



**Management Discussion and Analysis of  
3Q 2012 Results**

## 1. Executive Summary

Net income of Georgian Railway JSC for nine-month period ended 30 September 2012 amounted to GEL 25.4 million compared to GEL 144.5 million in the nine months of 2011, representing a decrease of 82%. It should be noted that expenses include the disposal of Batumi Tower with the amount of GEL 33.7m million and Euro Bond buy-back premium (GEL41 million), which are not connected with Georgian Railway's operating activities. Revenues decreased by 2.1% to GEL 351.4 million, whereas operating expenses (excluding disposal of Batumi Tower) increased by 5.8%. Adjusted EBITDA (earnings before interest, tax, depreciation and amortization) in 3Q 2012 amounted to GEL 191.8 million compared to GEL 197.9 million in 3Q 2011.

The main contributor to revenue reduction was decrease in freight handling revenue, which was caused by the decreased of the penalties for the delay of railcars by clients. Revenue from freight traffic in 3Q 2012 decreased by 1.2% compared to the same period of 2011. The decrease was principally caused by the decrease of Liquid Cargos that was offset by the deficit of tank cars.

Increase in expenses was mainly due to the increase in depreciation and amortization expenses. Depreciation and amortization expense in 3Q 2012 was GEL 78.9 million compared to the GEL 67.8 million in 3Q 2011. The increase in depreciation and amortization expenses was caused by the increase of capital repairs, which caused increase of asset base.

## 1. Profit & Loss Statement

Net income amounted to GEL 25.4 million in 3Q 2012 compared to GEL 144.5 million m in 3Q 2011.

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Revenues	351,351	-2.1%	-7,639	358,990
Other income	19,422	100.2%	9,723	9,699
Payroll expenses	-77,359	-2.0%	-1,569	-78,928
Depreciation and amortization expense	-78,929	16.4%	11,123	-67,806
Electricity and materials used	-38,745	-16.2%	-5,400	-33,345
Other expenses	-92,064	54.8%	-32,592	-59,679
<b>Result From Operating Activities</b>	<b>83,676</b>	<b>-35.2%</b>	<b>-45,462</b>	<b>129,138</b>
Finance Income	12,533	-57.5%	-16,966	29,499
Finance Cost	-59,067	685.2%	-51,544	-7,523
<b>Net finance income/(cost)</b>	<b>-46,534</b>	<b>-311.7%</b>	<b>-68,510</b>	<b>21,976</b>
<b>Profit before income tax</b>	<b>37,142</b>	<b>-75.4%</b>	<b>-113,972</b>	<b>151,114</b>
Income tax	-11,764	-79.0%	-5,192	-6,572
<b>Net income</b>	<b>25,378</b>	<b>-82.4%</b>	<b>-119,164</b>	<b>144,542</b>
<b>Adjusted EBITDA</b>	<b>191,812</b>	<b>-3.1%</b>	<b>-6,112</b>	<b>197,924</b>
<b>Adjusted EBITDA margin</b>	<b>54.6%</b>		<b>-0.5%</b>	<b>55.1%</b>

Expenses of 3Q 2012 include the disposal of Batumi Tower with the amount of GEL 33.7 million and expenses of 3Q 2011 include the write-off of property plant and equipment with the amount of GEL 4.1 million. Adjusted EBITDA of Georgian Railway for the nine-months period ended 30 September 2012 decreased by 3.1% (GEL 6.1 million) compared to the same period in the previous year.

## 2. P&L Analysis

Results for revenues and expenses of 3Q 2012 presented in this section (and in other sections) include revenues and expenses of subsidiaries of Georgian Railway JSC.

### 2.1 Revenues

Revenues in 3Q, 2012 amounted to GEL 351.4 million (not including other income) which is by 2.1% lower than in the same period of the previous year. Revenue from freight transportation decreased by 1.2% (GEL 3.2 million) which was caused by the decrease in liquid cargo transportation. The decrease was offset by deficit of tank cars. Decrease in freight handling by 15.5% (GEL 7.3 million) was caused by the decrease in the penalties paid for the delay of railcars by clients. Revenue from freight car rental increased by 9.1% (GEL 2.9 million), which was caused by the increased usage of GR's owned railcars by other railways. Passenger revenues increased by 18.6% (GEL 2.1 million) due to the additional railcars and improved services. Other revenues decreased by 38.3% (GEL 2.3 million) which was caused by the delay in scrap realisation.

The following tables set forth revenue breakdown and comparison of 6 month-periods ended 30 June 2012 and 2011:

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Freight transportation	258,597	-1.2%	(3,230)	261,827
Freight handling	39,669	-15.5%	(7,255)	46,924
Freight car rental	35,459	9.1%	2,947	32,512
Passenger transportation	13,932	18.6%	2,188	11,744
Other revenue	3,694	-38.3%	(2,289)	5,983
<b>Total Revenue</b>	<b>351,351</b>	<b>-2.1%</b>	<b>(7,639)</b>	<b>358,990</b>
<b>Other Income</b>	<b>19,422</b>	<b>100.2%</b>	<b>9,723</b>	<b>9,699</b>

#### 2.1.1. Freight revenues

*Freight transportation revenues:*

Freight transportation revenues decreased by GEL 3.2 million or by 1.2% in 3Q 2012 compared to the same period of the previous year. For the 3Q 2012 year freight transportation revenues, liquid cargoes contributed ca. 47.6% and dry cargoes ca. 52.4%. The types of freight that positively contributed to the nine-month period-over-period change in freight transportation revenue were mainly Ores, industrial freight and chemicals and fertilizers. However this was outweighed by decrease in revenue from transportation of liquids.

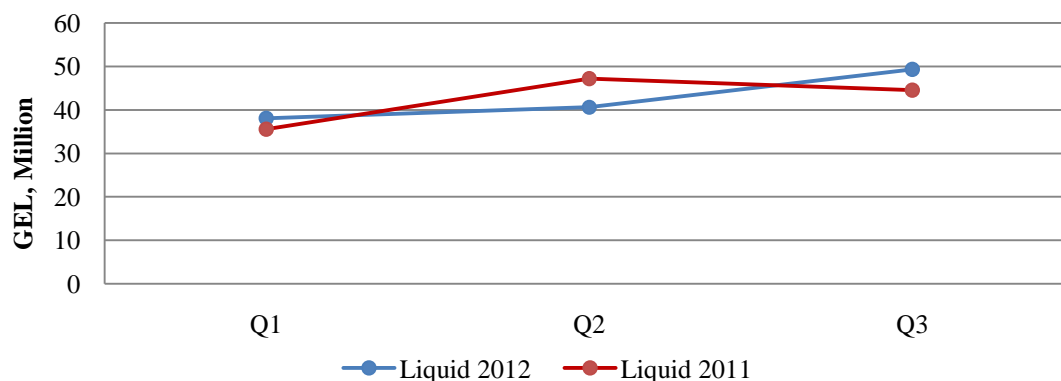
The following table sets forth freight transportation revenue by types of freight for the nine-month periods ended 30 September 2011 and 2012:

GEL, Millions	3Q			
	2012	% Change	Abs. Change	2011
<b>Liquid Cargoes</b>	<b>123.1</b>	<b>-7%</b>	<b>-8.9</b>	<b>132.0</b>
<i>of which</i>				
Crude Oil	51.1	-6%	(3.12)	54.5
Oil Products	72.0	-7%	3.79	77.4
<b>Dry Cargoes</b>	<b>135.5</b>	<b>4%</b>	<b>5.7</b>	<b>129.9</b>
<i>of which</i>				
Grain	21.3	-8.7%	(2.0)	23.3
Construction Freight	8.3	5.0%	0.4	7.9
Cement	2.6	-15.2%	(0.5)	3.0
Industrial Freight	7.2	25.7%	1.5	5.7
Ferrous Metals and Scrap	13.5	-9.7%	(1.5)	15.0
Ores	30.7	30.9%	4.32	23.5
Sugar	11.6	-1.3%	(0.2)	11.8
Chemicals, fertilizers	8.5	20.1%	1.4	7.1
Other	31.9	-2.4%	(0.8)	32.7
<b>Total</b>	<b>258.6</b>	<b>-1.2%</b>	<b>(3.2)</b>	<b>261.8</b>

Liquid cargo revenues:

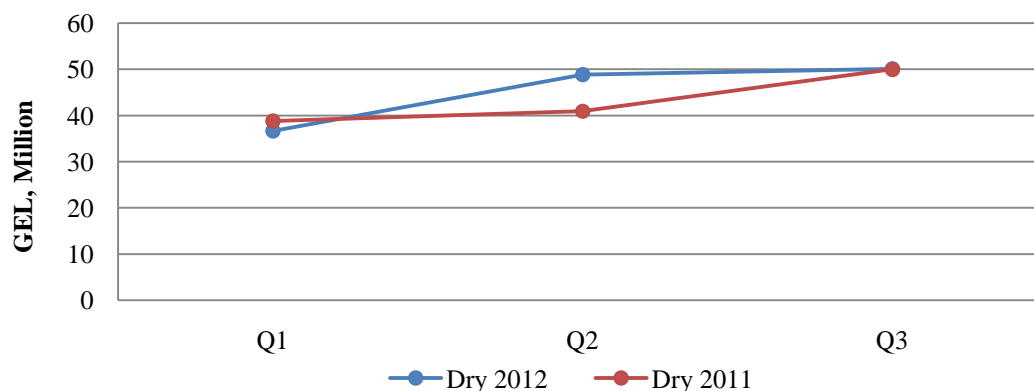
Liquid cargo volumes decreased by 13.3% (1.06 million tone) in 3Q 2012 compared to the same period of previous year. Revenue from transportation of liquid cargo decreased by 6.7%. The disproportion between freight volumes and freight revenues for liquid cargo was caused by the increase in freight tariffs on Liquid Cargo.

The following graph shows distribution of revenues from liquid cargo transportation by quarters, for nine-month periods ended 30 September 2011 and 2012:



Dry cargo revenues:

The following graph shows distribution of revenues from dry cargo transportation by quarters in 3Q 2011 and 3Q 2012:



Dry cargo volumes in nine-month period ended 30 September 2012 increased by 17.0% and revenues increased by 4% compared to the same period of the previous year.

Freight handling and freight car rental revenues:

The following table sets forth the revenues from freight handling and freight car rental for the periods ended 30 September 2011 and 2012:

'000 GEL	3Q			
	2012	% Change	Abs. Change	2011
Freight handling	39,669	-15.5%	(7,255)	46,924
Freight car rental	35,459	9.1%	2,947	32,512

Revenue from freight handling decreased by 15.5% (GEL 7.3 million) in nine-month period ended 30 September 2012 compared to the same period of the previous year. This is mostly attributable to the decrease of penalties for the delay of the railcars by clients, as the clients began to operate with more efficiency and less delays. Revenue from freight car rental increased by 9.1% (GEL 2.9 million) in 3Q 2012 compared to the 3Q 2011. The increase was primarily due to the increased usage of company's own railcars by other railways.

## 2.1.2 Passenger revenues

The following table sets forth the revenues from passenger transportation for 3Q 2012 and 3Q 2011:

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Passenger revenues	13,932	18.6%	2,188	11,744

Passenger revenues increased by 18.6% (GEL 2.2 million) in the nine-month period ended 30 September 2012 compared to the same period of the previous year, which was caused by the increased quality of service provided and purchased additional railcars.

## 2.1.3 Other revenues

Other revenues comprise such items as: revenue from rent of space in buildings, sale of scrap, repair services and such. Decrease in nine-month period ended 30 September 2012 compared to the same period of 2011 was caused by the delay of scrap realization to the later periods.

'000 GEL	9M			2011
	2012	% Change	Abs. Change	
Other revenue	3,694	-38.3%	(2,289)	5,983

## 2.1.4. Other income

Other income mostly comprises such revenues as: penalties accrued on trade debtors or creditors, gain on inventory revaluation, revenues from communication services, revenue for inflicted loss on company from third parties, and other. In 3Q 2012 other income increased by 100% (GEL 9.7 million), compared to the same period of previous year. The increase was caused by the increase in non-continuing operations by 288% (GEL 10.0 million).

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
<b>Other Income</b>	<b>19,422</b>	<b>100%</b>	<b>9,723</b>	<b>9,699</b>
<i>Of which:</i>				
Continuing Operations	5,908	-5%	-308	6,216
Non-Continuing Operations	13,514	288%	10,031	3,483

## 2.2 Operational expenses

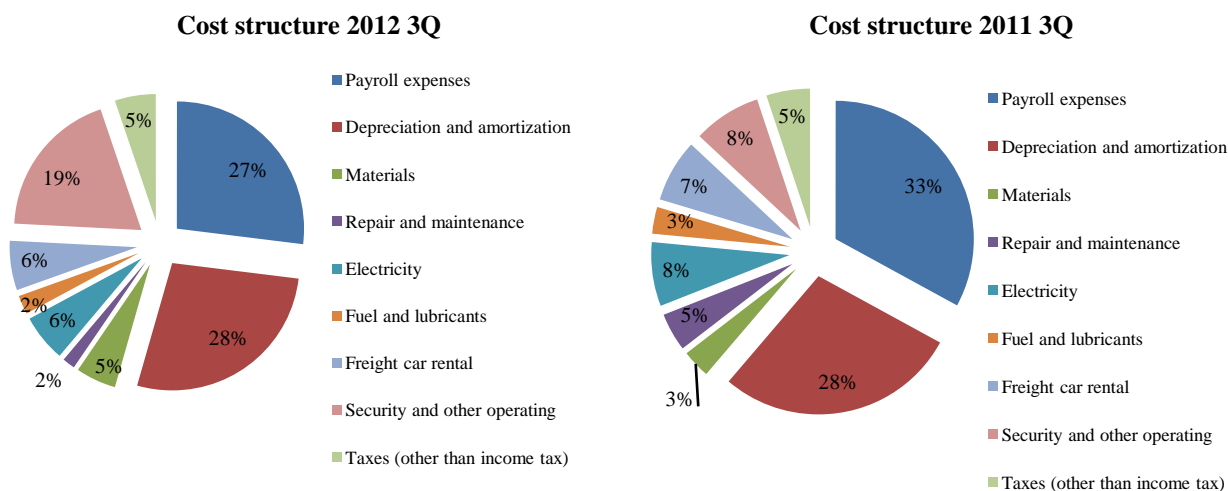
### 2.2.1 Main operational expenditure items

The following table sets forth total expenses of Georgian Railway JSC, excluding Finance Costs, Interest Income/Expense and Profit Tax, for the nine-month periods ended 30 September of 2011 and 2012:

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Staff costs	(77,359)	-2%	-1,569	(78,928)
Depreciation and amortization	(78,929)	16%	11,123	(67,806)
Materials	(14,655)	85%	6,738	(7,917)
Repair and maintenance	(4,586)	-57%	-6,132	(10,718)
Electricity	(17,228)	-4%	-673	(17,901)
Fuel, lubricants	(6,862)	-9%	-665	(7,527)
Freight car rental	(18,048)	3%	540	(17,508)
Security, other op. expenses	(20,781)	9.3%	1,768	(19,013)
Property and land tax	(14,954)	22%	2,721	(12,233)
Batumi tower disposal	(33,695)		(33,695)	0
<b>Total</b>	<b>(253,402)</b>	<b>20%</b>	<b>47,586</b>	<b>(239,551)</b>

In expenses of 3Q 2012 is included the disposal of Batumi Tower (GEL 33.7 million), which was the transfer of property to the owner in form of a gift. This expense doesn't reflect on profitability of the Company. If excluding depreciation and the cost of disposal of Batumi Tower, total expenses for 3Q 2012 increased by 1.6% (GEL 2.7 million) compared to the same period of the previous year, the main reasons of which were the increase in property and land tax, due to large capital projects.

The following charts set forth the cost structures for 3Q 2012 and 3Q 2011:





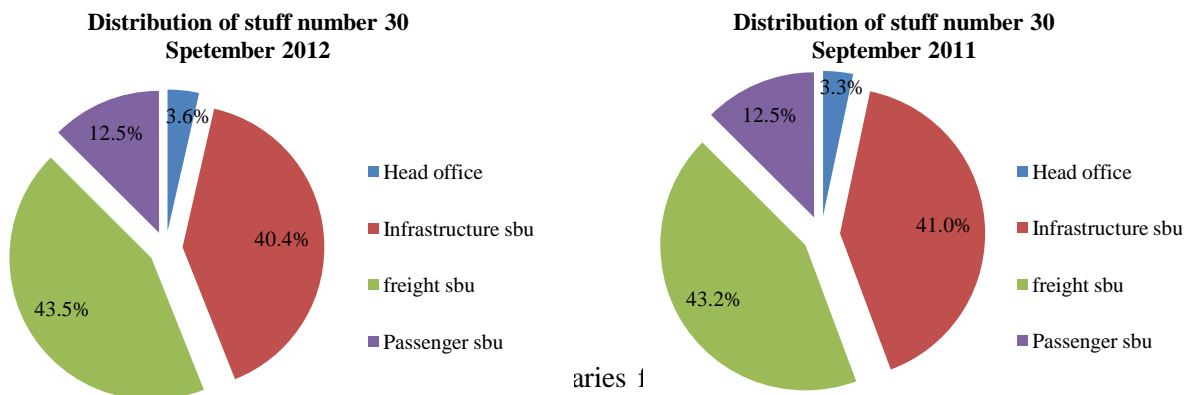
### 2.2.2 Staff cost

The following table sets forth staff costs for the nine-month period ended 30 September for the years 2012 and 2011:

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Staff cost	(77,359)	-2%	-1,569	(78,928)

The main reason for the decrease in total staff costs has been the decrease in employee number. Employee number on 30 September 2012 decreased to 12,504 from 13,506 on 30 September 2011 as a result of staff optimization project.

The 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 nine-month period ended 30 September for the years 2012 and 2011:

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Average Salary	681	7.5%	47.6	633

### 2.2.3 Materials, Repair and Maintenance Expenses

Total expense for material, repair and maintenance services for nine-month period ended 30 September 2012 increased by GEL 0.61 million compared to the same period of the previous year. These expenses are not evenly distributed during the period.

'000 GEL	3Q			
	2012	% Change	Abs. Change	2011
Materials	(14,655)	85%	6,738	(7,917)
Repair and maintenance	(4,586)	-57%	-6,132	(10,718)
<b>TOTAL</b>	<b>(19,241)</b>	<b>3%</b>	<b>606</b>	<b>(18,635)</b>

### 2.2.4 Consumption of utility – Electricity and Fuel Expenses

#### *Electricity Expense:*

Electricity expense for the nine-month period ended 30 September 2012 decreased by 4% (GEL 0.7m) compared to the same period of the previous year.

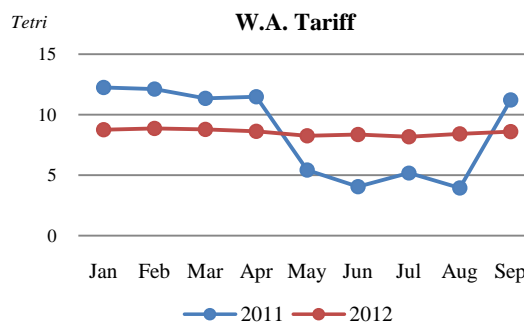
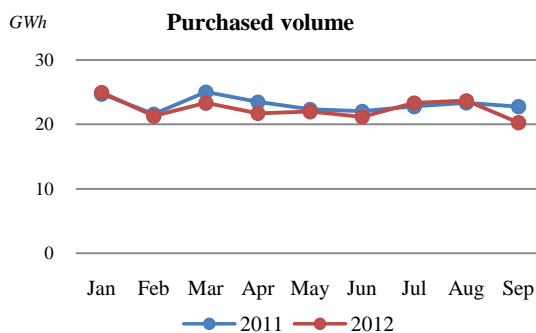
'000 GEL	3Q			
	2012	% Change	Abs. Change	2011
Electricity	(17,228)	-4%	-673	(17,901)

Change in electricity expense is a function of two major variables: price per purchased KWh and consumed electricity, which in 3Q 2012 decreased by 3.0% (6.2 GWh), to ca. 201.6 GWh compared to the same period of previous year. The decrease was caused by the decrease of the distance of cargo transportation (resulting from the decreased share of transit traffic). As for the price of KWh, until September 2011 the company was purchasing electricity with tariffs provided by ESCO (Electricity System Commercial Operator), which was the sole provider of electricity to Georgian Railway JSC. Tariffs were changing by 4 Tetri (one hundredth of Lari) to 12 Tetri per KWh according to the seasonality. Since September 2011 Energo-Pro Georgia became a main provider of electricity to Georgian Railway JSC. Energo-Pro Georgia has set fixed tariff of 8.56 Tetri per KWh. Hence electricity expense in 3Q 2012 decreased by GEL 0.7 million and amounted to GEL 17.2 million.

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

	2012 First nine months			2011 First nine months		
	GWh	Amount paid (GEL m.)	W.A. tariff (Tetri per KWh)	GWh	Amount paid (GEL m.)	W.A. tariff (Tetri per KWh)
January	24.9	2.19	8.76	24.7	3.02	12.25
February	21.3	1.89	8.87	21.6	2.61	12.11
March	23.3	2.05	8.80	25.0	2.83	11.34
April	21.7	1.87	8.64	23.5	2.69	11.47
May	22.0	1.81	8.25	22.3	1.21	5.42
June	21.1	1.77	8.36	22.0	0.89	4.04
July	23.3	1.91	8.18	22.7	1.18	5.17
August	23.6	1.99	8.43	23.3	0.92	3.93
September	20.3	1.75	8.61	22.7	2.55	11.21
<b>Total</b>	<b>201.6</b>	<b>17.23</b>	<b>8.55</b>	<b>207.8</b>	<b>17.90</b>	<b>8.61</b>

The following graphs show comparison of purchased volumes and weighted average tariffs by months for the nine-months periods ended 30 September 2011 and 2012:



#### Fuel expenses:

Fuel (and lubricants) expenses for the nine-month period ended 30 September 2012 decreased by 9%:

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Fuel, lubricants	(6,862)	-9%	-665	(7,527)

Lubricants such as oil and greasing substances, included in fuel expenses comprise not more than 12-14% of total fuel expenses and their consumption has remained stable.

The main reason for decrease was the decrease in revenue from freight handling services, as diesel locomotives are mainly used for freight handling operations.

### 2.2.5 Freight car rental expense

Freight car rental expenses for the nine-month period ended 30 September 2012 increased by 3% compared to the same period of 2011:

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Freight car rental	(18,048)	3%	540	(17,508)

The increase was mainly due to the rental of additional railcars by Georgian Railway in 2012 to decrease the deficit of tank cars in the corridor.

### 2.2.6 Security and other expenses

Total security and other operating expenses for the nine-month period ended 30 September 2012 increased by 239% (GEL 35.5m) compared to the same period of 2011:

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Security	(5,418)	-6%	-330	(5,748)
Other op. expenses	(15,363)	15.8%	2,098	(13,265)
Batumi tower disposal	(33,695)		33,695	0
<b>Total</b>	<b>(54,476)</b>	<b>239%</b>	<b>35,463</b>	<b>(19,013)</b>

Other operating expenses mainly consist of such items as: heating gas, communication, legal costs, insurance for personnel, consultancy, membership fees, administrative expenses and etc. Batumi Tower disposal of GEL 33.7 million is the transfer of Batumi tower construction to the owner in form of a gift and doesn't reflect on profitability of the Company and is the main reason behind the increase in other operating expenses.

### 2.2.7 Property and land taxes

The following table sets forth the breakdown of Property and Land taxes for the nine-months periods ended 30 September 2012 and 2011:

'000 GEL	3Q			2011
	2012	% change	Abs. change	
Taxes other than income tax	(14,954)	22%	2,721	(12,233)

Property and Land taxes increased due to the increase in Construction in Progress and due to the purchased land plots for Modernization and Bypass projects.

### 2.3 Financial costs and income

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Provisions	-7,762	160%	-3,820	-4,319
FX gain/loss	1,297	-94%	-22,046	23,343
Interest income	11,236	83%	5,080	6,156
Interest expense	-51,305	1501%	-48,100	-3,205
<b>Net finance income/(cost)</b>	<b>-46,534</b>	<b>-312%</b>	<b>-68,509</b>	<b>21,975</b>

Finance income in the nine-month period ended 30 September 2012 decreased by 312% compared to the same period of previous year. The decrease was caused by the fact that the Company's liabilities are denominated in USD, as in the first half of 2011 USD experienced depreciation against GEL resulting in gain from revaluation of liabilities, but in 2012 USD experienced substantially less depreciation against GEL, thus resulting in lower gain on revaluation. Other factor was the appreciation of CHF in the first half of 2011, which resulted in gain from revaluation of cash and cash equivalents kept in CHF. also interest expense includes Euro Bond buy-back premium, which comprised approximately GEL 41 million.

### 2.4. Income Tax Expense

The following table shows the Income Tax Expense for the nine-months periods ended 30 June 2012 and 2011:

'000 GEL	3Q			2011
	2012	% change	Abs. change	
Income Tax Expense	(11,764)	-79%	5,192	(6,572)

The increase in income tax expense in 3Q 2012 is caused by the fact that in 2011 there was a reversal of a tax liability in the amount of GEL 13.0 million as a result of a favourable court ruling. Following the resolution of a tax dispute, the Revenue Service under the Ministry of Finance of Georgia (the "Revenue Service") has returned approximately GEL 13 million to the Company. The Revenue Service effected this return by recording an equivalent surplus on the Company's taxpayer card. The Company will set this surplus off against future taxes it would otherwise owe until the amount has been reduced in full. If we take this into consideration it will be apparent that in 3Q 2012 income tax expense has decreased compared to 3Q 2011, which is the direct result of decreased profit before tax.

## 2.2. Profitability

The following Table show the calculation of Adjusted EBITDA and Adjusted EBITDA margin:

'000 GEL	3Q			2011
	2012	% Change	Abs. Change	
Revenues	351,351	-2%	(7,639)	358,990
Other income	19,422	100%	9,723	9,699
Expenses	(287,097)	20%	47,586	(239,551)
<b>Result from Operating Activities</b>	<b>83,676</b>	<b>-35%</b>	<b>(45,462)</b>	<b>129,138</b>
Depreciation add-back	78,929	16%	11,123	67,806
Non-continuing operations from other income	(13,514)	288%	10,031	(3,483)
Other expense non-operational	5,387	1360%	5,018	369
Wright-offs	3,639	-11%	(455)	4,094
Disposal of Batumi Tower	33,695	100%	33,695	-
<b>Adjusted EBITDA</b>	<b>191,812</b>	<b>-3.1%</b>	<b>-6,112</b>	<b>197,924</b>
<b>Adjusted EBITDA Margin</b>	<b>54.6%</b>		<b>-0.5%</b>	<b>55.1%</b>

Adjusted EBIDA for the nine-month period ended 30 September 2012 amounted to GEL 191.8 million, representing an decrease of 3.1% (GEL 6.1 million) compared to the same period of previous year. Adjusted EBITDA margin reached 54.6%, compared to the 55.1% for the nine-months period ended 30 September 2011.

## Cash flows

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.

The following table sets forth a summary of the Company's cash flows for the periods indicated:

	For the nine-months period ended 31 September 2012	
	2012	2011
	<i>GEL millions</i>	
Net cash from operating activities	177,149	179,188
net cash used in investing activities	(406,191)	(277,129)
net cash used in financing activities	241,540	(22,069)
net increase/decrease in cash and cash equivalents	12,497	(120,010)
cash and cash equivalents at 1 January	61,554	324,029
Effect of exchange rate fluctuation on cash and cash equivalents	2639	(4,773)
cash and cash equivalents at 31 September	76,689	199,245

### *Net cash from operating activities*

The Company's net cash from operating activities was GEL 177.1 million for the nine-month period ended 30 September 2012, as compared to GEL 179.2 million for the nine-month period ended 30 September 2011, representing an insignificant decrease (GEL 1.1 million).

### *Net cash used in investing activities*

The Company's net cash used in investing activities was GEL 406.2 million for the nine-month period ended 30 September 2012, as compared to GEL 277.1 million for the nine-month period ended 30 September 2011, representing an increase of 46.6 per cent (or GEL 129.1 million). This Increase was principally due to an increase in additions to property, plant and equipment by 15.6 per cent (or GEL 43.5 million).

Cash paid for Bypass project was GEL 81.3 million in the nine-month period ended 30 September 2012 and GEL 53.3 million in the nine-month period ended 30 September 2011. Cash paid for Modernization Project was GEL 63.6 million in the nine-month period ended 30 September 2012 and GEL 50.6 million in the nine-month period ended 30 September 2011.

### *Net cash used in financing activities*

The Company's net cash used in financing activities was GEL 241.5 million for the nine-month period ended 31 September 2012, as compared to a negative GEL 22.1 million for the nine-month period ended 31 September 2011, representing an increase by GEL 263.6 million. This was principally caused by the increase in proceeds from borrowings of GEL 395.4 million and

decrease in interest paid by GEL 20.1 million. The reason for such increase of proceeds from borrowings was that in July 2012 the company issued bonds with a face value of USD 500 millions, which was used in order to refinance previous bond issue (USD 250 million), extend maturity of the loan and create some extra cash for Company needs. The reason behind the reduction of interest paid was that the company did not make a second full semi-annual interest payment for USD 250 bond issue, as the buy-back of the bonds was held until the interest payment date.

These were partially offset by the increase in dividends paid. In 2012 Georgian Railway JSC (the Company) has declared a total dividend payment of GEL 359.6 million out of consolidated profit and total comprehensive income for prior periods ended 31 December 2011. During the nine-month period ended 31 September 2012 the Company made a dividend payment in the amount of GEL 128 million, as GEL 231.6 million was deducted from the announced dividends and retained within a company pursuant to the terms of the Tbilisi Bypass Project Memorandum of Understanding, to reimburse the Company for expenses incurred by it in connection with the Tbilisi Bypass Project.



### 3. Operational Performance Report

#### 3.1. Traffic report

##### 4.1.1. Freight traffic

The following table sets forth breakdown of the freight transportation volumes, by type of freight transported, for the periods of 3Q 2012 and 3Q 2011:

Ton, Millions	3Q			
	2012	% Change	Abs. Change	2011
<b>Liquid Cargoes</b>	<b>6.92</b>	<b>-13.3%</b>	<b>(1.06)</b>	<b>7.98</b>
<i>of which:</i>				
Crude Oil	3.40	-18.5%	(0.77)	4.17
Oil Products	3.52	-7.6%	(0.29)	3.81
<b>Dry Cargoes</b>	<b>8.16</b>	<b>17.0%</b>	<b>1.19</b>	<b>6.97</b>
<i>of which:</i>				
Grain	1.13	29.9%	0.26	0.87
Construction Freight	1.25	12.6%	0.14	1.11
Cement	0.50	35.1%	0.13	0.37
Industrial Freight	0.50	38.9%	0.14	0.36
Ferrous Metals and Scrap	0.85	-3.4%	(0.02)	0.88
Ores	1.76	26.6%	0.37	1.39
Sugar	0.48	11.6%	0.05	0.43
Chemicals, fertilizers	0.39	8.3%	0.03	0.36
Other	1.30	8.3%	0.09	1.20
<b>Total</b>	<b>15.08</b>	<b>0.8%</b>	<b>0.13</b>	<b>14.96</b>

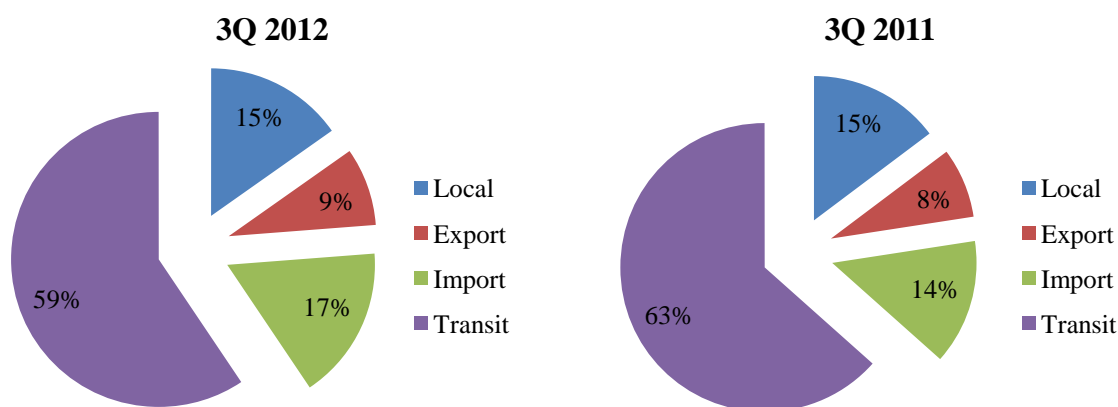
In the first nine months of 2012, total freight transportation volumes increased by 0.9%, compared to the same period of previous year. The increase was mainly caused by the increase in Dry Cargo transportation by 17.0% (1.19 million tons) which itself was due to the increase in ores, grain and construction materials transportation. Increase was partially offset by the decrease in Liquid Cargo transportation by 13.3% (1.06 million tons), due to the lack of rolling stock and severe weather conditions in the beginning of the year and maintenance repair works on Tengizchevroil production field, which started in August 2012 and ended in late September.

The following table sets forth the breakdown of freight transportation volumes by types of freight transported for months of 3Q 2012:

Tons, Millions	2012									3Q Total
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
<b>Liquid Cargoes</b>	<b>0.82</b>	<b>0.68</b>	<b>0.72</b>	<b>0.76</b>	<b>0.81</b>	<b>0.81</b>	<b>0.94</b>	<b>0.79</b>	<b>0.59</b>	<b>6.92</b>
<i>of which</i>										
Crude Oil	0.43	0.34	0.38	0.37	0.39	0.4	0.51	0.38	0.2	<b>3.4</b>
Oil Products	0.4	0.33	0.34	0.39	0.42	0.41	0.43	0.42	0.39	<b>3.52</b>
<b>Dry Cargoes</b>	<b>0.85</b>	<b>0.64</b>	<b>0.84</b>	<b>0.99</b>	<b>0.98</b>	<b>0.88</b>	<b>0.93</b>	<b>1.07</b>	<b>0.98</b>	<b>8.16</b>
<i>of which</i>										
Grain	0.14	0.08	0.13	0.08	0.11	0.09	0.17	0.17	0.15	<b>1.13</b>
Construction Freight	0.14	0.1	0.14	0.14	0.16	0.16	0.13	0.14	0.14	<b>1.25</b>
Cement	0.03	0.02	0.04	0.06	0.07	0.06	0.07	0.08	0.07	<b>0.5</b>
Industrial Freight	0.03	0.03	0.04	0.04	0.07	0.06	0.07	0.09	0.09	<b>0.5</b>
Ferrous Metals and Scrap	0.09	0.08	0.11	0.09	0.12	0.07	0.1	0.1	0.09	<b>0.85</b>
Ores	0.22	0.14	0.16	0.25	0.23	0.17	0.18	0.22	0.2	<b>1.76</b>
Sugar	0.05	0.04	0.02	0.06	0.04	0.08	0.04	0.09	0.05	<b>0.48</b>
Chemicals, fertilizers	0.02	0.03	0.04	0.1	0.03	0.04	0.04	0.05	0.05	<b>0.39</b>
Other	0.14	0.12	0.16	0.17	0.17	0.14	0.13	0.13	0.14	<b>1.3</b>
<b>Total</b>	<b>1.67</b>	<b>1.31</b>	<b>1.56</b>	<b>1.75</b>	<b>1.79</b>	<b>1.69</b>	<b>1.87</b>	<b>1.86</b>	<b>1.58</b>	<b>15.08</b>

As mentioned above, increase in total transportation volumes was offset by the decrease in Liquid Cargo volumes, but it must be noted that in July 2012 the transportation of liquid cargo improved by 5.0% compared to the July of 2011 as a result of additionally leased tank cars. Despite this, in August and September as a result of Tengizchevroil's maintenance repairs at the production field, the volume of liquids has decreased by 8.5% and 31.9% respectively compared to the same months in 2011. As the production on Tengizchevroil field resumed in October, the company has seen that the volumes of liquid cargo transportation had increased significantly to the high levels of July 2012.

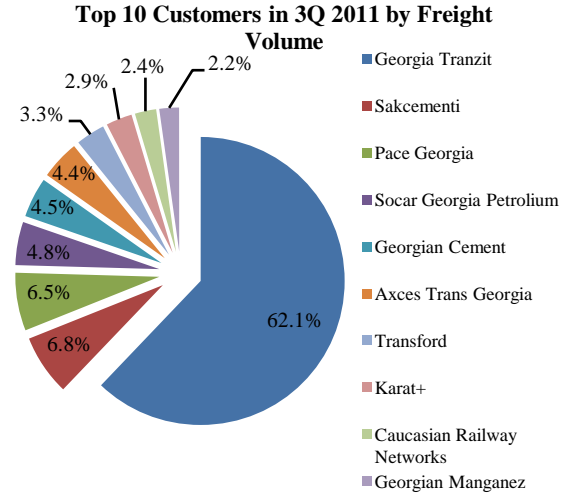
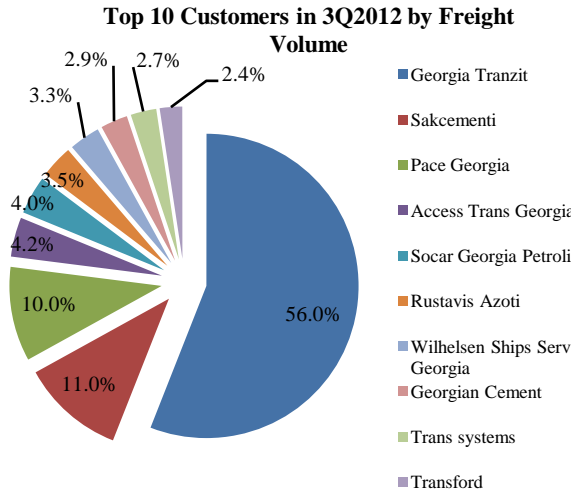
The following graphs show the freight transportation volumes by type of destination:



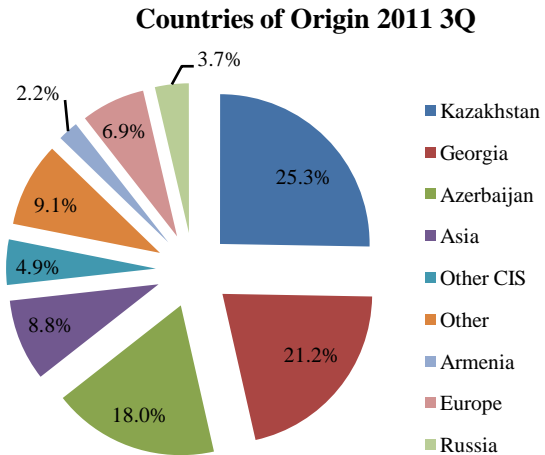
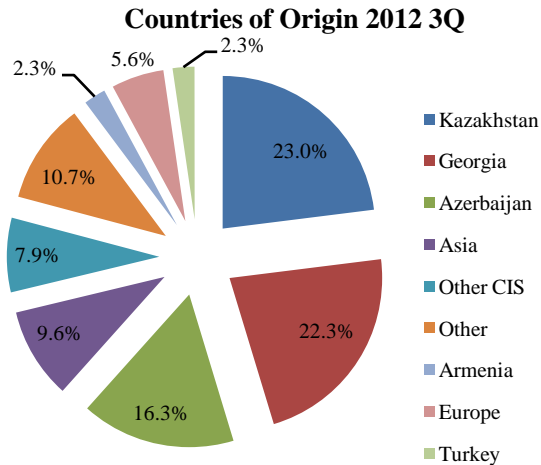
4.1.2. Top 10 freight customers, 3Q 2012 vs. 3Q 2011:

In 3Q 2012 top ten freight customers transported 66.4% (10.01 million ton) of total freight volume – 15.08 million ton:

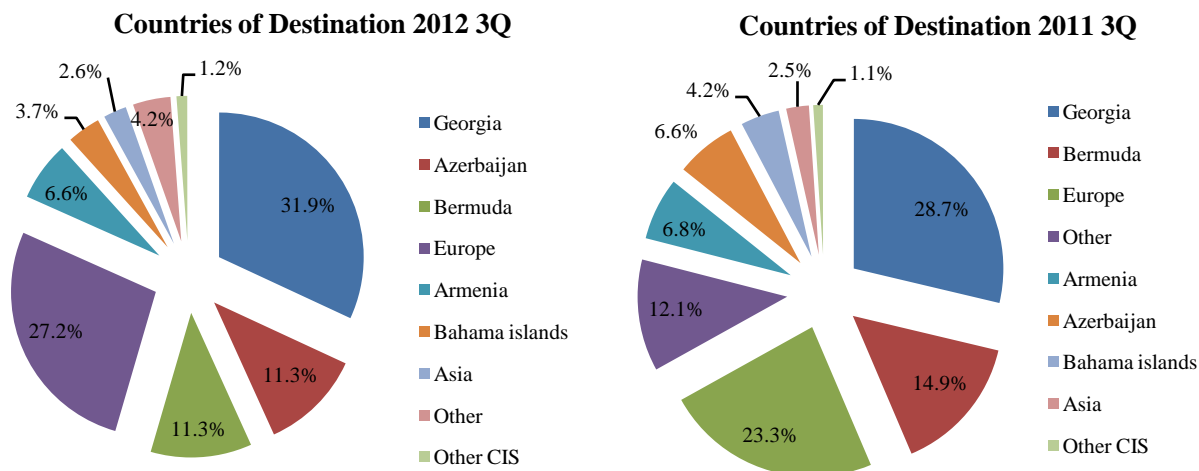
In 3Q 2011 top ten freight customers transported 70.8% (10.59 million ton) of total freight volume – 14.96 million ton:



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

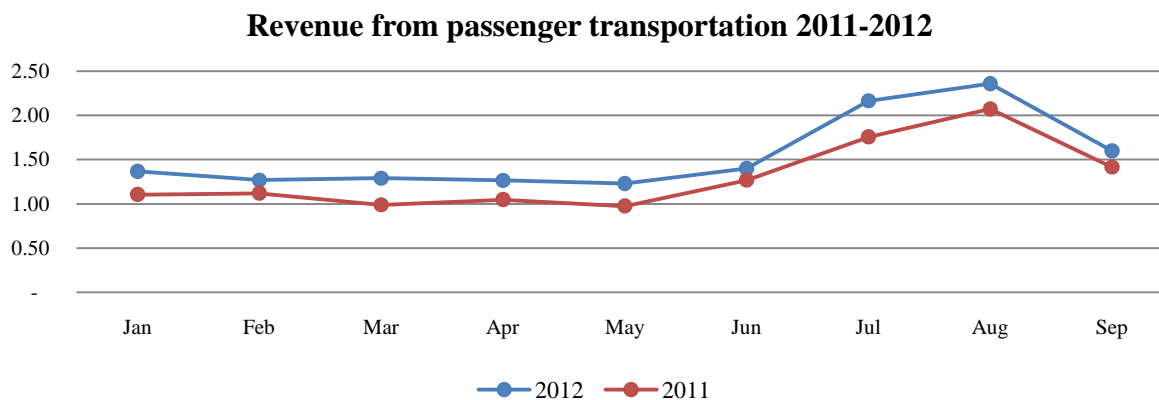


The following graphs show the breakdown of countries of destination of freight transported:



4.1.4. The following table sets forth the passenger transportation volumes for the months of 3Q 2012:

<b>3Q</b>				
Number of Passengers ('000)	2011	% Change	Abs. Change	2012
January	237	1.80%	4.3	242
February	217	2.90%	6.3	224
March	229	7.40%	17	246
April	261	-4.20%	-11.1	250
May	261	-7.10%	-18.4	242
June	289	-10.50%	-30.4	258
July	365	-7.20%	-26.2	339
August	377	-8.10%	-30.7	346
September	293	-7.80%	-23	270
<b>Total 9M</b>	<b>2,529</b>	<b>-4.40%</b>	<b>-112.1</b>	<b>2,417</b>



## **5. Strategic Projects**

### **5.1. Bypass Project**

The Bypass Project's objective is to relocate certain railway infrastructure components from the centre of Tbilisi to the northern part of the city. Management estimates its completion in 2013. Remaining payment to be made for the Bypass project is approximately CHF 165.5 million (GEL 290.9 million), out of which CHF 138 million (GEL 231.6 million) has been reimbursed in July 2012 from the dividends by the government according to the memorandum on the sale of land freed-up as a result of the Bypass project.

### **5.2. Modernization Project**

The Modernization Project focuses primarily on the mainline that runs from Tbilisi to the Black Sea, in particular to the terminals at Poti and Batumi. As part of the project, the Company intends to modernise the railroad and electric supply infrastructure between Tbilisi and Batumi (315 kilometers), including the 40-kilometre mountainous gorge region in Central Georgia, with the aim of achieving passenger train speeds of 80 km/h on the gorge section and 120 km/h on the rest of the mainline, as compared to current average speeds of approximately 55 km/h in the gorge section and approximately 65-90 km/h on the rest of the mainline.

The Company expects to complete the project by 2016. Remaining payment to be made for the Modernization project is approximately CHF 289.8 million, which is expected to be financed through the proceeds from 2012 notes and internally generated cash flows.