Management Discussion and Analysis for the six-month period ended 30 June 2015

Georgian Railway has shown solid results in the first half of 2015. EBITDA of the Company at the end of 30 June 2015 was GEL 163 million, which represents a 55 per cent (GEL 58 million) increase compared to the same period of the previous year. EBITDA margin improved as well (57 per cent compared to 46 per cent in 2014). This was mainly due to the increased revenue, while operating expenses remained nearly the same.

Revenue increased due to several factors. One such factor is an improved transportation performance in oil products, which has positively contributed to transportation revenue. Another factor, contributing to the increase was the subsidiary of the Company, GR Transit Line, which started its operations in April 2014 and has demonstrated increasing performance through the year. Finally, depreciation of GEL against USD had a significant effect on revenues as the tariffs of the Company are denominated in USD.

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

Cash resources of the Company have increased to GEL 370 million, putting the Company in a comfortable position to repay its maturing 2015 Eurobonds (USD 27.5 million) in July 2015.

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1. Profit & Loss Statement

Profit and loss statement

In GEL '000

6 month period ended 30 June

	H1 2015	H1 2014	% Change	Abs. Change
Revenue	288,340	229,761	25.5%	58,579
Other income	6,212	9,436	-34.2%	-3,224
Payroll expense	-73,188	-72,826	0.5%	-362
Depreciation and amortization	-52,596	-51,041	3.0%	-1,555
Electricity and consumables used	-21,461	-24,208	-11.3%	2,747
Other expenses	-36,926	-36,760	0.5%	-166
Result From Operating Activities	**110,381**	**54,362**	**103.0%**	**56,019**
Finance Income	8,492	4,910	73.0%	3,582
Finance Cost	-202,799	-22,285	N/A	-180,514
Net finance loss	**-194,307**	**-17,375**	**N/A**	**-176,932**
Profit/(Loss)before income tax	**-83,926**	**36,987**	**N/A**	**-120,913**
Income tax benefit/(expense)	19,888	-2,758	N/A	22,646
Net income /(loss)	**-64,038**	**34,229**	**N/A**	**-98,267**
EBITDA	**162,977**	**105,403**	**54.6%**	**57,574**
EBITDA margin	**56.5%**	**45.9%**	**N/A**	**N/A**

2. P&L Analysis

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

2.1 Revenues

Revenue breakdown

6 month period ended 30 June

In GEL '000

	H1 2015	H1 2014	% Change	% Change at constant currency	Abs. Change
Freight transportation	227,489	172,304	32.0%	6.5%	55,184
Freight handling	40,525	29,608	36.9%	19.7%	10,917
Freight car rental	11,255	17,957	-37.3%	-46.4%	-6,702
Passenger traffic	6,093	7,724	-21.1%	-21.1%	-1,631
Other	2,978	2,168	37.4%	37.4%	810
Revenue	**288,340**	**229,761**	**25.5%**	**3.4%**	**58,578**
Other income	**6,212**	**9,436**	**-34.2%**	**-34.2%**	**-3,225**
Freight transportation	**227,489**	**172,304**	**32.0%**	**6.5%**	**55,184**
Liquid cargoes	**127,281**	**92,885**	**37.0%**	**10.5%**	**34,396**
Oil Products	107,225	69,106	55.2%	25.1%	38,120
Crude oil	20,056	23,780	-15.7%	-32.0%	-3,723
Dry cargoes	**100,207**	**79,419**	**26.2%**	**1.7%**	**20,788**
Cement	630	1,822	-65.4%	-72.1%	-1,191
Chemicals and fertilizers	5,135	4,864	5.6%	-14.9%	271
Construction Freight	5,673	5,650	0.4%	-19.1%	22
Ferrous metals and scrap	18,577	10,475	77.3%	43.0%	8,101
Grain	12,230	6,259	95.4%	57.5%	5,971
Industrial freight	3,093	5,242	-41.0%	-52.4%	-2,149
Ores	13,963	15,153	-7.9%	-25.7%	-1,190
Sugar	7,931	9,022	-12.1%	-29.1%	-1,092
Other	32,976	20,931	57.5%	27.0%	12,045
Revenue tkm (in million)	2,226	2,327	-4.3%	N/A	-101
Revenue / tkm (in Tetri)	10.22	7.41	38.0%	11.2%	2.81

Freight transportation revenues

Freight transportation revenue, which represents about 79 per cent of the Company's total revenue, has increased by 32 percent (GEL 55 million) in the six-month period ended 30 June 2015 compared to the same period of the previous year. Both liquid and dry cargoes showed an increase in revenues in the six-month period ended 30 June 2015 compared to the same period in 2014.

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

In GEL	Average rate			Reporting date spot rate			
	H1 2015	H1 2014	% Change	30 Jun 15	31 Dec 14	30 Jun 14	31 Dec 13
USD	2.18	1.76	24.0%	2.25	1.86	1.77	1.74
CHF	2.30	1.97	16.9%	2.41	1.88	1.98	1.95

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

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

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

Oil products

	H1 2015	H1 2014	% Change	% Change at constant currency
Revenues (000'GEL)	107,225	69,106	55.2%	25.1%
Revenue tkm (in million)	1,004	867	15.7%	N/A
Revenue / tkm (in Tetri)	10.69	7.97	34.1%	8.1%

Transportation of oil products in the first half of 2015 increased by GEL 38 million, or 55 per cent, compared to the same period of 2014. Increase was mainly due to increased volumes of heavy black oil from Kazakhstan and diesel fuel from Azerbaijan. Increase was also attributed to subsidiary's (GR transit line) margin that was added to the revenue and contributed to the increase in average "effective" freight rates and depreciation of GEL against USD.

Other category

	H1 2015	H1 2014	% Change	% Change at constant currency
Revenues (000'GEL)	32,976	20,931	57.5%	27.0%
Revenue tkm (in million)	271	216	25.4%	N/A
Revenue / tkm (in Tetri)	12.19	9.70	25.7%	1.3%

Sub category "Other" increased by GEL 12 million, or 58 per cent. Increase was mainly due to increased volumes of methanol from Azerbaijan, sulphur from Turkmenistan, cotton from Uzbekistan and not alloyed aluminium from Tajikistan. Increase was also attributed to the positive effect of GEL depreciation.

Ferrous metals and scrap

	H1 2015	H1 2014	% Change	% Change at constant currency
Revenues (000'GEL)	18,577	10,475	77.3%	43.0%
Revenue tkm (in million)	140	137	2.1%	N/A
Revenue / tkm (in Tetri)	13.31	7.66	73.7%	40.1%

Revenues from Ferrous metals and scrap increased by GEL 8 million, or 77 per cent, in the first half of 2015 compared to the same period of 2014. Increase is mainly due to higher volumes of oil and gas pipelines to Azerbaijan. Increased average revenue per ton-kilometers is mainly due to the favorable change in product mix. Depreciation of GEL against USD also significantly contributed to the increase in revenue.

Grain

	H1 2015	H1 2014	% Change	% Change at constant currency
Revenues (000'GEL)	12,230	6,259	95.4%	57.5%
Revenue tkm (in million)	104	72	43.1%	N/A
Revenue / tkm (in Tetri)	11.79	8.64	36.6%	10.1%

GEL 6 million increase of revenues from transportation of grain is mainly due to higher volumes of durum wheat from Russia to Armenia and Georgia. Increase in average length of transportation contributed to increased average revenue per ton-kilometers. And again, depreciation of GEL against USD played significant role in increased revenues.

Crude oil

	H1 2015	H1 2014	% Change	% Change at constant currency
Revenues (000'GEL)	20,056	23,780	-15.7%	-32.0%
Revenue tkm (in million)	251	394	-36.2%	N/A
Revenue / tkm (in Tetri)	7.99	6.04	32.3%	6.7%

Transportation of crude oil decreased by GEL 4 million, or 16 per cent in the first half of 2015, compared to the same period of 2014. Decrease was mainly due to lower volumes of crude oil from Kazakhstan. Decrease in volume was partially offset by higher average revenue per ton-kilometers and positive impact of weaker GEL.

Freight handling

For the six-month period ended 30 June 2015, freight handling revenue has increased by GEL 11 million, or 37 per cent, compared to the same period of the previous year. Increase is mainly due to higher revenues from wagon delay services. Depreciation of GEL against USD also contributed to increased revenues, as prices for stations services, which in the first half of 2015 represented about 65 per cent of total handling revenue, are mostly denominated in USD.

Freight car rental

The reduction in revenue from freight car rental can be explained by the decreased transportation by Georgian Railway's own fleet and reduced revenue from Azerbaijan railway.

Transportation by Georgian Railway's own fleet has reduced due to the changes in proportion of wagons belonging (increasing the share of railcars owned by customer companies) in the region.

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

Other income

There was 34 per cent decrease in other income in the first half of 2015 compared to the same period of the previous year. Decrease was mainly due to the change in accounting treatment. Considering its significance, combined services (transportation, crane services, diesel locomotive and other) and terminal services were classified as revenues from other handling services, while old approach classified them as other income. Revenues from these services amounted GEL 4 million in the first half of 2015, compared to GEL 2 million in the previous year.

2.2 Operating expenses

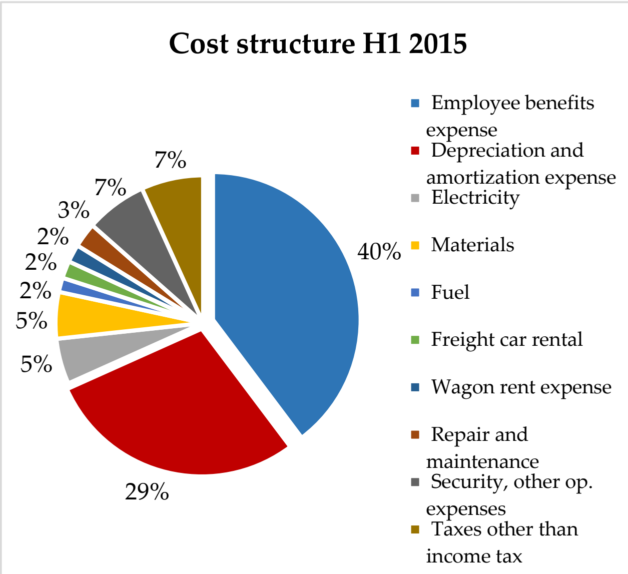
Operating expenses

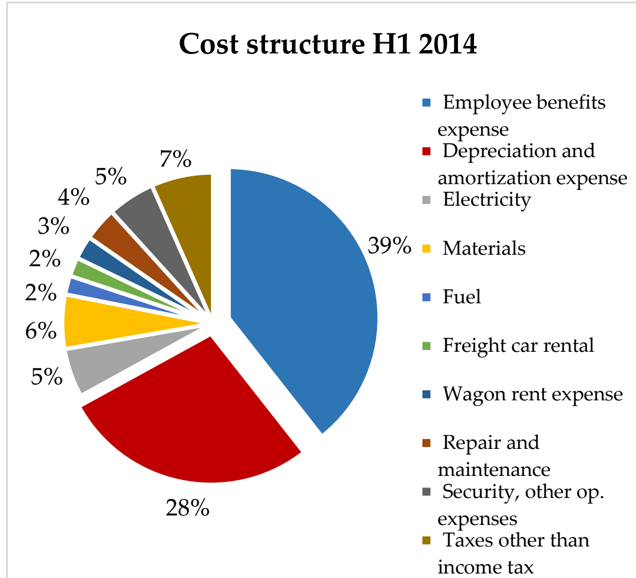
6 month period ended 30 June — *In GEL '000*

	H1 2015	H1 2014	% change	Abs. Change
Employee benefits expense	73,188	72,826	0.5%	362
Depreciation and amortization expense	52,596	51,041	3.0%	1,555
Electricity	9,196	9,708	-5.3%	-512
Materials	9,387	10,775	-12.9%	-1,388
Fuel	2,878	3,726	-22.8%	-848
Freight car rental	3,483	3,760	-7.4%	-277
Wagon rent expense	3,597	4,645	-22.6%	-1,048
Repair and maintenance	4,987	6,659	-25.1%	-1,672
Security, other op. expenses	12,344	9,406	31.2%	2,938
Taxes other than income tax	12,514	12,290	1.8%	224
Total operating expenses	**184,171**	**184,836**	**-0.4%**	**-665**

Total operating expenses for the six-month period ended 30 June 2015 decreased by about GEL 1 million compared to the same period of 2014. The main reason of this decrease was the reduction in repair and maintenance expenses, materials, fuel and wagon rent expense, which was partially offset by increase in security and other operating expenses.

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



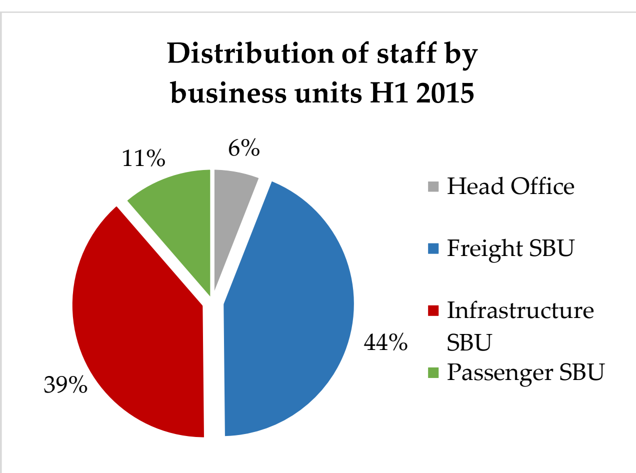


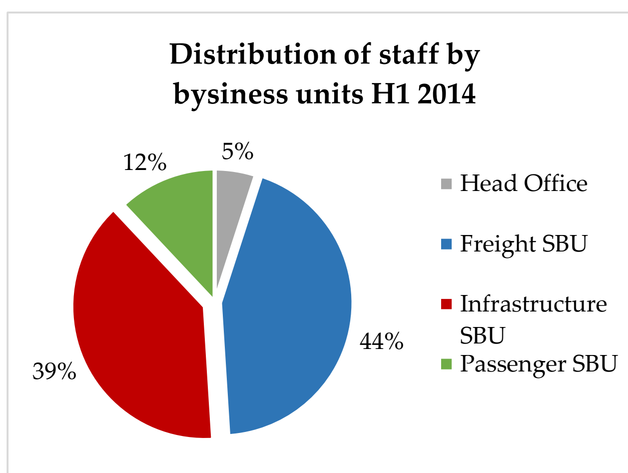
Employee benefit expenses

Employee benefit expense has increased insignificantly by about 1 per cent during the six-month period ended 30 June 2015 compared to the same period of 2014. This was mainly due to the increase in salary expense by 2 per cent (GEL 1 million) and the increase in bonuses-rewards by 9 per cent (GEL 0.4 million), which was partially offset by the decrease in other benefits by 16 per cent (GEL 1 million), mainly due to reduced insurance expenses.

Employee number (excluding subsidiaries) at the end of June 2015 was equal to 12,675 and at the end of June 2014 the number of employees was 12,767. Average salary for H1 2015 was GEL 788 compared to GEL 779 in the same period of 2014.

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





Materials, repair and maintenance expenses

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

The decrease in materials, repair and maintenance expenses in the first half of 2015 compared to the same period in 2014 is mainly due to the reduced number of repairs of rolling stock and less component parts used in repair works, which can partially be explained by the decreased transportation by Georgian Railway's own fleet and lower utilization rate of rolling stock.

Cargoes transported by railcars owners in tons *In '000 Tons*

6 month period ended 30 June

	H1 2015	H1 2014	% change	Abs. Change
Company's own railcars	3,780	4,592	-17.7%	-812
Railcars of the customer companies	2,390	1,946	22.8%	444
Railcars owned by other railways	1,137	1,327	-14.4%	-191
Total	**7,307**	**7,865**	**-7.1%**	**-559**

Electricity expenses

Electricity expenses *In GEL '000*

6 month period ended 30 June

	H1 2015	H1 2014	% change	Abs. Change
Electricity consumption for traction	7,888	8,352	-5.6%	-464
Utility expenses	1,308	1,356	-3.5%	-48
Total electricity expenses	**9,196**	**9,708**	**-5.3%**	**-512**

The decrease in electricity consumption for traction expense by about 6 per cent in the six-month period ended 30 June 2015 compared to same period of 2014 can be explained by the reduction in gross ton-kilometers by about 6 per cent, which represents perfect correlation.

Purchased electricity and weighted average tariff

6 month period ended 30 June

	H1 2015				H1 2014			
	GWh	Gross ton km (mln.)	GWh per gross bln ton.km	Weighted average tariff (GEL)	GWh	Gross ton km (mln.)	GWh per gross bln ton.km	Weighted average tariff (GEL)
January	16.6	763.5	21.8	0.088	16.5	760.7	21.6	0.092
February	14.4	642.3	22.5	0.090	13.6	612.0	22.3	0.092
March	16.2	763.1	21.2	0.089	16.7	806.2	20.8	0.091
April	14.5	681.6	21.3	0.088	15.6	730.7	21.3	0.090
May	14.8	695.1	21.2	0.083	16.2	780.4	20.8	0.082
June	14.1	654.0	21.6	0.083	15.9	759.9	20.9	0.082
Total	**90.6**	**4,199.7**	**21.6**	**0.087**	**94.5**	**4,449.9**	**21.2**	**0.088**

Fuel expenses

Fuel expense *In GEL '000*

6 month period ended 30 June

	H1 2015	H1 2014	% change	Abs. Change
Fuel	2,768	3,127	-11.5%	-359
Lubricants and other fuel	42	525	-92.1%	-484
Subsidiaries	69	74	-7.4%	-6
Total fuel expense	**2,878**	**3,726**	**-22.8%**	**-848**

Fuel expenses decreased by 23 per cent (GEL 1 million) in the six-month period ended 30 June 2015 compared to the same period in 2014. This change does not include lubricants that are classified as material expenses starting from 2015. When adjusted for mentioned reclassification the change is 11 per cent (GEL 0.4 million), which is attributable to the decreased fuel prices and decreased transportation of dry cargo, as it requires services of supportive diesel locomotives at stations.

Freight car rental expense

Freight car rental expense decreased mainly due to the agreement between Georgian and Azerbaijan railways according to which both sides were exempted from freight car rental payments, during the first eight days of each month, starting from the beginning of December 2014 until the end of February 2015.

Wagon rent expense

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

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

Decrease by 23 per cent (GEL 1 million) in the six-month period ended 30 June 2015 compared to the same period in 2014 can be explained by the fact that the contract for 425 wagon rent expired in April 2015. Currently there are no plans to extend the contract.

Security and other expenses

Security and other operating expenses *In GEL '000*

6 month period ended 30 June

	H1 2015	H1 2014	% change	Abs. Change
Security	4,254	4,237	0.4%	17
Other op. expenses	8,090	5,169	56.5%	2,921
Total security and other operating expenses	**12,344**	**9,406**	**31.2%**	**2,938**

Increase by 57 per cent (GEL 3 million) in other operating expenses is mainly due to increased operating activity of the Company's subsidiaries (mainly Georgia transit).

Property and land taxes

Property and land taxes *In GEL '000*

6 month period ended 30 June

	H1 2015	H1 2014	% change	Abs. Change
Property tax	6,519	6,437	1.3%	82
Land tax	5,491	5,112	7.4%	378
Other taxes	505	741	-31.9%	-236
Total property and land taxes	**12,514**	**12,290**	**1.8%**	**224**

Property and land tax increased by about 2 per cent in the six-month period ended 30 June 2015 compared to the same period of 2014. This is mainly due to the higher land taxes in 2015 compared to 2014, which is due to the decision of local Governments in several regions in Georgia to increase the taxation coefficient on land tax they charge and also increased amount of land held by the Company.

2.3 Finance costs and income

Breakdown of financial costs and income In GEL '000

6 month period ended 30 June

	H1 2015	H1 2014	% Change	% Change at constant currency	Abs. Change
Interest income	8,492	4,910	73.0%	55.4%	3,582
Interest expense on financial liabilities	-30,349	-6,321	380.1%	287.8%	-24,028
Impairment loss on trade receivables	-18,355	-1,609	N/A	N/A	-16,745
Net foreign exchange loss	-154,095	-14,354	N/A	N/A	-139,741
Net finance loss	**-194,306**	**-17,375**	**N/A**	**120.4%**	**-176,931**

Net financial loss increased by GEL 176 million in the six-month period ended 30 June 2015 compared to the same period of 2014. Increase is mainly due to the depreciation of GEL against USD and CHF.

The Company has significant negative net exposure to currency risk due to unsecured bonds issued in USD. Consequently, GEL/USD exchange rate fluctuation has significant effect on foreign currency gains and losses. Considering depreciation of Georgian Lari during the first half of 2015, the Company experienced increase in net foreign currency losses. At the same time the Company matches borrowing and revenue generation currencies, thus creating economic hedge without need for separate hedge contracts.

Thereby, increase in liabilities was accompanied by increase in revenues. Due to the fact that annual revenue base is lower than Eurobond amount (USD 527.5 million), the net effect in the period when the FX change took place is a loss. This however, will be compensated in subsequent years, when revenue stays high, while liabilities do not increase further (in case of stable level of FX).

Despite increase in FX losses, the Company shows improved ratio of Net Financial indebtedness to EBITDA, which ensures its compliance to the covenant. In the first half of 2015 the ratio was 2.64 while in the same period of 2014 it was 2.92.

It should also be mentioned that FX loss has practically no monetary effect for the Company, as most of the liabilities mature in 2022.

Interest expense on financial liabilities has increased by GEL 24 million in the six-month period ended 30 June 2015 compared to the same period of 2014. This increase is mainly due to lower capitalization of interest on existing Eurobonds. IFRS allows the Company to capitalize interest expense during the construction phase of the projects, for which the financing was acquired. However, as the Tbilisi Bypass project was suspended for studies on possible improvement, no capitalization was made for funds spent on Bypass project. This resulted in an increased interest expense.

Another factor that contributed to the net financial loss is impairment loss on trade receivables, which was mainly caused by the increase in exchange rate (about 40 per cent), as the receivables of the Company are denominated in foreign currency. The portion of receivables, which was impaired in the previous periods was revaluated to account for the depreciation of Georgian Lari.

2.4 Income tax benefit/expense

According to Georgian tax code, income tax losses can be carried forward up to 6 years and respective deferred tax asset is created to the extent that it is probable that future taxable profit will be available against which it will be utilized.

2.5 Profitability

Calculation of EBITDA and EBITDA margin

In GEL '000

6 month period ended 30 June

	H1 2015	H1 2014	% Change	Abs. Change
Revenues	288,340	229,761	25.5%	58,579
Other income	6,212	9,436	-34.2%	-3,224
Operating expenses	-184,171	-184,835	-0.4%	664
Result from Operating Activities	**110,381**	**54,362**	**103.1%**	**56,019**
Operating profit margin	**38.3%**	**23.7%**	**N/A**	**14.6%**
Depreciation add-back	52,596	51,041	3.1%	1,555
EBITDA	**162,977**	**105,403**	**54.6%**	**57,574**
EBITDA Margin	**56.5%**	**45.9%**	**N/A**	**10.7%**

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

Sensitivity analyses*

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

	Actual	Scenario 1	Scenario 2	Scenario 3
Revenue	288,340	238,136	302,554	259,609
EBITDA	162,976	113,442	175,937	134,274
EBIT	110,380	60,846	123,341	81,678
EBT	-83,926	43,223	-146,768	-29,973
Net Income	-64,038	36,739	-126,880	-10,085

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

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

3. Cash flows

Cash flow statement

In GEL '000

6 month period ended 30 June

	H1 2015	H1 2014
Cash flows from operating activities		
Cash receipts from customers	281,797	231,912
Cash paid to suppliers and employees	-137,543	-110,865
Cash flows from operations before income taxes and interest paid	**144,254**	**121,047**
Income tax paid	-2,776	-1,670
Net cash from /(used in) operating activities	**141,478**	**119,377**
Cash flows from investing activities		
Acquisition of property, plant and equipment	-72,091	-32,121
Proceeds from sale of property, plant and equipment	4	-
Interest received	8,720	4,706
Net cash from /(used in) investing activities	**-63,368**	**-27,415**
Cash flows from financing activities		
Interest paid	-39,126	-36,163
Dividends paid	-300	-20,000
Net cash from /(used in) financing activities	**-39,426**	**-56,163**
Net increase/(decrease) in cash and cash equivalents	**38,685**	**35,799**
Cash and cash equivalents at 1 January	300,983	208,996
Effect of exchange rate fluctuations on cash and cash equivalents	30,754	2,474
Cash and cash equivalents at the end of the period	**370,422**	**247,269**

Operating activities

Net cash from operating activities increased by 19 per cent in the six-month period ended 30 June 2015 compared to the same period of the previous year. The change was driven by the increase in cash receipts from customers by about GEL 50 million due to the increased revenue. The increase in cash paid to suppliers and employees was mainly due to the property taxes, which were netted off against accumulated VAT surplus in 2014.

Investing activities

Net cash used in investing activities in the six-month period ended 30 June 2015 increased by GEL 36 million compared to the same period of the previous year. This was mainly due to the increased expenditure on modernization of fixed assets (wagons and locomotives modernization), construction/repair of fixed assets (railway infrastructure) and faster implementation pace of Modernization project compared to H1 2014.

Financing activities

Net cash used in financing activities decreased by 30 per cent (GEL 17 million) in the six-month period ended 30 June 2015, compared to the same period of the previous year. This decrease was mainly due to the reduced dividends paid.

Increase in interest paid was due to the depreciation of GEL against USD, as the Company’s debts are denominated in USD.

4. Balance sheet

Balance sheet

In GEL '000

6 month period ended 30 June

	30-Jun-15	31-Dec-14	% Change	% Change at constant currency	Abs. Change
TOTAL ASSETS	**3,116,759**	**2,968,381**	**5.0%**	**N/A**	**148,378**
Changes are mainly due to:					
Property, plant and equipment	2,417,305	2,378,228	1.6%	1.6%	39,077
Deferred tax Assets	20,954	1,557	N/A	N/A	19,397
Cash and cash equivalents	370,421	300,983	23.1%	12.2%	69,438
TOTAL LIABILITIES	**1,643,642**	**1,405,630**	**16.9%**	**N/A**	**238,012**
Changes are mainly due to:					
Loans and borrowings (LT)	1,121,414	929,373	20.7%	0.0%	192,041
Loans and borrowings (ST)	104,997	87,330	20.2%	0.0%	17,667
Dividends payable	25,237	-	N/A	N/A	25,237

Significant changes in assets

GEL 39 million increase in PPE was mainly caused by higher investments in fixed assets (in freight and infrastructure SBU) and increased construction in progress principally due to the higher expenditures on Modernization project.

Increase in the deferred tax assets resulted from the tax losses reported by the Company at the end of H1 2015. Tax loss carry forward can be used to reduce income tax liabilities for the period up to six years after the loss occurred.

The increase in cash and cash equivalents by GEL 69 million can be explained by the increased revenue, while operating expenses decrease slightly and by depreciation of local currency as the Company keeps some part of its cash balance in foreign currency (for details please refer to Cash flow section of this report).

Significant changes in liabilities

The change in liabilities was due to revaluation of the Company's long-term and short term loans and borrowings as they are denominated in USD and there was significant depreciation of GEL against USD. The redemption of the most part of the obligations is in July of 2022. The increase in liabilities was also due to the declared dividends of GEL 25 million.

Appendix 1

Breakdown of freight transportation in tons

In thousand tons

6 month period ended 30 June

	H1 2015	H1 2014	% Change	Abs. Change
Total liquid & dry cargoes	**7,307**	**7,865**	**-7.1%**	**-559**
Liquid cargoes	**3,579**	**3,547**	**0.9%**	**31**
Oil Products	2,945	2,541	15.9%	404
Crude Oil	634	1,006	-37.0%	-372
Dry cargoes	**3,728**	**4,318**	**-13.7%**	**-590**
Cement	32	229	-86.2%	-197
Chemicals and fertilizers	224	273	-18.2%	-50
Construction Freight	711	792	-10.2%	-81
Ferrous metals and scrap	489	546	-10.5%	-57
Grain	314	274	14.7%	40
Industrial freight	116	242	-52.0%	-126
Ores	785	952	-17.6%	-168
Sugar	216	283	-23.9%	-68
Other	841	725	16.0%	116

Appendix 2

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

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

	H1 2015	H1 2014	% Change	Abs. Change
Total liquid & dry cargoes	**2,226**	**2,327**	**-4.3%**	**-100**
Liquid cargoes	**1255**	**1261**	**-0.5%**	**-7**
Oil Products	1004	867	15.7%	136
Crude Oil	251	394	-36.2%	-143
Dry cargoes	**972**	**1065**	**-8.8%**	**-93**
Cement	7	24	-69.3%	-17
Chemicals and fertilizers	64	76	-15.8%	-12
Construction freight	107	128	-16.6%	-21
Ferrous metals and scrap	140	137	2.1%	3
Grain	104	72	43.1%	31
Industrial freight	34	76	-56.0%	-43
Ores	169	232	-27.5%	-64
Sugar	78	104	-25.0%	-26
Other	271	216	25.4%	55