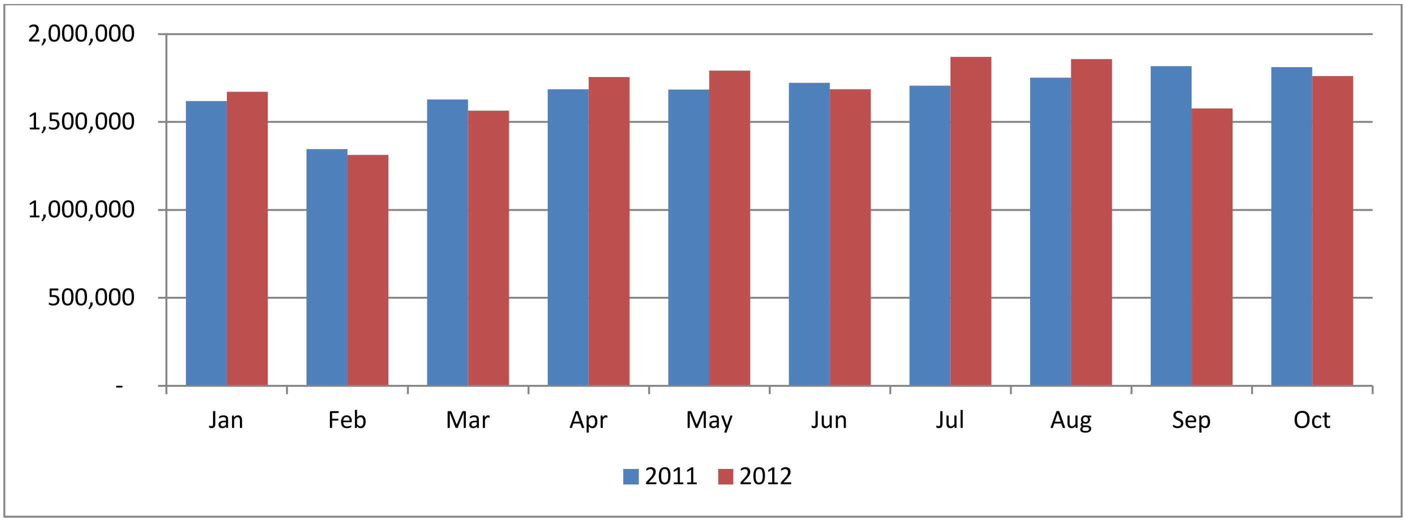
Georgian Railway JSC

Cargo Transportation Development in ten month period ended October 31, 2012

Total Cargo Volumes

Cargo transportation volumes for 10 month period ended 31 October 2012 has increased by 0.5% compared to the same period in 2011.

Following graph shows the monthly development for total cargo volumes transported in ten month period ended 31 October, 2012 and 2011.

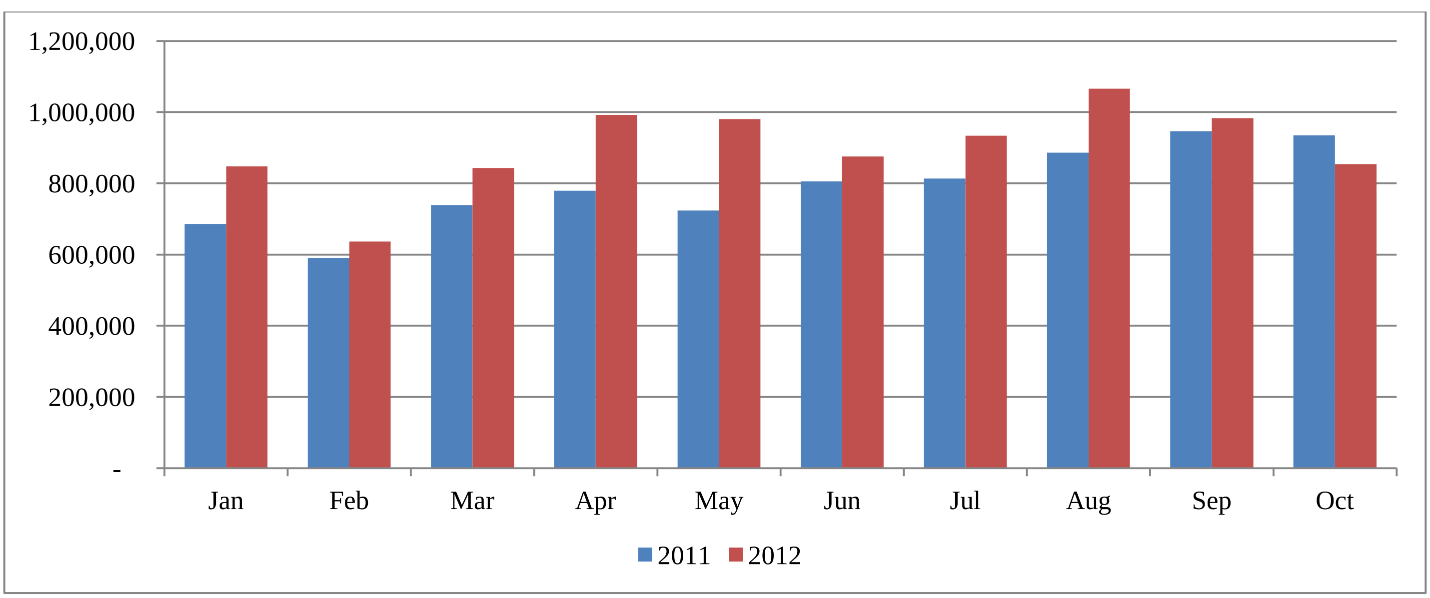


Dry Cargo

Transportation dynamics

Dry cargo transportation in ten month period ended October 31, 2012 has increased compared to the same period in the previous year. Total increase was 14.0%.

Following graphs show the monthly development for dry cargo transportation in ten month period ended October 31, 2012 and 2011 (figures are in tons):

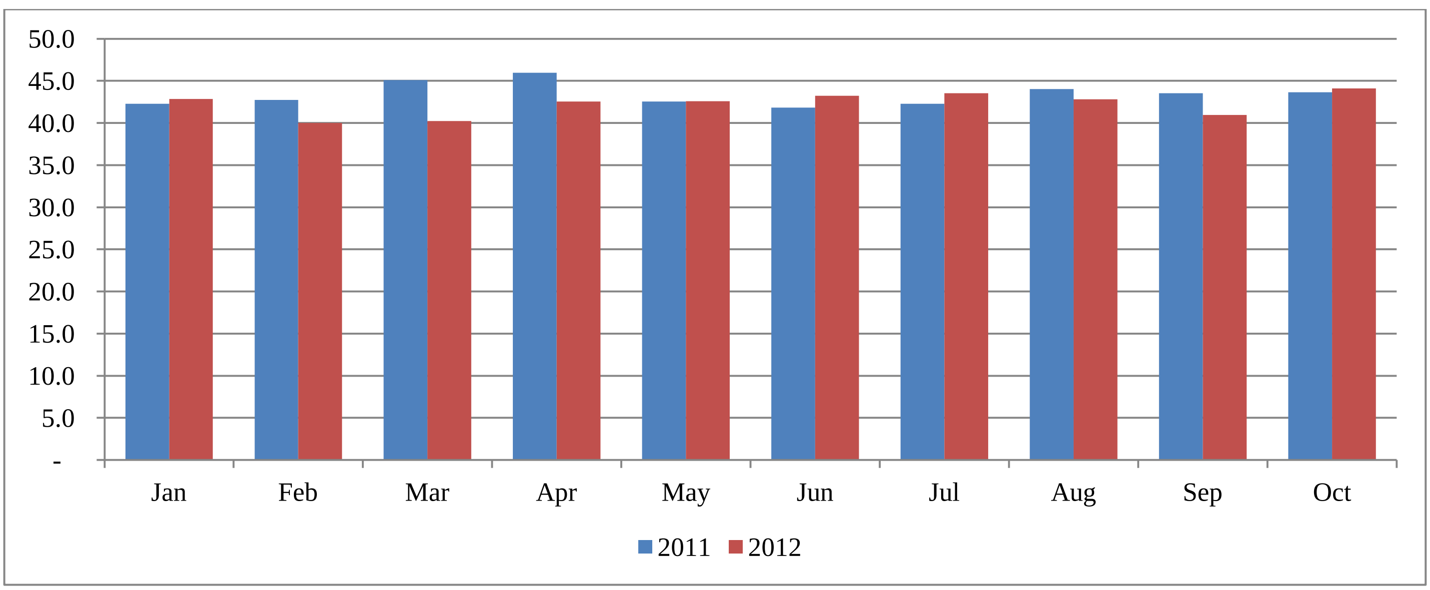


Dry cargo transportation remained to be high in the last months of the ten month period. However, it has shown a decrease in October. The decrease was mainly in transportation of Ores and Construction materials. Ores decreased due to the strikes on production mines in Georgia, while the decrease in Construction materials was due to the temporary stoppage of some construction projects. In November 2012, transportation dynamics of dry cargo also tends to be lower than for November of 2011. Management estimates that the reason for the decreased transportation in dry cargo is the strike in Poti port, which took place between November 1 and November 10. Reduction of need for construction materials also had its negative effect on transportation of dry cargoes in November.

Average Revenue per thousand ton-kilometers (USD):

August of 2012 was relatively stable in terms of average revenue per 1,000 ton-km, however there was a decrease in September which was a result of decreased transportation volumes of grain and grain products to Armenia, which is a relatively high yielding direction. This was offset in October, 2012, where average revenue per 1,000 ton-km increased compared to the same month of 2011, as a result of increased share of transportation of grain and grain products as well other high yielding dry products.

Following graphs show the monthly development of average revenue per thousand ton-kilometers for dry cargo in ten month periods ended October 31 of 2012 and 2011 (figures are in USD*):



*Until February 2012, Company quoted its tariffs in CHF. In February 2012 tariffs were translated to USD at a rate of 1.1. In order to calculate average revenue per ton-kilometers in USD before February 2012, the Company used average revenue per thousand ton-kilometers in CHF for such periods and divided it by 1.1;

Management expects average revenue per thousand ton-km for dry cargo to remain on higher levels than in previous year as a result of increase in tariff from the beginning of 2012.

Following table shows transportation revenue per dry cargo freight type and transported tons for the 10 month period ended 31 October 2012 and 2011.

	Transportation Revenue (GEL)			Volume transported (tons)		
	10 month - 2011	10 month - 2012	% change	10 month - 2011	10 month - 2012	% change
Grain and grain products	26,971,348	24,941,527	-8%	994,432	1,280,775	29%
Industrial Freight	6,494,039	8,143,129	25%	397,434	583,636	47%
Construction Freight	9,270,900	9,383,861	1%	1,313,513	1,372,385	4%
Other	36,113,810	35,863,227	-1%	1,340,642	1,451,566	8%
Ores	26,136,062	32,969,070	26%	1,565,125	1,891,691	21%
Chemicals and fertilizers	7,620,547	8,831,023	16%	390,666	408,878	5%
Ferrous materials and scrap	16,382,699	14,610,562	-11%	967,940	930,804	-4%
Sugar	13,867,899	12,962,639	-7%	498,386	527,908	6%
Cement	3,372,345	2,917,476	-13%	438,794	566,618	29%

If we compare the increase/decrease in revenue to the volumes transported, we will see some inconsistencies in Grain and grain products, Industrial Freight, Sugar and Cement, where the increase in transportation was not followed by an adequate increase in revenues in GEL terms.

General reason behind this is the FX rate fluctuation. In 2011, GR quoted its tariffs in CHF. In 10 month period of 2011 there was a significant appreciation of CHF against GEL, which caused GEL revenues of the company to increase significantly, without changing the base tariffs. After high appreciation, CHF began declining. In February 2012, the company has changed its tariff base currency to USD, in order to ensure more stability for the company revenues. As the positive FX fluctuations did not reoccur in 2012 as it did in 2011, average revenue per 1,000 ton-km for the products experienced decline in GEL terms, despite the fact that in USD terms tariffs were not reduced.

Following table shows average revenue per 1,000 ton-km in GEL and USD terms for the 10 month period 2012 and 2011:

	Average Revenue per 1000 ton-km (GEL)		% change	Average Revenue per 1000 ton-km (USD)		% change
	10 month - 2011	10 month - 2012		10 month - 2011	10 month - 2012	
Grain and grain products	93	85	-9%	53	52	-3%
Industrial Freight	76	64	-16%	44	39	-11%
Construction Freight	45	44	-4%	26	27	2%
Other	95	86	-9%	54	52	-4%
Ores	68	63	-7%	39	38	-2%
Chemicals and fertilizers	60	63	5%	34	38	11%
Ferrous materials and scrap	71	64	-9%	40	39	-4%
Sugar	79	70	-11%	45	43	-5%
Cement	72	73	1%	41	44	8%

As we can see, FX rate fluctuation is clearly visible when comparing the change in average revenue per 1,000 ton-km in GEL terms to the changes in the same data in USD terms. Management estimates that the Average FX rate had decreased by 6%, causing proportionate decrease in average revenue per 1,000 ton-km in GEL terms. Besides the FX fluctuations, there are some factors in transportation distance, which had its effect on the above-mentioned inconsistency between revenue and tons, such as average transportation distance.

Following table shows the changes in certain data for the dry cargo products in 10 month periods ended 31 October, 2012 and 2011:

Change in relevant data type (10 month 2012vs 10 month 2011)	Tons	Average Haul	Ton-km	Average rev. per 1000 ton-km USD	Average rev. per 1000 ton-km GEL	Revenue
Grain and grain products	*29%*	*-22%*	*1%*	*-3%*	*-9%*	*-8%*
Industrial Freight	*47%*	*2%*	*50%*	*-11%*	*-16%*	*25%*
Construction Freight	*4%*	*0%*	*5%*	*2%*	*-4%*	*1%*
Other	*8%*	*1%*	*9%*	*-4%*	*-9%*	*-1%*
Ores	*21%*	*13%*	*36%*	*-2%*	*-7%*	*26%*
Chemicals and fertilizers	*5%*	*6%*	*11%*	*11%*	*5%*	*16%*
Ferrous materials and scrap	*-4%*	*2%*	*-2%*	*-4%*	*-9%*	*-11%*
Sugar	*6%*	*-1%*	*5%*	*-5%*	*-11%*	*-7%*
Cement	*29%*	*-34%*	*-15%*	*8%*	*1%*	*-13%*

Looking from this perspective, we can see how tons transportation is being translated into GEL revenues. Inconsistency between grain and grain products transportation volumes and revenue is mainly caused by the change in average transportation distance* and average FX rate decrease. The same is true for Cement transportation**. The difference here is the average revenue per 1,000 ton-km in USD terms, which has increased by 8% as a result of transportation direction mix and other minor factors.

** Main reason of decrease in average distance in grain and grain products was the change of structure of origin and destination countries. Main origin countries for grain and grain products are Russia, Kazakhstan and Ukraine, destination countries are mainly Georgia and Armenia. Grain transported from Russia and also from Ukraine comes from sea ports and has an average distance of 293-354 km. Cargo from Kazakhstan comes from Azerbaijan and has an average distance of 104-155 km. Share of grain transported from Russia has decreased from ca. 49.1% in 2011 ten month period to 36.0% in the same period of the current year and for Ukraine from ca. 19.8% to 0.7%. Share of grain from Kazakhstan in ten month period of the year 2012 increased to 40.1% comparing to 12.4% of the same period of the previous year.*

*** Main reason of the decrease in average distance in cement transportation was the change of structure of origin and destination countries. Main origin countries for cement are Georgia and Armenia, destination countries Azerbaijan and Georgia. Cement transported from Georgia to Azerbaijan has an average distance of 17-20 km, while for Armenia-Georgia direction has an average distance of . 104-112 km. Share of cement transportation from Georgia to Azerbaijan increased to 68.4% comparing the same period of the previous year 50.8%.Share of cement from Armenia to Georgia in ten month period of the year 2012 decreased to 17.0% compared to 19.3% in the same period of the previous year.*

For Industrial freight the same inconsistency is caused by decrease in average revenue per 1,000 ton-km in USD terms*, which was also followed by the average FX rate decrease. The same reason is valid for Sugar transportation**.

** Main reason of the decrease in average revenue per 1,000 ton-km in USD terms for Sugar is the change of share of destination countries. Main country of distribution of sugar is Brazil and main countries of destination are Azerbaijan, Georgia and Armenia. Tariff of transportation to Armenia is higher than to Azerbaijan and Georgia. Share of transportation of sugar to Armenia decreased to 13.6% in ten month period of the year 2012 comparing to the same period of the previous year 29.6%.*

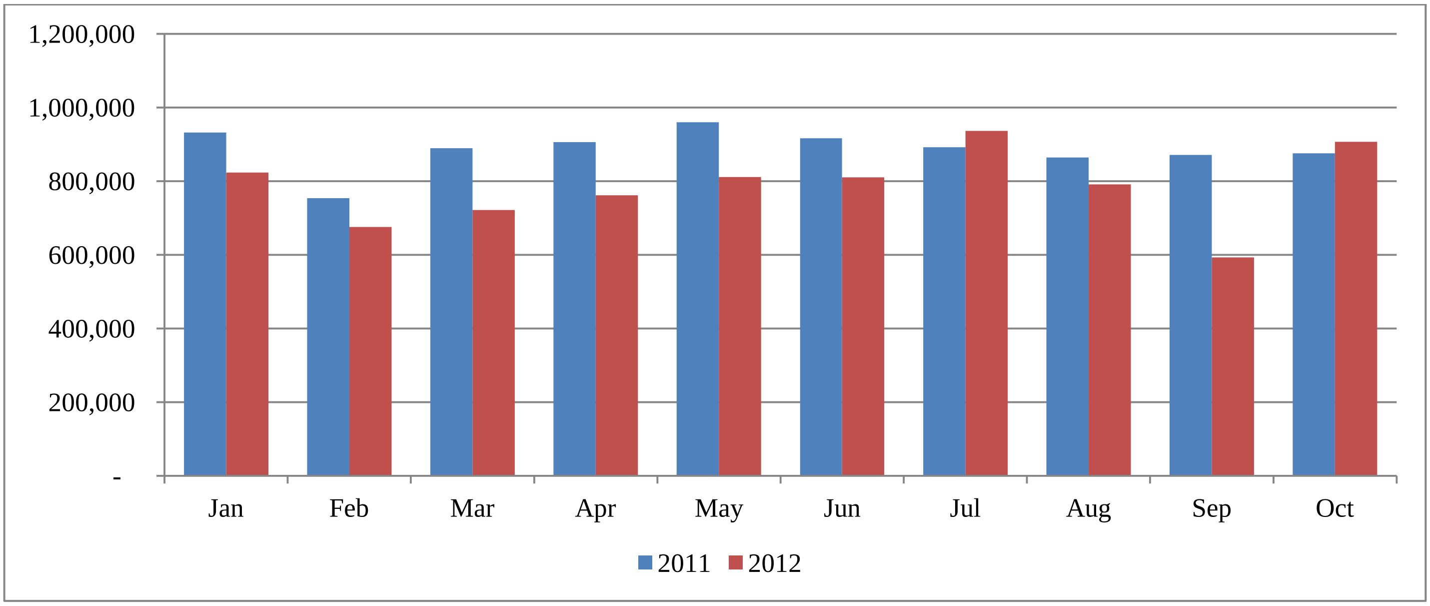
*** There are several reasons for the decrease of average revenue per 1,000 ton-km of industrial freight transportation. Share of transportation of industrial freight to Armenia, which is the one of the highest tariff destinations, decreased to 19% in ten month 2012 comparing to the same period of the previous year 32%. Also transportation of industrial freight from Ukrainian and Bulgarian directions has a higher yield. Share of transportation from Ukraine decreased to 13% in 10 month period of 2012 compared to 18% in the same period of the previous year, also share of Bulgarian direction decreased to 9% in 10 month period of 2012 comparing to19% in the same period of the previous year. Most part of this transportation switched to Turkey. Share of transportation from Turkey increased to 28% in 10 month period of 2012 from 19% in the same period of the previous year. Transportation from Turkish direction has relatively lower yield for the company.*

Liquid Cargo

Transportation dynamics

Liquid cargo transportation in ten month period ended October 31, 2012 has decreased compared to the same period in the previous year. Total decrease was 11.6%.

Following graphs show the monthly development for liquid cargo transportation in ten month period ended October 31, 2012 and 2011 (figures are in tons):



In the first half of the year there was a decline in liquid cargo transportation as a result of tank car shortage in the corridor. However, GR has partially dealt with the shortage by renting additional tank cars which have shown their effect on July's transportation volumes. In August and September of 2012, there was a decrease in liquid cargo transportation as a result of maintenance works on Tengiz production field, which began in August and ended in late September. Following the completion of the maintenance works, transportation volumes rose in October and continue their positive development in November as well. Management estimates November liquid cargo volumes to be in line with October's transportation.

Average Revenue per thousand ton-kilometers (USD):

Average revenue per thousand ton-kilometers for liquid cargo has shown a significant increase in ten month period ended October 30, 2012 compared to the same period of 2011.

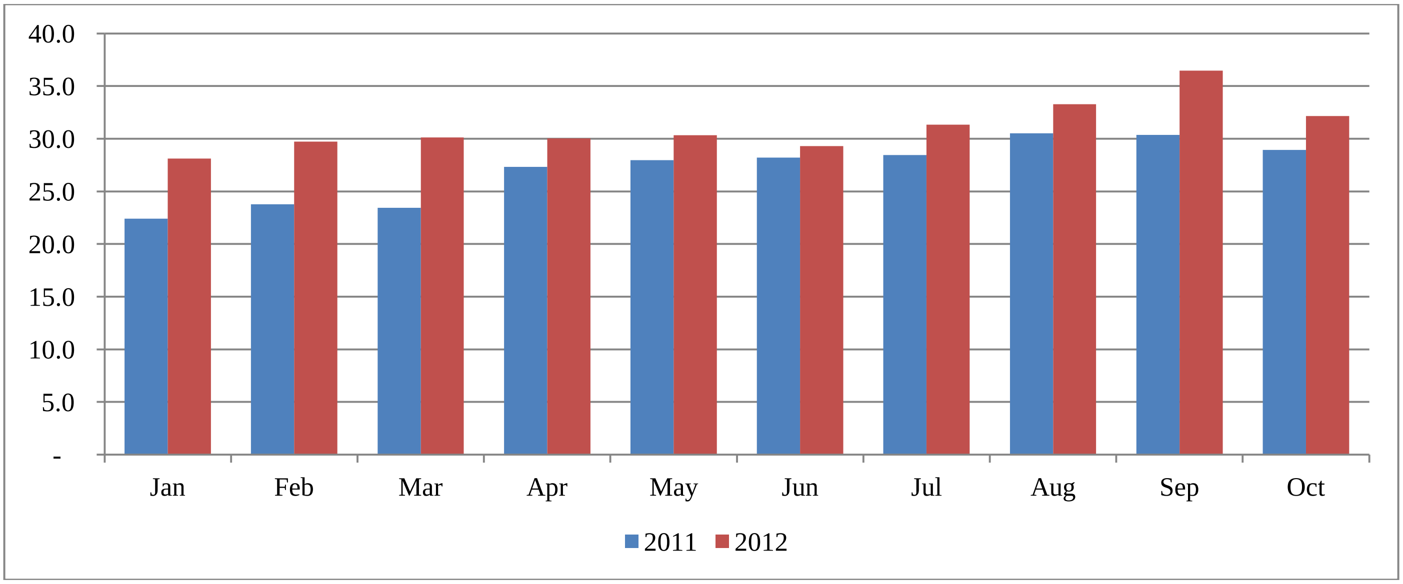
The reason behind the increase is the decrease of discounts for transportation of liquid products –

- Starting from April 2011, the company has decreased discounts for transportation of crude oil and oil products by 33% and 23% respectively.
- Decrease of discounts from February 2012, when the company decreased discounts for transportation of crude oil and oil products by USD 0.5 per ton of transported discounted liquid cargo.

- Starting From July 2012, the company adopted additional decrease of discounts for transportation of crude oil and oil products by USD 1.5 and USD 1.0 per ton respectively. This increase was done to enable the company to cover the costs associated with the additions of tank cars into the corridor in the case further need of railcars.

Such increase in tariffs has had its effect on average revenue from transportation of liquid cargo in terms of USD.

Following graphs show the monthly development of average revenue per thousand ton-kilometers for liquid cargo in ten month periods ended October 31 of 2012 and 2011 (figures are in USD*):



*Until February 2012, Company quoted its tariffs in CHF. In February 2012 tariffs were translated to USD at a rate of 1.1. In order to calculate average revenue per ton-kilometers in USD before February 2012, the Company used average revenue per thousand ton-kilometers in CHF for such periods and divided it by 1.1;

Management expects average revenue per thousand ton-kilometers for liquid cargo to remain higher than in the previous periods as a result of the mentioned tariff increases.