as of 31 December 2012. Current loans and borrowings decreased due to the payment of accrued interest on Eurobonds in January 2013.

6. Operational Performance Report

6.1. Traffic report

6.1.1. Freight traffic data

The following table sets forth breakdown of the freight transportation volumes, by type of freight transported, for the three-month periods ended 31 March 2013 and 2012:

Ton, Millions	**3 month period ended 31 March**			
	2013	***% Change***	***Abs. Change***	**2012**
Liquid Cargoes	**2.50**	**12.6%**	**0.28**	**2.22**
of which:				
Crude Oil	1.31	13.7%	0.16	1.16
Oil Products	1.18	11.3%	0.12	1.06
Dry Cargoes	**2.05**	**-11.7%**	**-0.27**	**2.33**
of which:				
Grain	0.12	-67.3%	-0.24	0.36
Construction Freight	0.32	-16.9%	-0.06	0.38
Cement	0.13	42.1%	0.04	0.09
Industrial Freight	0.13	39.8%	0.04	0.09
Ferrous Metals and Scrap	0.26	-7.7%	-0.02	0.28
Ores	0.48	-6.0%	-0.03	0.51
Sugar	0.10	-9.8%	-0.01	0.11
Chemicals, fertilizers	0.11	26.7%	0.02	0.09
Other	0.41	-0.5%	0.00	0.42
Total	**4.55**	**0.1%**	**0.01**	**4.55**

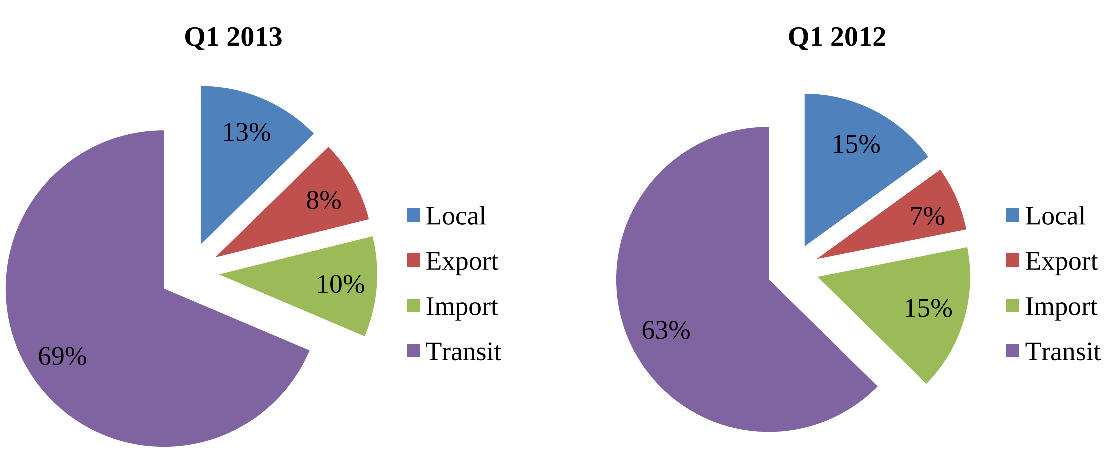
In the three-months of 2013 total freight transportation volumes increased by 0.1 per cent, compared to the same period of the previous year. The increase was mainly caused by the increase in liquid cargo transportation by 12.6 per cent, due to the additional 425 tank cars, which have satisfied the need for tank cars in the corridor. The increase was offset by the decrease in dry cargo transportation by 11.7 per cent (0.27 million tons) which in its turn was due to the decrease in grain and construction freight transportation. Decrease in grain transportation was caused by low harvest in Russia and Kazakhstan due to draughts and bad weather conditions. Construction freight transportation decreased due to temporary slow-down of construction projects in the country following parliamentary elections.

The following table sets forth the breakdown of freight transportation volumes by types of freight transported for months of 3 months 2013:

	2013			
Tons, Millions	**Jan**	**Feb**	**Mar**	**Q1 Total**
Liquid Cargoes	**0.84**	**0.78**	**0.88**	**2.50**
of which				
Crude Oil	0.50	0.41	0.40	**1.31**
Oil Products	0.34	0.37	0.48	**1.18**
Dry Cargoes	**0.68**	**0.65**	**0.72**	**2.05**
of which				
Grain	0.03	0.05	0.04	**0.12**
Construction Freight	0.08	0.10	0.13	**0.32**
Cement	0.03	0.04	0.05	**0.13**
Industrial Freight	0.03	0.04	0.05	**0.13**
Ferrous Metals and Scrap	0.11	0.07	0.08	**0.26**
Ores	0.16	0.14	0.18	**0.48**
Sugar	0.03	0.05	0.02	**0.10**
Chemicals, fertilizers	0.05	0.02	0.03	**0.11**
Other	0.15	0.13	0.13	**0.41**
Total	**1.52**	**1.44**	**1.60**	**4.55**

As mentioned above, increase in total transportation volumes was offset by the decrease in Dry Cargo volumes. The main contributor of decrease in dry cargo volumes is Grain and Construction freight. Main origin country in grain transportation is Kazakhstan. It was from Kazakhstan to reduce grain transportation caused decrease, as a result of smaller harvest due drought. It must be noted that in March 2013 the transportation of dry cargo improved by 10.7 per cent compared to the previous two months.

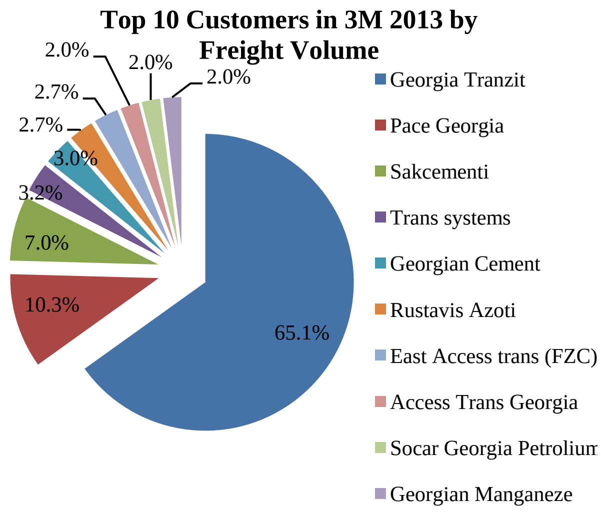
The following graphs show the freight transportation volumes by type of destination:

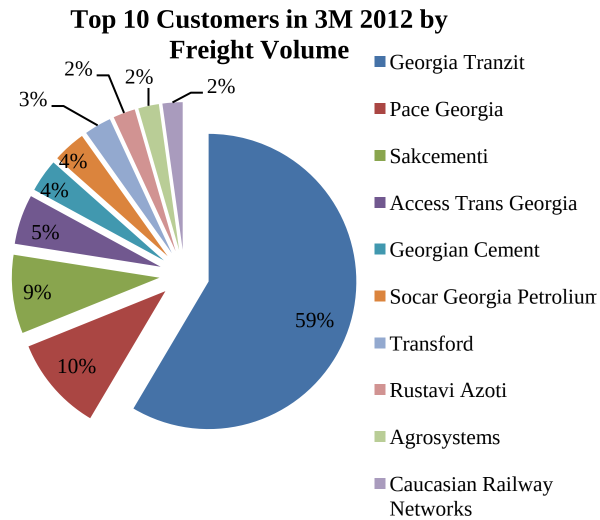


Top 10 freight customers, 3 month period ended 31 March 2013 and 2012:

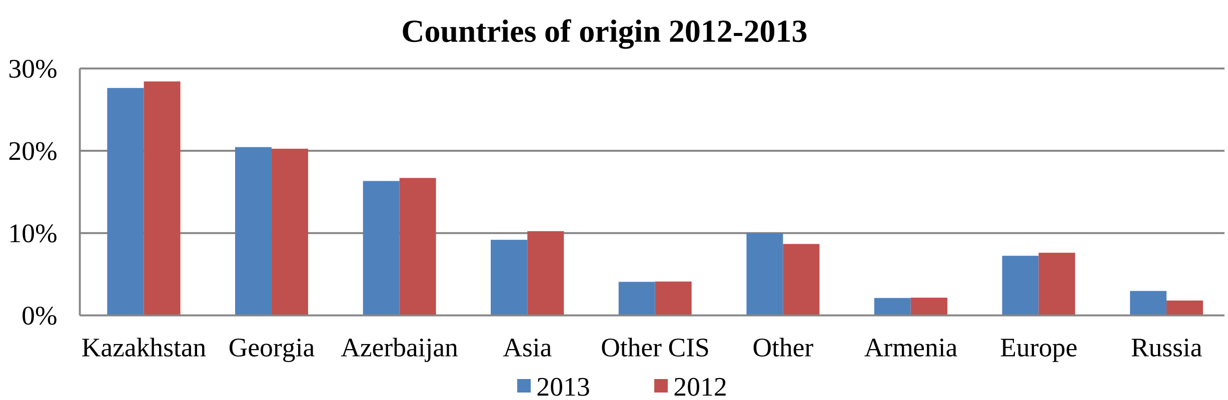
In 3M 2013 top ten freight customers transported 73.2% (3.33 million ton) of total freight volume – 4.55 million ton:

In 3M 2012 top ten freight customers transported 69.8% (3.18 million ton) of total freight volume – 4.55 million ton:

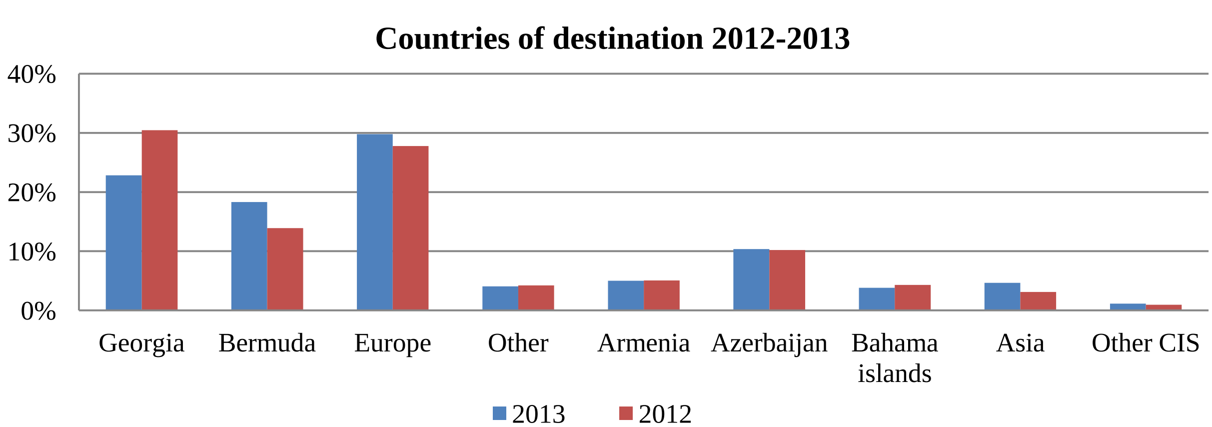




The following graphs show the breakdown of countries of origin of freight transported:



The following graphs show the breakdown of countries of destination of freight transported:



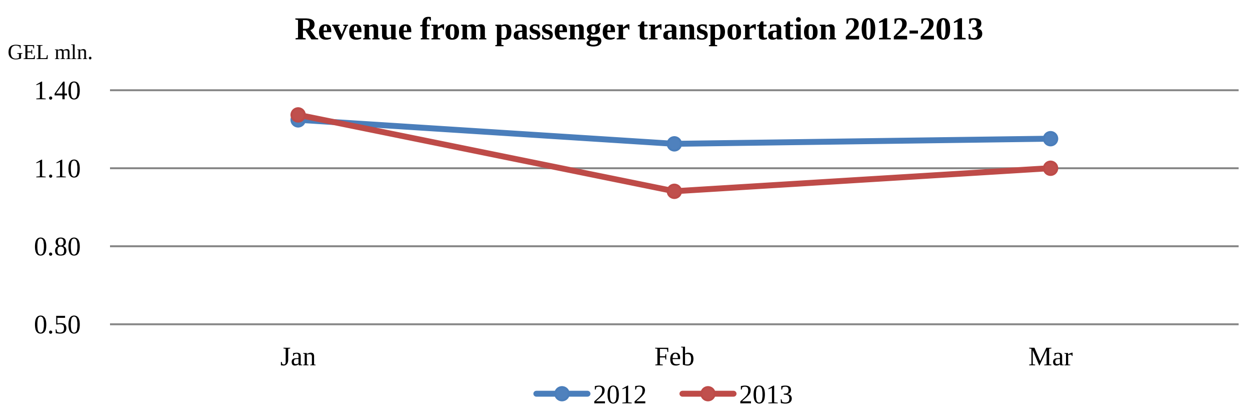
The company took an operational decision to increase the average weight of a train composition by adding additional railcars. Thus the number of required locomotives for freight transportation decreased, resulting in additional locomotive capacity. As a result of the above-mentioned decision, average weight of a composition increased by 10%.

Average speed of freight cargo transportation has also been increased resulting in additional capacities. On average, the speed has increased by 10% with subsequent effect on the capacity.

6.1.3. Passenger transportation data

The following table sets forth the passenger transportation volumes by months of 3M 2013 and 3M 2012:

Number of Passengers (‘000)	**2013**	***% Change***	***Abs. Change***	**2012**
January	224	*-7.26%*	*-17.5*	242
February	199	*-11.07%*	*-24.8*	224
March	222	*-9.67%*	*-23.8*	246
Total	**645**	***-9.29%***	***-66.1***	**711**



6.1.4. Freight transportation tariffs

The following table sets forth average revenue per thousand ton-kilometers by quarters 2013-2012:

'USD per 1,000 ton-km	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
Crude oil	22.2	22.5	26.1	26.3	26.4
Oil products	38.4	38.7	41.0	40.2	38.9
Dry	38.8	41.2	40.8	40.7	40.0

Starting from February, 2013, Georgian Railway has increased all of its base tariffs for transportation by 3 per cent. This does not have its effect on discounted transportation of liquid cargo as the tariffs set there remained the same.

Average revenue per 1,000 ton-km of crude oil remained practically the same between Q1 2013 and Q4 2012.

Average revenue on oil products decreased to USD 38.9 comparing to Q4 2012. Decrease was mainly caused by changing oil products mix and the increased usage of own railcars due to privatization of fleet of some of the regional railways including Kazakhstan, Ukraine and Russia, as transportation with private wagons has lower tariff.

Average revenue per 1,000 ton-km of dry cargo in the first three months of 2013 decreased by 1.7 per cent compared to Q4 2012. The reason is the change in dry cargo mix and privatization of railcars of some of the regional railways.

It must be noted that when calculating average revenue per 1,000 ton-km in the above table, company has subtracted revenue from transportation of empty wagons owned by private companies, which generally is classified as transportation of dry cargo however does not count as transported tons and has no impact on ton-kilometres. Such revenue has increased by 43.8 per cent (GEL 0.7 million) if comparing Q1 of 2013 is compared to the same period in 2012.