Management Discussion and Analysis for the nine-month period ended 30 September 2016

First nine-month period of 2016 turned to be very challenging for the Group in terms of transportation volumes. In the first half of the year the Group has experienced significant downturn in transportation volumes, which was significantly influenced by the transportation activity in the region and partner countries. However, transportation volumes started to recover in the beginning of 3Q 2016 and the trend is expected to continue further.

As a result of downturn in freight volumes in 1H 2016, S&P Global Ratings has decreased Georgian Railway's long-term corporate credit rating to B+ from BB-, with stable outlook, and Fitch Ratings has placed Georgian Railway's long-term foreign and local currency Issuer Default Ratings (IDR) and foreign and local currency senior unsecured ratings of BB- on Rating Watch Negative, the short-term Foreign and Local Currency IDRs from Fitch Ratings were affirmed at B.

The Group's revenue has decreased by GEL 110.1 million in the nine-month period of 2016 compared to the same period of 2015. Operating expenses decreased by GEL 13.6 million. Despite mentioned decrease, the Group managed to maintain solid Adjusted EBITDA margin in the industry, 44 percent in the nine-month period ended 30 September 2016. The Group's ratio of net financial indebtedness to EBITDA as per prospectus of Eurobonds issued in 2012, was 2.87 as at 30 September 2016 (*see appendix 3*).

In July 2016 the Group offered its customers two new passenger trains produced by Swiss rolling stock manufacturer Stadler. The trains are financed using export credit issued by Credit Suisse and Swiss export insurance company SERV.

Table of Contents

1. Profit & Loss Statement

Profit and loss statement

In GEL '000

9 month period ended 30 September

	9M 2016	9M 2015	% Change	Abs. Change
Revenue	323,006	433,107	-25.4%	-110,101
Other income	91,799	19,483	371.2%	72,316
Payroll expense	-109,110	-108,849	0.2%	-261
Depreciation and amortization	-77,563	-80,350	-3.5%	2,787
Electricity, inventory and repair work	-34,538	-42,053	-17.9%	7,515
Other expenses	-49,465	-52,991	-6.7%	3,526
Result From Operating Activities	**144,129**	**168,347**	**-14.4%**	**-24,218**
Finance Income	46,561	13,305	250.0%	33,256
Finance Cost	-43,352	-285,715	-84.8%	242,363
Net finance income/(loss)	**3,209**	**-272,410**	**-101.2%**	**275,619**
Profit before income tax	**147,338**	**-104,063**	**-241.6%**	**251,401**
Income tax	-17,160	12,898	-233.0%	-30,058
Net income	**130,178**	**-91,165**	**-242.8%**	**221,343**
EBITDA	**221,692**	**248,697**	**-10.9%**	**-27,005**
EBITDA margin	**68.6%**	**57.4%**	**N/A**	**11.2%**
Adjusted EBITDA	**140,595**	**238,198**	**-41.0%**	**-97,603**
Adjusted EBITDA Margin	**43.5%**	**55.0%**	**N/A**	**-11.5%**

2. P&L Analysis

Following paragraphs present the analysis of the profit and loss statement for the nine-month period ended 30 September 2016 and 2015:

2.1 Revenues

Revenue breakdown

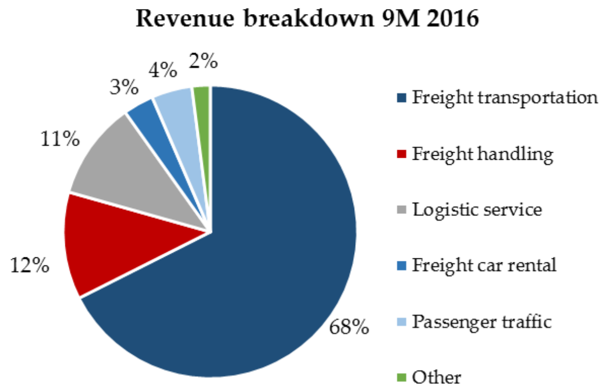
9 month period ended 30 September

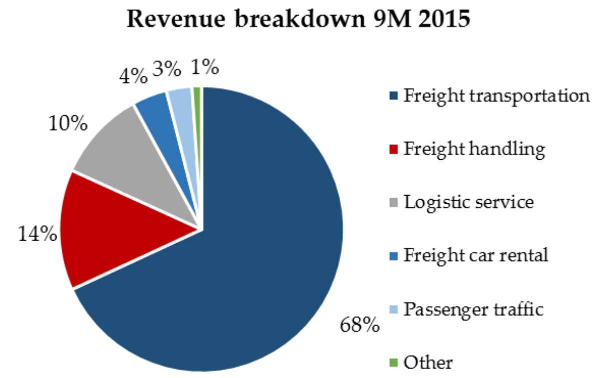
In GEL '000

In GEL '000	9M 2016	9M 2015	% Change	% Change at constant FX rates	Abs. Change
Freight transportation *	218,147	295,053	-26.1%	-29.1%	-76,906
Freight handling *	38,252	59,070	-35.2%	-37.7%	-20,818
Logistics service *	34,869	44,412	-21.5%	-24.7%	-9,543
Freight car rental	10,833	17,271	-37.3%	-38.0%	-6,438
Passenger traffic	14,382	12,586	14.3%	14.2%	1,796
Other	6,523	4,715	38.3%	NM	1,808
Revenue	**323,006**	**433,107**	**-25.4%**	**NM**	**-110,101**
Other income	**91,799**	**19,483**	**371.2%**	**NM**	**72,316**
Freight transportation	**218,147**	**295,053**	**-26.1%**	**-29.1%**	**-76,906**
Liquid cargoes	**98,014**	**144,023**	**-31.9%**	**-34.8%**	**-46,009**
Oil Products	76,845	127,146	-39.6%	-42.1%	-50,302
Crude Oil	21,169	16,876	25.4%	20.2%	4,293
Dry cargoes	**120,133**	**151,030**	**-20.5%**	**-23.8%**	**-30,897**
Cement	712	1,128	-36.9%	-39.5%	-416
Chemicals and fertilizers	6,439	8,932	-27.9%	-30.9%	-2,492
Construction Freight	4,839	8,753	-44.7%	-47.0%	-3,913
Ferrous metals and scrap	17,167	25,858	-33.6%	-36.4%	-8,691
Grain and grain products	10,154	18,270	-44.4%	-46.7%	-8,116
Industrial freight	2,640	3,805	-30.6%	-33.5%	-1,165
Ores	18,673	19,832	-5.8%	-9.7%	-1,159
Sugar	16,851	14,147	19.1%	14.2%	2,704
Other	42,657	50,306	-15.2%	-18.7%	-7,649
Freight turnover (million tkm)	2,560	3,229	-20.7%	NM	-669
Revenue / tkm (in Tetri)	9.71	10.31	-5.8%	-9.7%	-0.6

**For better presentation, we have reclassified "logistics services" from "freight transportation" and ''freight handling''. ''Logistics service'' represents revenue generated by freight forwarding subsidiaries.*

The following charts represent revenue breakdown for the nine-month period ended 30 September 2016 and 2015:





Freight transportation revenue

Freight transportation revenue, which represents about 68 percent of the Group's total revenue, has decreased by 26 percent (GEL 76.9 million) during the nine-month period of 2016 compared to the same period of the previous year. This decrease was mainly caused by reduced transportation turnover by 21 percent.

As the Group's tariffs for freight transportation are denominated in USD, the Group's transportation revenue depends on several factors, including GEL/USD exchange rate. Depreciation of GEL against USD also affects the Group's profitability, as significant part of the expenses are denominated in GEL.

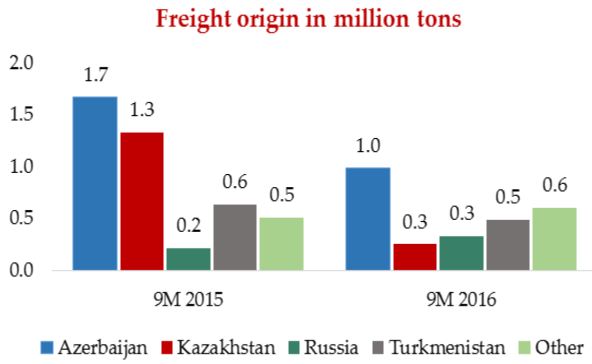
In GEL	Average rate			Reporting date spot rate			
	9M 2016	9M 2015	%	30-Sep-16	31-Dec-15	30-Sep-15	31-Dec-14
USD	2.32	2.23	4.3%	2.33	2.39	2.38	1.86
CHF	2.37	2.34	1.2%	2.40	2.42	2.45	1.88

Freight volume transported by the Group during the nine-month period of 2016 has decreased in both liquid and dry cargoes (*see Appendix 1 and Appendix 2*) compared to the same period of 2015. However, there were some product categories (crude oil and sugar) that showed an increase.

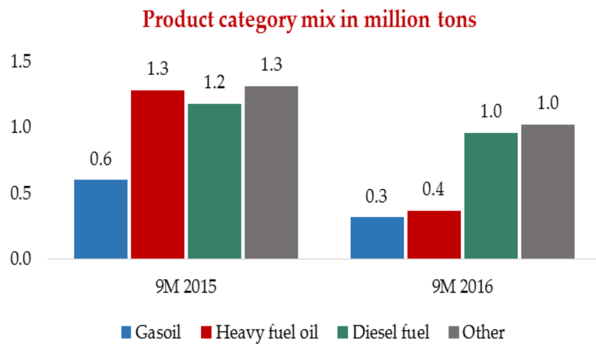
Oil products	9M 2016	9M 2015	% Change	% Change at constant FX rates
Revenue (000'GEL)	76,845	127,146	-39.6%	-42.1%
Freight turnover (million tkm)	794	1,473	-46.1%	NM
Revenue / tkm (in Tetri)*	12.56	10.82	16.0%	11.2%

**Revenue per ton-kilometer represents aggregate revenue from transportation and logistics services divided by ton-kilometers.*

Transportation turnover and transportation revenue of oil products during the nine-month period of 2016, compared to the same period of 2015, has decreased by 46 percent and 40 percent respectively. This disproportional decrease between transportation turnover and transportation revenue was mainly caused by changes in transportation direction mix and in product category mix, which also resulted in increase in revenue per ton-km.



Significant decrease in transportation volume (1.1 mln tons) was shown in heavy fuel oil from Kazakhstan. The reduction in volume transported from Azerbaijan was mainly caused by the decreased transportation volume of gasoil (0.3 mln tons) and diesel fuel (0.3 mln tons).



Transportation volume of oil products has increased from Russia by about 0.1 million tons during the nine-month period of 2016, compared to the same period of 2015. The increase was caused by higher transportation volume of diesel fuel from Russia and also by the fact that in Q4 2015 the Group started to transport motor fuel from Russia, which continued in 2016.

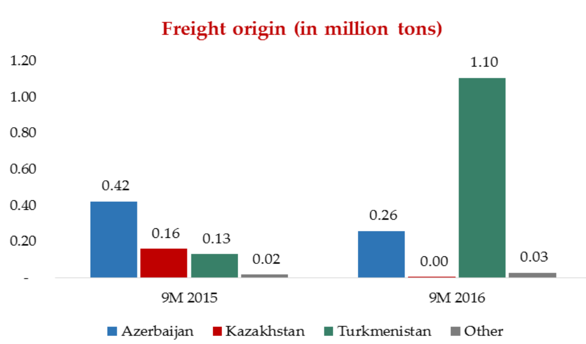
The increase in average revenue per ton-kilometer in the nine-month period of 2016, compared to the same period of 2015, was caused by depreciation of GEL against USD and changes in transportation direction mix and product category mix.

Crude oil

	9M 2016	9M 2015	% Change	% Change at constant FX rates
Revenue (000'GEL)	21,169	16,876	25.4%	20.2%
Freight turnover (million tkm)	549	287	91.5%	NM
Revenue / tkm (in Tetri)*	5.17	7.90	-34.6%	-37.3%

**Revenue per ton-kilometer represents aggregate revenue from transportation and logistics services divided by ton-kilometers.*

Transportation revenue from crude oil has increased by 25 percent during the nine-month period of 2016, compared to the same period of 2015, while transportation turnover has increased by 92 percent. This disproportional change in transportation revenue and transportation turnover was mainly caused by changes in transportation tariffs and transportation direction mix.



The changes in transportation direction mix were caused by the fact that in the nine-month period of 2016 the freight was mostly transported from Turkmenistan (80 percent of total crude oil transported during the period), while in the same period of 2015 the freight was mostly transported from Azerbaijan and Kazakhstan (58 percent and 22 percent respectively of total crude oil transported during the period).

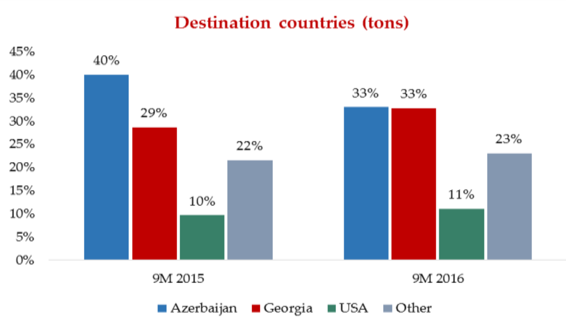
The Group decreased tariffs on freight transportation in the first quarter of 2016, which in the nine-month period of 2016, compared to the same period of 2015, resulted in 36 percent and 26 percent reduction in the average revenue per ton-kilometer (in USD terms) on freight transported from Turkmenistan and Azerbaijan respectively.

Ferrous metals and scrap

	9M 2016	9M 2015	% Change	% Change at constant FX rates
Revenue (000'GEL)	17,167	25,858	-33.6%	-36.4%
Freight turnover (million tkm)	132	200	-34.2%	NM
Revenue / tkm (in Tetri)	13.06	12.93	1.0%	-3.2%

**Revenue per ton-kilometer represents aggregate revenue from transportation and logistics services divided by ton-kilometers.*

The main destination countries for ferrous metals and scrap were Azerbaijan and Georgia, with share of 33 percent and 33 percent respectively, in the total product category transported in the nine-month period of 2016. One of the main and most profitable products transported under this product category were pipes for oil and gas pipelines, which has significantly decreased (by 60 percent) in the nine-month period of 2016 compared to the same period of 2015.



During the nine-month period of 2016 transportation volume of ferrous metals and scrap has decreased by 26 percent, compared to the same period of 2015, while transportation turnover has decreased by 34 percent. This was caused by reduced average transportation distance for two main destination countries, Azerbaijan and Georgia.

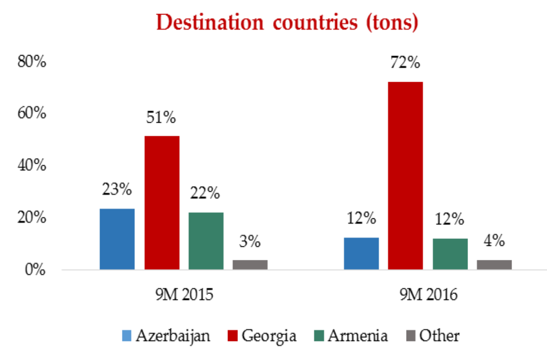
The decrease in average revenue per ton-kilometer in constant FX rates was due to the reduced transportation volumes of relatively more profitable products like pipes for oil and gas pipelines and increased volumes of relatively less profitable products such as bars and rods of iron or non-alloy steel and rails. The decrease was also caused by changes in transportation direction mix.

The decrease in transportation revenue by 34 percent in the nine-month period of 2016, compared to the same period of 2015, was driven by reduced transportation turnover.

Industrial freight

	9M 2016	9M 2015	% Change	% Change at constant FX rates
Revenue (000'GEL)	2,640	3,805	-30.6%	-33.5%
Freight turnover (million tkm)	30	41	-26.9%	NM
Revenue / tkm (in Tetri)	8.75	9.20	-4.9%	-8.8%

**Revenue per ton-kilometer represents aggregate revenue from transportation and logistics services divided by ton-kilometers.*



Transportation turnover of industrial freight has decreased by 27 percent and transportation revenue by 31 percent in the nine-month period of 2016, compared to the same period of the previous year. Nevertheless, transportation volume of industrial freight increased by 15 percent (*see Appendix 1 and Appendix 2*). This was mainly caused by reduced transportation volume to Azerbaijan and Armenia, while transportation volume to Georgia, which covers smaller distances and is relatively less profitable, has increased. The increased transportation volume to Georgia was mostly caused by increased transportation of cement clinker from Azerbaijan.

The change in product category mix due to reduced transportation of siliceous sand and quartz to Armenia, natural barium sulfate to Azerbaijan and increased transportation of clinker cement to Georgia, combined with changes in transportation direction mix contributed to the reduction in average revenue per ton-kilometer.

Grain and grain products

	9M 2016	9M 2015	% Change	% Change at constant FX rates
Revenue (000'GEL)	10,154	18,270	-44.4%	-46.7%
Freight turnover (million tkm)	102	163	-37.6%	NM
Revenue / tkm (in Tetri)	9.98	11.20	-10.9%	-14.6%

**Revenue per ton-kilometer represents aggregate revenue from transportation and logistics services divided by ton-kilometers*

Transportation volume of wheat represents about 80 percent of total grain and grain products transported during the nine-month period of 2016 and the main country of origin for this product category is Russia, about 80 percent of total product category transported during the three quarters of 2016. The main destination countries of grain and grain products are Georgia and Armenia, from which Armenia is more profitable direction.

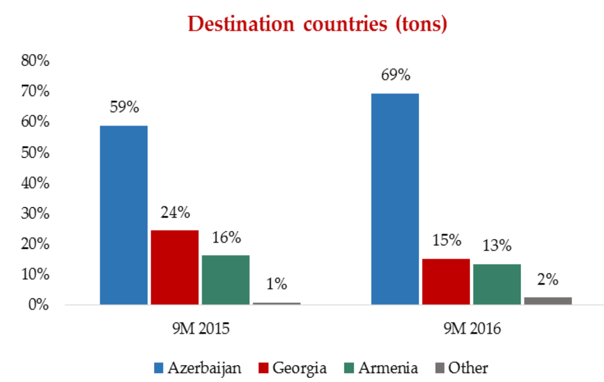
Transportation revenue of grain and grain products has decreased by 44 present during the nine-month period of 2016 compared to the same period of 2015, which was driven by the decrease in freight transportation turnover by 38 percent (mainly caused by 39 percent decrease in transportation volume from Russia). The reduction in revenue per ton-kilometer in nine-month period of 2016, compared to the same period of 2015, was caused by the fact that there was change in freight loading terminals, which have impact on tariffs.

Sugar

	9M 2016	9M 2015	% Change	% Change at constant FX rates
Revenue (000'GEL)	16,851	14,147	19.1%	14.2%
Freight turnover (million tkm)	164	134	22.4%	NM
Revenue / tkm (in Tetri)	10.26	10.53	-2.6%	-6.6%

**Revenue per ton-kilometer represents aggregate revenue from transportation and logistics services divided by ton-kilometers.*

The main country of origin for transported volumes of sugar in the nine-month period of 2016 and 2015 was Brazil (93 percent and 88 percent respectively of total sugar transported by the Group). And the main destination countries were Azerbaijan, Georgia and Armenia.



The increase in transportation turnover by 22 percent in the nine-month period of 2016 compared to the same period of 2015 was mainly driven by the increased transportation of cane sugar from Brazil to Azerbaijan.

The decrease in average revenue per ton-kilometer by 3 percent was mainly caused by reduced transportation share to Armenia, which is more profitable direction.

Freight handling

The decrease in freight handling revenue by GEL 20.8 million during the nine-month period of 2016 compared to the same period of 2015, was mostly due to the extremely high revenue in 2015 from 24-hour service. This was caused by wagon delays, because after the termination of the contract for wagon rent in April 2015, the railcars remained at the Group's stations. However, about GEL 11.1 million provision was created against revenue from 24-hour services in the nine-month period of 2015. The decrease in revenue was also driven by lower revenue generated from station services due to the reduced transportation volumes.

Freight car rental

The reduction in revenue from freight car rental by 37 percent (GEL 6.4 million) during the nine-month period of 2016 compared to the same period of 2015, was driven by the reduced transportation turnover. The reduction in revenue was mostly caused by reduced usage of the Group's railcars from Azerbaijan (open top box cars, tank cars and grain hoppers) and Turkmenistan (open top box cars).

Passenger transportation

In July 2016 two new double-decked trains of the European standard started to serve the passengers from Tbilisi to the direction of Black Sea resorts.

Passenger transportation

9 month period ended 30 September *In '000*

	9M 2016	9M 2015	% Change	Abs. Change
Revenue	14,382	12,586	14%	1,796
Number of customers	1,899	1,859	2%	40

Revenue from passenger transportation has increased by 14 percent (GEL 1.8 million) during the nine-month period of 2016 compared to the same period of the previous year, while the number of passengers has increased by just 2 percent. The higher increase in revenue was driven by increased number of passengers on the main line (which is more profitable), while there was a reduction in regional transportation. The average loading rate of the trains on the main line in the nine-month period of 2016 was about 68 percent.

Other income

In order to better illustrate the operational profitability of the Group, other income is split into two categories: continuing operations (such as income from services of heavy equipment, revenue from management services, penalties on creditors and debtors, etc.) and non-continuing operations (such as gain or loss from sale of fixed assets and other items which are not expected to reoccur in the following periods).

Other income

9 month period ended 30 September *In '000*

	9M 2016	9M 2015	% Change	Abs. Change
Continuing operations	10,593	8,968	18%	1,625
Non-continuing operations	81,207	10,517	672%	70,690
Total other income	**91,799**	**19,485**	**371%**	**72,315**

Increase in continuing operations was mainly driven by management fee generated for the management of company holding liquid cargo terminal near Batumi port (*see subheading 4 "Balance Sheet"*).

A significant increase in non-continuing operations in the nine-month period of 2016, compared to the same period of 2015, was mainly due to the gain from sale of land to the government of Georgia under the Bypass Project Memorandum. However, sale of land plots in 2016 was non-cash transaction.

Bypass Project Memorandum was signed between Georgian government and Georgian Railway in April 2012. According to this memorandum it was agreed that the Company will transfer to the State land plots in central Tbilisi freed up as a result of the Bypass Project and the Company will be reimbursed for the amount of VAT paid, arising from the transfer of land plots.

In 2012, the Company declared dividends out of which GEL 232 million (CHF 138 million) were classified as an advance received from the government for the sale of the land covered in the Bypass Project Memorandum.

As at 30 September 2016, the Company transferred about 50 thousand square meter land plots with attached constructions with the carrying value of about GEL 4.3 million to the government. The fair value of the land plots and related attached constructions was about GEL 82.0 million. The gain from the difference between the fair value and the carrying value of the transferred land plots was about GEL 77.6 million and was recognized as other income, which is included in non-continuing operations.

2.2 Operating expenses

Total operating expenses for the nine-month period of 2016 decreased by GEL 14 million, compared to the same period of 2015. The decrease was shown in almost all expense categories.

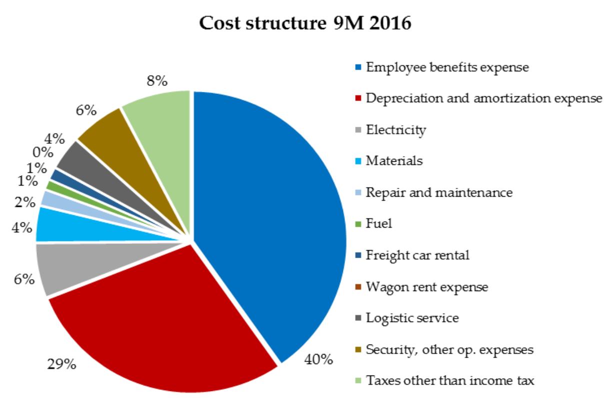
Operating Expenses

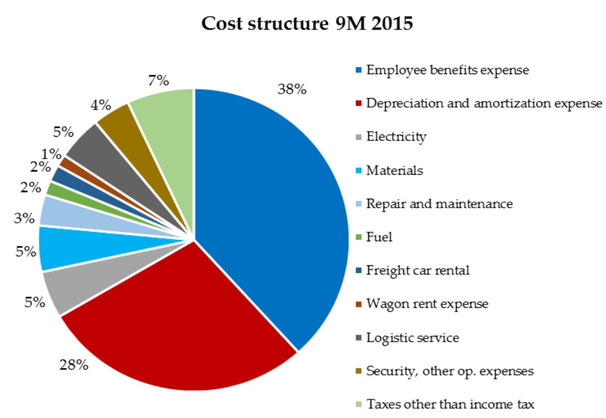
9 month period ended 30 September *In GEL '000*

	9M 2016	9M 2015	% Change	Abs. Change
Employee benefits expense	109,110	108,849	0.2%	261
Depreciation and amortization expense	77,563	80,350	-3.5%	-2,787
Electricity	15,998	14,307	11.8%	1,691
Materials	10,695	14,019	-23.7%	-3,324
Repair and maintenance	4,788	9,359	-48.8%	-4,571
Fuel	3,057	4,368	-30.0%	-1,311
Freight car rental	3,739	5,058	-26.1%	-1,319
Wagon rent expense	0	3,597	-100.0%	-3,597
Logistic service	9,861	13,415	-26.5%	-3,554
Security and other operating expenses*	15,395	11,166	37.9%	4,229
Taxes other than income tax	20,469	19,754	3.6%	715
Total operating expenses	**270,676**	**284,243**	**-4.8%**	**-13,567**

**For better presentation, we have reclassified "logistics service" from "security and other operating expenses".*

The following charts represent the cost structure for the nine-month period of 2016 and 2015:



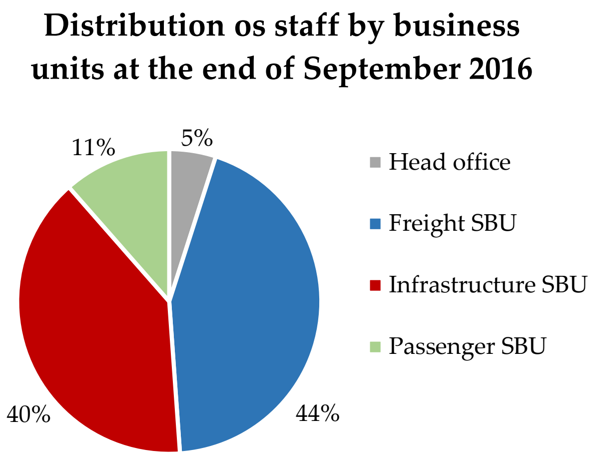


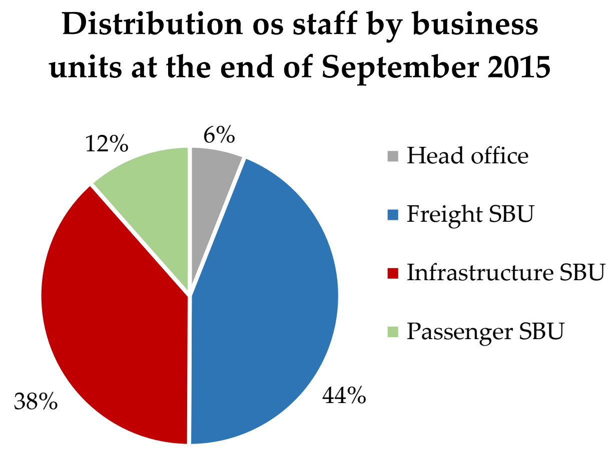
Employee benefits expense

Employee benefits expense remained at about the same level during the nine-month period of 2016, compared to the same period of 2015. Employee's salaries are mostly fixed and normally are not affected by changes in transportation volumes.

Number of employees (excluding subsidiaries) by the end of September 2016 was equal to 12,658 and by the end of September 2015 was 12,582.

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





Materials, repair and maintenance expenses

The Group's materials, repair and maintenance expenses are influenced by its rolling stock equipment balance and subsequent utilization level. During the nine-month period of 2016 transportation turnover decreased by 21 percent compared to the same period of the previous year, subsequently the utilization rate of rail cars has decreased to 59 percent from 64 percent. Material, repair and maintenance expenses decreased by 34 percent (GEL 7.9 million) during the nine-month period of 2016 compared to the same period of 2015.

Electricity expenses

Electricity expenses

9 month period ended 30 September *In GEL '000*

	9M 2016	9M 2015	% Change	Abs. Change
Electricity consumption for traction	13,716	12,489	9.8%	1,227
Utility expenses	2,282	1,818	25.5%	464
Total electricity expense	**15,998**	**14,307**	**11.8%**	**1,691**

Electricity expense for traction increased by 10 percent during the nine-month period of 2016, compared to the same period of 2015, while the decrease in gross ton-kilometers was 19 percent. The increase in electricity expenses was driven by the increase in electricity tariffs by about 40 percent in August 2015. Georgian Railway's agreement on electricity procurement considers fixed tariffs until 2021 but it also considers tariff review in case of change in regulated tariffs, which was the case in August 2015 when Georgian National Energy and Water Supply Regulatory Commission (GNERC) has made a decision about increasing electricity tariffs. In the following years (until 2021), according to the agreement, electricity tariffs will be fixed at the current level, unless another decision about tariff changes from the GNERC.

Purchased electricity and weighted average tariff

9 month period ended 30 September

	9M 2016				9M 2015			
	GW	Gross ton km (mln.)	GW per gross bln ton.km	Weighted average tariff (GEL)	GW	Gross ton km (mln.)	GW per gross bln ton.km	Weighted average tariff (GEL)
January	12.4	491.3	25.3	0.119	16.6	763.5	21.8	0.088
February	13.5	586.8	22.9	0.119	14.4	642.3	22.5	0.090
March	12.7	536.2	23.7	0.115	16.2	763.1	21.2	0.089
April	12.0	498.5	24.0	0.116	14.5	681.6	21.3	0.088
May	12.0	502.9	23.9	0.116	14.8	695.1	21.2	0.083
June	12.4	537.8	23.1	0.116	14.1	654.0	21.6	0.083
July	13.1	562.4	23.3	0.116	14.8	678.7	21.7	0.083
August	15.5	684.6	22.7	0.117	14.1	639.3	22.1	0.118
September	13.8	596.4	23.2	0.116	14.4	638.2	22.6	0.118
Total	**117.4**	**4,996.8**	**23.5**	**0.117**	**133.9**	**6,155.9**	**21.8**	**0.093**

Fuel expenses

Total fuel expenses decreased by 30 percent (GEL 1.3 million) in the nine-month period of 2016 compared to the same period of 2015. This change was mainly caused by the reduced handling services driven by reduction in transportation volume during the given period, cost reduction was also contributed by the decrease in fuel prices.

Freight car rental expense

Freight car rental expense decreased by 26 percent (GEL 1.3 million) in the nine-month period of 2016 compared to the same period of the previous year. The decrease was mainly due to the reduced usage of box cars and tank cars for cargo transportation.

Wagon rent expense

In 2012 the Group 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 the contractor 425 tank cars (rent price was set in USD on daily basis). The contract expired in April 2015. Currently, the Company does not plan to reenter into the contract, as the corridor possesses sufficient quantity of tanks (both private and railway tanks) to handle current and expected volume of liquid cargoes.

In the nine-month period of 2016 the Group had no wagon rent expenses, as the contract for the rent of 425 wagons has expired in April 2015.

Logistics service

Expenses for logistics services represent operating expenses of GR's logistics subsidiaries.

Expenses for logistics services in the nine-month period of 2016 have decrease by 27 percent (GEL 3.6 million) compared to the same period of the previous year. The decrease was mainly caused by reduced transportation volume.

Taxes other than income tax

Taxes other than income tax

9 month period ended 30 September *In GEL '000*

	9M 2016	9M 2015	% Change	Abs. Change
Property tax	10,449	9,856	6.0%	593
Land tax	8,436	8,236	2.4%	200
Other taxes	1,584	1,661	-4.6%	-77
Total property and land taxes	**20,469**	**19,754**	**3.6%**	**715**

**Other taxes also include all subsidiaries' taxes (other than income tax).*

In the nine-month period of 2016, taxes other than income tax show slight increase (GEL 0.7 million), mostly due to the property tax, compared to the same period of 2015.

2.2 Finance costs and income

Breakdown of financial costs and income

9 month period ended 30 September *In GEL '000*

	9M 2016	9M 2015	% Change	Abs. Change
Interest income	18,408	13,305	38.4%	5,103
Interest expense on financial liabilities	-38,013	-45,127	-15.8%	7,114
Impairment loss on trade receivables	-5,339	-20,309	-73.7%	14,970
Net foreign exchange gain/(loss)	28,153	-220,279	-112.8%	248,432
Net finance gain/loss	**3,209**	**-272,410**	**-101.2%**	**275,619**

In the nine-month period of 2016 the Group showed GEL 3.2 million net finance gain, compared to GEL 272.4 million net finance loss in the same period of 2015. The positive difference of GEL 275.6 million was mainly due to the fluctuation of GEL against foreign currencies.

GEL/USD exchange rate fluctuation has significant effect on net finance gain/loss. Due to GEL appreciation against USD as at 30 September 2016 compared to 31 December 2015 (GEL/USD exchange rate 2.33 vs 2.39), the Group experienced net foreign exchange gain of GEL 28.2 million, however due to the depreciation of GEL against USD as at 30 September 2015 compared to 31 December 2014 (GEL/USD exchange rate 2.39 vs 1.86), the Group showed net foreign exchange loss of GEL 220.3 million.

In the nine-month period of 2016 the impairment loss on trade receivables was GEL 5.3 million, which was 74 percent smaller compared to the same period of the previous year. The higher impairment loss in the nine-month period of 2015 was mainly caused by impairment of receivables from 24 hour services charged to the contractor company, which provided wagon rent services and failed to relocate wagons from the Group's stations on time after the contract termination. Decrease was also driven by the recovery of receivables form other railways.

Lower interest expense on financial liability in the nine-month period of 2016, compared to the same period of 2015, was caused by the repayment of USD 27.5 million Eurobond issued in 2010 and the higher capitalization rate due to faster construction pace of the Modernization project.

Higher interest income by GEL 5.1 million in the nine-month period of 2016 compared to the same period of 2015, was due to the higher interest rates on cash deposits and interest income from the issued loans.

2.4 Income tax benefit/expense

In May 2016, the Parliament of Georgia adopted amendments to the Tax Code of Georgia, according to which current profit tax regulations will change to so-called "tax on distributed profits" model, similar to Estonian one. The new tax rules are announced to be effective from 1 January 2017.

2.5 Profitability

Calculation of EBITDA and EBITDA margin

In GEL '000

9 month period ended 30 September

	9M 2016	9M 2015	% Change	Abs. Change
Revenues	323,006	433,107	-25.4%	-110,101
Other income	91,799	19,483	371.2%	72,316
Operating expenses	-270,676	-284,243	-4.8%	13,567
Result from Operating Activities	**144,129**	**168,347**	**-14.4%**	**-24,218**
Operating profit margin	**44.6%**	**38.9%**	**14.8%**	**5.8%**
Depreciation add-back	77,563	80,350	-3.5%	-2,787
EBITDA	**221,692**	**248,697**	**-10.9%**	**-27,005**
EBITDA Margin	**68.6%**	**57.4%**	**N/A**	**11.2%**
Adjusted EBITDA	**140,595**	**238,198**	**-41.0%**	**(97,603)**
Adjusted EBITDA Margin*	**43.5%**	**55.0%**	**N/A**	**-11.5%**

**Adjustments are mainly made for non-continuing operations from other income*

The Group's net profit for the nine-month period of 2016 was GEL 130.2 million, compared to GEL 91.2 million net loss for the same period of 2015. The Group's net profit/loss is significantly affected by GEL/USD exchange rate. The appreciation of GEL against USD as at the balance sheet date had positive effect on the Group's net profit, contributing GEL 28.2 million foreign exchange gain, while for the same period of 2015 the depreciation of GEL against USD resulted in net foreign exchange loss of GEL 220.3 million.

GEL fluctuation against foreign currencies as described in the scenarios below, would have affected the Group's profit and loss statement in the following way:

Sensitivity analyses*

9 month period ended 30 September 2016

	Actual	Scenario 1	Scenario 2	Scenario 3
Revenue	323,006	310,958	293,155	339,604
EBITDA	221,692	210,098	193,201	237,430
EBIT	144,129	132,535	115,638	159,867
EBT	147,338	109,115	139,565	87,728

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

Below given scenarios consider changes of GEL against foreign currencies.

Description of scenarios

	31 Dec 2015 vs 30 Sep 2016 FX changes at BS date	9M 2015 vs 9M 2016 Average FX change
Scenario 1	0%	0%
Scenario 2	-5%	-10%
Scenario 3	5%	10%

3. Cash flows

Cash flow statement

In GEL '000

9 month period ended 30 September

	9M 2016	9M 2015
Cash flows from operating activities		
Cash receipts from customers	329,360	417,095
Cash paid to suppliers and employees	-192,556	-197,136
Cash flows from operations before income tax and interest paid	**136,804**	**219,959**
Income tax paid	-4,375	-4,311
Net cash from operating activities	**132,429**	**215,648**
Cash flows from investing activities		
Acquisition of property, plant and equipment	-155,272	-108,158
Proceeds from sale of property, plant and equipment	1,429	22
Interest received	17,422	13,431
Issuance of the loan	-32,563	0
Refund of the loan	37,838	0
Net cash used in investing activities	**-131,146**	**-94,705**
Cash flows from financing activities		
Proceeds from borrowings	54,418	0
Repayment of borrowings	0	-62,514
Payment for debt issue cost	-12,069	0
Interest paid	-91,948	-85,731
Dividends paid	-1,607	-21,852
Net cash from /(used in) financing activities	**-51,206**	**-170,097**
Net increase/(decrease) in cash and cash equivalents	**-49,923**	**-49,154**
Cash and cash equivalents at 1 January	294,784	300,983
Effect of exchange rate fluctuations on cash and cash equivalents	-3,636	38,040
Cash and cash equivalents at the end of the period	**241,225**	**289,869**

Operating activities

Net cash from operating activities decreased by GEL 83.2 million in the nine-month period of 2016, compared to the same period of the previous year. The change was driven by the decrease in cash receipts from customers by about GEL 87.7 million mainly due to the decreased transportation volume.

There was also decrease in cash paid to suppliers and employees by GEL 4.6 million in the nine-month period of 2016, compared to the same period of the previous year, that was mostly driven by the reduction in payments for materials and repair works.

Investing activities

Cash paid for acquisition of property, plant and equipment in the nine-month period of 2016 increased by GEL 47.1 million. The increase was mainly due to the faster construction pace of the Modernization project compared to the same period of 2015 and investments in new passenger trains.

Higher interest received was mainly due to the interest income from the loan receivable of USD 16 million, higher average GEL/USD exchange rate and higher interest rates on cash deposits.

Refund of the loan GEL 37.8 million represents collection of short-term loan (USD 16 million) that the Group provided to a state controlled entity by the end of 2015.

Issuance of the loan GEL 32.6 million represents new loans provided by the Group during the nine-month period of 2016 (*see subheading 4 "Balance Sheet"*).

Financing activities

GEL 54.4 million, proceeds from borrowing, represents the loan for the purchase of the new passenger trains. GEL 12.1 million represents insurance costs related to the total amount of the loan and covering total amortization period. Total size of the loan is about USD 43.5 million out of which about USD 23 million was drown down as at 30 September 2016, the remaining amount of the loan will be used for procurement of additional two new double-decker trains, that will be delivered in the first quarter of 2017.

In July 2015 the Group has repaid USD 27.5 million - the remaining portion of the Eurobonds issued in 2010. However, due to the higher GEL/USD exchange rates, the interest paid during the nine-month period of 2016 was higher compared to the same period of 2015.

4. Balance sheet

Balance sheet

In GEL '000

	30-Sep-16	31-Dec-15	% Change	% Change at constant FX rates	Abs. Change
TOTAL ASSETS	**3,171,912**	**3,093,917**	**2.5%**	**N/A**	**77,995**
Changes are mainly due to:					
Property, plant and equipment	2,586,059	2,483,393	4.1%	4.1%	102,666
Loan receivable (LT)	31,652	0	NM	NM	31,652
Loan receivable (ST)	2,438	38,341	-93.6%	-93.5%	-35,903
Trade and other receivables	93,012	70,645	31.7%	N/A	22,367
Cash and cash equivalents	241,225	294,784	-18.2%	-16.9%	-53,559
TOTAL LIABILITIES	**1,570,263**	**1,622,707**	**-3.2%**	**N/A**	**-52,444**
Changes are mainly due to:					
Loans and borrowings (LT)	1,212,208	1,193,301	1.6%	4.4%	18,907
Advance received from the Government	139,825	221,788	-37.0%	-37.0%	-81,963
Loans and borrowings (ST)	24,213	44,855	-46.0%	-44.5%	-20,642

Significant changes in assets

GEL 102.7 million increase in property plant and equipment in the nine-month period of 2016, compared to the year end of 2015, was mainly due to the construction in progress works, mostly within the scope of Modernization project, other infrastructure modernization works and purchase of new passenger trains.

For the nine-month period of 2016, the Group issued long term loans with total amount of GEL 34.1 million, from which GEL 2.4 million represents current portion of long term loan. The loans were issued in USD and the rates are significantly higher than on investments in Bank deposits. USD 6 million, out of the total amount, was provided to the parent company. The remaining amount, USD 8.5 million, was provided to the owner of liquid cargo terminals on the Black Sea, which GR took under management. GR will manage the liquid cargo terminals for the whole life of the loan and will receive the management fee.

By the end of 2015 Georgian Railway has provided short term loan to government controlled entity, which was fully repaid in three tranches in June and July of current year.

In 2016, the Group has transferred land plots and attached buildings, unnecessary for the operation, to the Government. According to the agreement, VAT created as a result of this transaction will be reimbursed by the Government. Receivable from the Government is the main reasons that caused increase in trade and other receivables as at 30 September 2016.

As at 30 September 2016 the Group had cash and cash equivalents in the amount of GEL 241.2 million. In order to partly hedge foreign exchange risk, driven by Eurobonds, the Group holds part of its cash and cash equivalents in USD. As at 30 September 2016 about 56 percent of the Groups cash and cash equivalents were in USD.

Significant changes in liabilities

Increase in the long term loans represents additional borrowing for the purchase of new passenger trains.

Advances received from the Government as at 30 September 2016 decreased due to the partial transfer of land plots and buildings, not used in operations, to the State.

Short term loans and borrowings in the current liabilities mainly consist of accrued coupon payable on the existing Eurobond obligations. As the payments are made in January and July, on December 31 the accrued amount is higher, than on September 30.

Appendix 1

Breakdown of freight transportation in tons

9 month period ended 30 September				*In thousand tons*
	9M 2016	**9M 2015**	**% Change**	**Abs. Change**
Total liquid & dry cargoes	**8,924**	**10,740**	**-16.9%**	**-1,816**
Liquid cargoes	**4,050**	**5,091**	**-20.4%**	**-1,041**
Oil Products	2,660	4,366	-39.1%	-1,705
Crude Oil	1,389	725	91.7%	664
Dry cargoes	**4,875**	**5,650**	**-13.7%**	**-775**
Cement	47	53	-11.7%	-6
Chemicals and fertilizers	310	390	-20.5%	-80
Construction Freight	828	1,076	-23.0%	-248
Ferrous metals and scrap	532	715	-25.6%	-183
Grain and grain products	324	514	-36.9%	-190
Industrial freight	196	171	14.5%	25
Ores	1,099	1,150	-4.4%	-50
Sugar	445	372	19.6%	73
Other	1,092	1,207	-9.5%	-115

Appendix 2

Breakdown of freight transportation in ton-kilometers by freight type

9 month period ended 30 September *In million ton-kilometers*

	9M 2016	9M 2015	% Change	Abs. Change
Total liquid & dry cargoes	**2,560**	**3,229**	**-20.7%**	**-669**
Liquid cargoes	**1,343**	**1,760**	**-23.7%**	**-417**
Oil Products	794	1,473	-46.1%	-679
Crude Oil	549	287	91.5%	263
Dry cargoes	**1,217**	**1,469**	**-17.2%**	**-253**
Cement	13	14	-6.5%	-1
Chemicals and fertilizers	92	120	-23.3%	-28
Construction freight	111	162	-31.5%	-51
Ferrous metals and scrap	132	200	-34.2%	-68
Grain and grain products	102	163	-37.6%	-61
Industrial freight	30	41	-26.9%	-11
Ores	236	248	-4.8%	-12
Sugar	164	134	22.4%	30
Other	336	386	-13.0%	-50

Appendix 3

Calculations of ratio of Net Financial Indebtedness to EBITDA:

'000 GEL	Twelve-month period ended 30-September-16
Revenue	464,672
Other income	103,087
Employee benefit expense	-148,886
Depreciation and amortization expense	-101,629
Electricity, inventory and repair work	-53,412
Other expenses	-69,679
Results from operating activities	**194,153**
Finance income	54,188
Finance costs	-72,992
Net finance costs	**-18,804**
Profit/(loss) before income tax	**175,349**
Income tax (expense)/benefit	-19,503
Profit/(loss)and total comprehensive income for the period	**155,846**
Results from operating activities	**194,153**
Depreciation add-back	-101,629
EBITDA	**295,782**
Net Financial Indebtedness:	
Financial Indebtedness	1,236,421
less:	
Available Credit Facilities	146,496
Cash	241,225
Net Financial Indebtedness:	**848,700**
Net Financial Indebtedness/EBITDA	**2.87**