Georgian Railway JSC

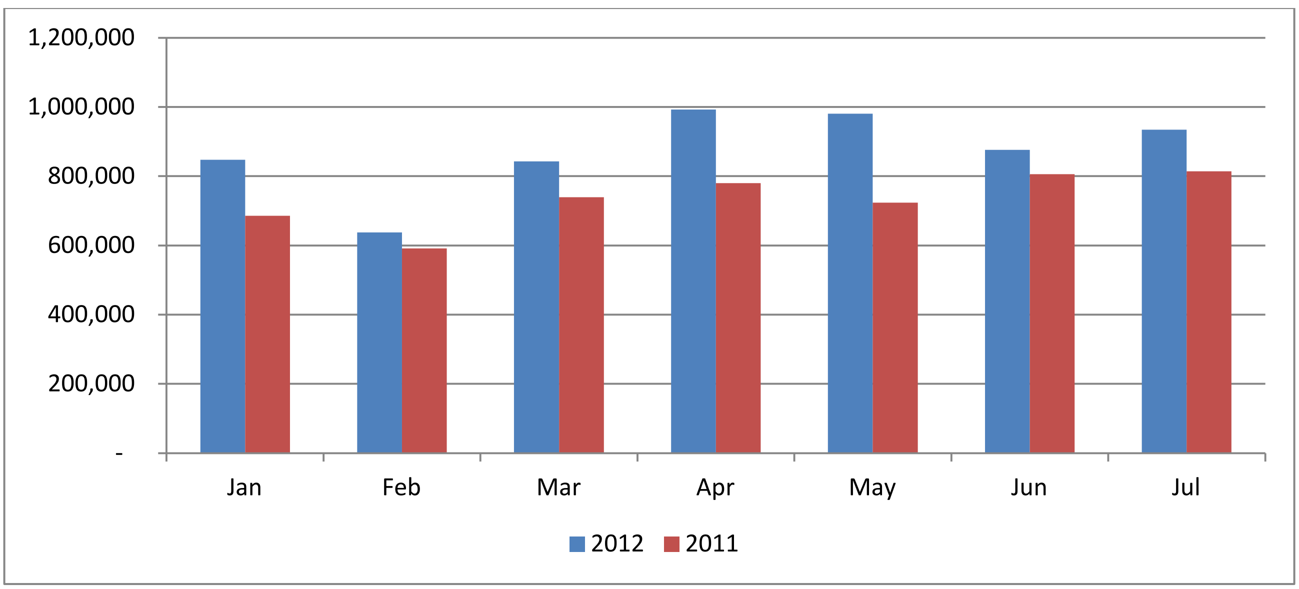
Cargo Transportation Development in seven month period ended July 30, 2012

Dry Cargo

Transportation Dynamics

Dry cargo transportation in seven month period ended July 30, 2012 has increased compared to the same period in the previous year. Total increase was 18.9%.

Following graphs show the monthly development for dry cargo transportation in seven month periods ended July 30 of 2012 and 2011 (figures are in tons):



Management believes the dry cargo to remain the main contributor of the growth supported by the regional economy and trade growth of Central Asia and Caucasus. To support the expected growth, the company has signed a contract with the local railcar construction company for refurbishment of approximately 1200 existing non-working railcars for dry cargo transportation and acquisition of 290 grain hoppers. The delivery of the railcars is expected to be finished by 2013. These railcars will be additions to the existing working rolling stock fleet.

Dry Cargo - adding Resiliency:

Management believes that the increase in dry cargo transportation is positive in both - quantity of transportation and the level of cargo diversification. Historical data shows that the types of cargo which have experienced significant decrease as a result of world financial crisis are not the drivers behind the current growth in dry cargo. In order to illustrate this, management points out that the share in total dry cargo transportation of cargo such as industrial materials, construction freight, non-ferrous metals and cement has decreased from 51% in 2008 to 35% in the seven months of 2012. Management views this as a positive development towards a more diversified cargo base with lower risk of diminishing as a result of shocks, such as financial crises.

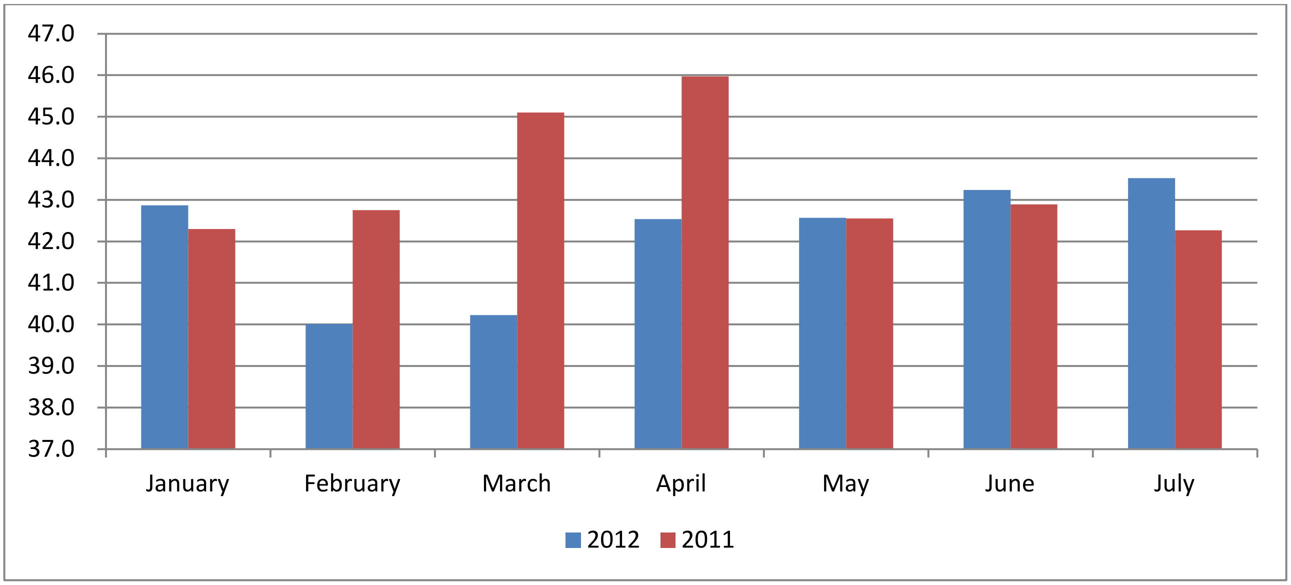
Following tables show composition of dry cargo for the twelve month periods ended December 31 of the years 2008, 2009 and seven month period ended July 30, 2012:

	2008		2009		2012 (7 month)	
Cargo Type	**Tons**	**%**	**Tons**	**%**	**Tons**	**%**
Grain	854,758	8%	1,074,902	15%	803,047	13%
Manganese ore	519,709	5%	311,450	4%	484,589	8%
Industrial	1,231,704	11%	451,420	6%	226,426	4%
Construction	1,618,226	15%	1,065,826	14%	976,400	16%
Wood	160,549	1%	120,317	2%	98,290	2%
Other	1,393,168	13%	1,100,170	15%	952,311	16%
non-Ferrous metal	1,385,034	12%	532,945	7%	564,961	9%
Flour	144,425	1%	65,837	1%	6,361	0%
Coal	317,110	3%	239,068	3%	291,361	5%
Chemical fertilizer	397,807	4%	427,734	6%	294,597	5%
Ferrous Metal	645,968	6%	463,012	6%	542,331	9%
Ferrous Metal Scrap	361,976	3%	293,653	4%	124,319	2%
Sugar	563,294	5%	512,964	7%	336,182	6%
Cement	1,478,983	13%	680,664	9%	343,825	6%
Meat	45,729	0%	36,655	0%	65,729	1%
Total Dry	11,118,440	100%	7,376,618	100%	6,110,729	100%

Average Revenue per thousand ton-kilometers (USD):

Starting from January 2012, the company has indexed tariffs on dry cargo transportation by 2%. This resulted in higher average revenue per thousand ton-kilometers in January 2012 compared to the same month in 2011. In February, March and April average revenue per thousand ton-kilometers for dry cargo has decreased compared to the same month in 2011. This was a result of decreased transportation of grain to Armenia. However, the transportation of grain to Armenia restored starting from May and average revenue per thousand ton-kilometers has exceeded the levels of previous year.

Following graphs show the monthly development of average revenue per thousand ton-kilometers for dry cargo in seven month periods ended July 30 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.

Liquid Cargo

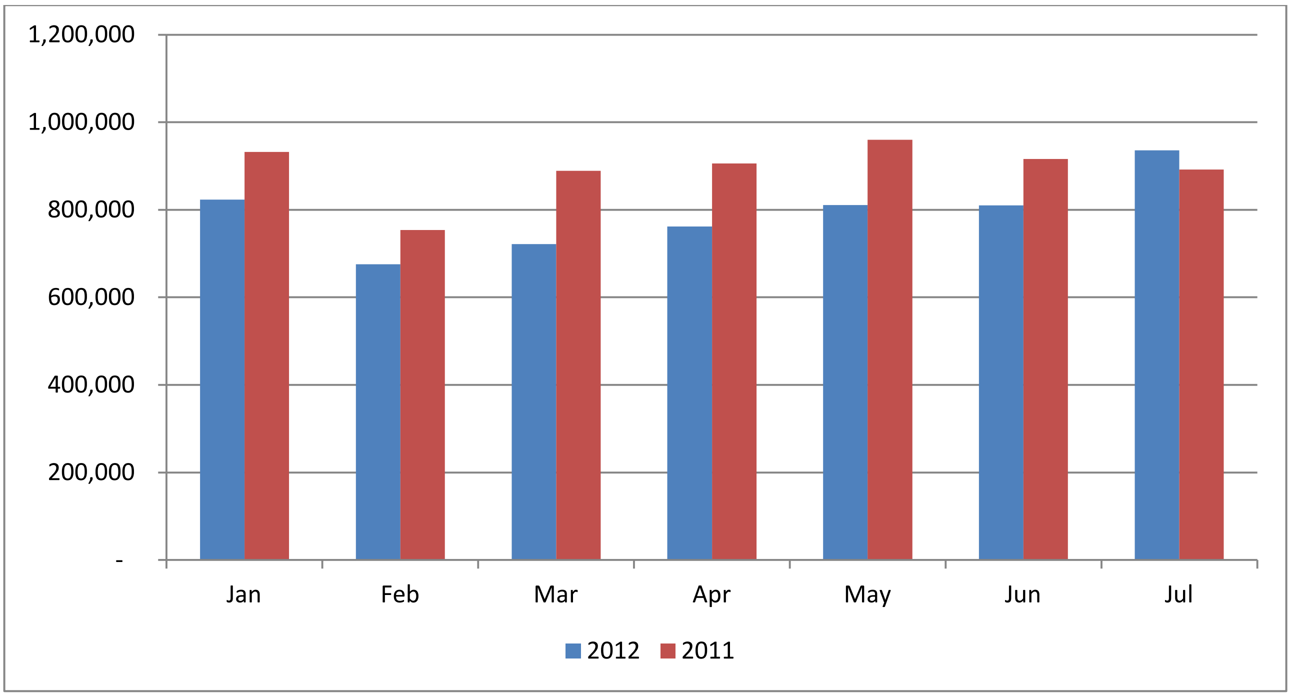
Transportation Dynamics:

Starting from late 2010, the Company began to transport liquid cargo to Afghanistan direction, which implied longer transportation distances and higher yields. The Company used its existing tank cars in order to serve these volumes, which was one of the main causes for a deficit of tank cars for transportation of liquids.

GR's deficit, as well as overall deficit of tank cars in the transportation corridor caused the decrease in liquid cargo transportation volumes by 11.4% in the seven months of 2012 compared to the same period in 2011. In order to partly satisfy the need of rolling stock, the Company has leased 375 tank cars, which were received in June 2012. Management believes that the effect of these additional tank cars has shown itself in increase of liquid cargo transportation in July 2012 by 5.0%, compared to the same month in 2011 and by 22.0% compared to the average monthly transportation of liquid in the six month of 2012.

In August the volume of liquids is expected to decrease as a result of Tengizchevroil because of maintenance repairs at the production field of Tengiz. The resuming of the production is expected in the beginning of September 2012 (source – www.argus.ru).

Following graphs show the monthly development for liquid cargo transportation in seven month periods ended July 30 of 2012 and 2011 (figures are in tons):



Management expects to further experience positive effect of additionally leased tank cars.

Average Revenue per thousand ton-kilometers (USD):

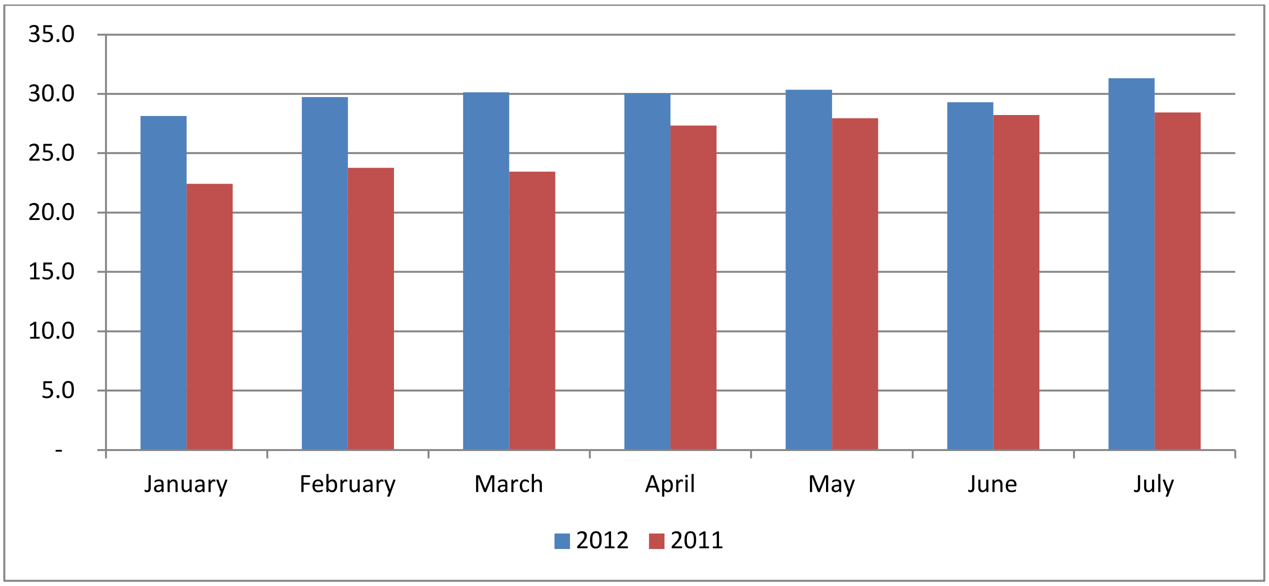
Average revenue per thousand ton-kilometers for liquid cargo has shown a significant increase in seven month period ended July 30, 2012 compared to the same period of 2011.

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 seven month periods ended July 30 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.