Management Discussion and Analysis for the nine month period ended 30 September 2014

Georgian Railway has shown a solid financial performance in the 9 months of 2014.

EBITDA of the company has risen significantly (11.4% or GEL 19.4 million) as well as EBITDA margin, which went over 50% of the revenues. The increase was mainly due to increased revenue stream (GEL 21.7 million) while increase in expenses was moderate.

Revenue increase resulted from improved transportation performance in dry goods and oil products. Addition of freight forwarding subsidiaries: Georgian Transit and GR transit line, has consolidated freight forwarding revenues to the group's financial performance, adding to the increase in revenues. Appreciation of USD average exchange rate against GEL by 5.8% has also contributed to the performance in the 9 months of 2014.

Main offsetting factor was significant decrease in transportation of crude oil following the expansion of CPC pipeline.

The cargo categories which increased however, such as oil products and construction materials, on average have a higher tariff, thus are more profitable. The fact that most of the increase in such categories took place in the third quarter of 2014 gives grounds for the expectation of continued improvement in future periods.

Cash resources of the company have increased significantly (by 21%) to GEL 252.9 million. The increase was primarily due to increased receipts of cash from customers and decreased capital expenditures. While cash receipts increased in line with revenue, capital expenditures declined as a result of a temporary slow-down of Modernization project and the study of the Tbilisi Bypass.

By the end of November 2014, cash resources have further increased to more than GEL 280 million.

Contents

1. Profit & Loss Statement

Following table sets forth profit and loss statement of the Company for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	***% Change***	***Abs. Change***	**2013 9M**
Revenue	371,635	6.2%	21,739	349,896
Other income	15,315	65.4%	6,053	9,262
Payroll expense	(107,347)	7.8%	(7,727)	(99,620)
Depreciation and amortization expense	(77,664)	5.8%	(4,247)	(73,417)
Electricity and materials used	(35,162)	5.7%	(1,891)	(33,271)
Other expenses	(55,348)	-2.2%	1,219	(56,567)
Result From Operating Activities	**111,429**	**15.7%**	15,146	**96,283**
Finance Income	7,979	-12.8%	(1,171)	9,150
Finance Cost	(22,967)	59.5%	(8,566)	(14,401)
Net finance income	**(14,988)**	**185.4%**	(9,737)	**(5,251)**
Profit before income tax	**96,441**	5.9%	5,409	**91,032**
Income tax	(15,540)	9.7%	(1,380)	(14,160)
Net income	**80,901**	**5.2%**	4,029	**76,872**
EBITDA	**189,093**	**11.4%**	**19,393**	**169,700**
EBITDA margin	**50.9%**			**48.5%**

Net income amounted to GEL 80.9 million in the nine month period ended 30 September 2014 compared to GEL 76.9 million in the same period of the previous year.

2. P&L Analysis

Following paragraphs present the analysis of the profit and loss statement of Georgian Railway JSC for the nine month periods ended 30 September 2014 and 2013:

2.1. Revenues

The following table sets forth revenue breakdown and comparison of nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Freight transportation	273,720	5.3%	13,694	260,026
Freight handling	50,217	1.6%	819	49,446
Freight car rental	29,060	18.4%	4,507	24,553
Passenger transportation	15,228	8.4%	1,180	14,048
Other revenue	3,410	87.1%	1,587	1,823
Total Revenue	**371,635**	**6.2%**	**21,739**	**349,896**
Other Income	**15,315**	**65.4%**	**6,053**	**9,262**

Below, you can find detailed discussion for the reasons of the above-mentioned changes.

2.1.1 Freight revenues

Freight transportation revenues increased by 5.3 per cent (GEL 13.7 million) in the nine month period ended 30 September 2014 compared to the same period of the previous year.

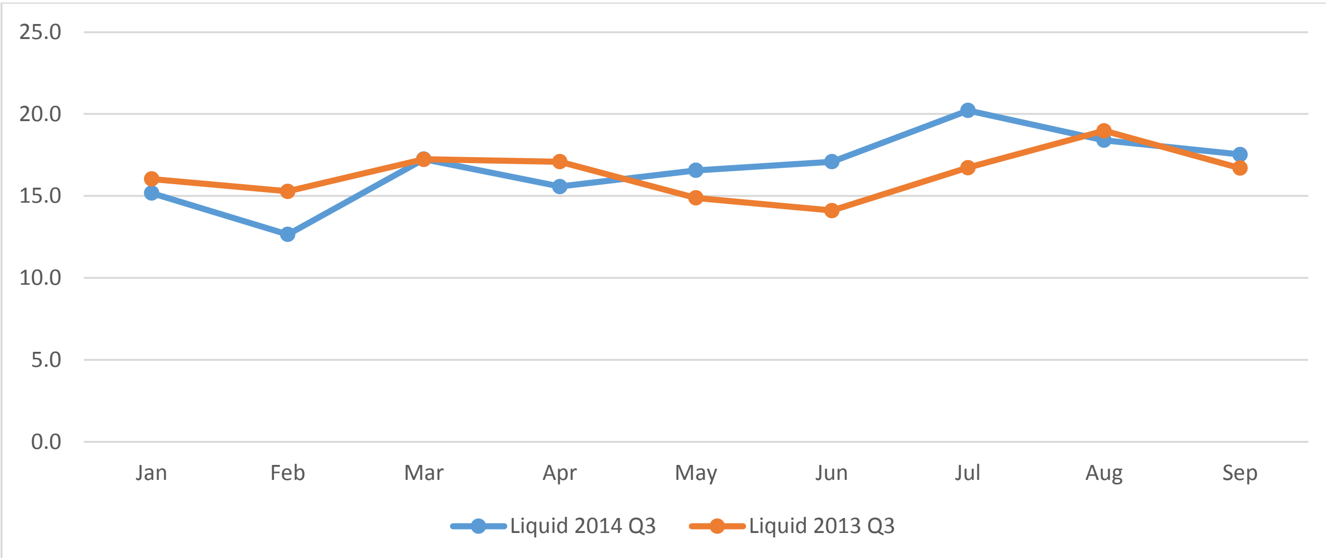
The following table sets forth freight transportation revenue by types of freight for the nine month periods ended 30 September 2014 and 2013:

GEL, Millions	**9 month period ended 30September**			
	2014 9M	***% Change***	***Abs. Change***	**2013 9M**
Liquid Cargoes	**141.3**	**-0.4%**	**-0.5**	**141.8**
of which				
Crude Oil	29.7	-43.4%	-22.8	52.5
Oil Products	111.6	25.0%	22.3	89.3
Dry Cargoes	**132.3**	**12.0%**	**14.2**	**118.2**
of which				
Grain	16.6	13.7%	2.0	14.6
Construction Freight	9.9	15.1%	1.3	8.6
Cement	2.6	4.0%	0.1	2.5
Industrial Freight	7.9	41.1%	2.3	5.6
Ferrous Metals and Scrap	16.2	26.6%	3.4	12.8
Ores	22.1	-7.1%	-1.7	23.8
Sugar	14.1	23.7%	2.7	11.4
Chemicals, fertilizers	7.0	1.4%	0.1	6.9
Other	35.9	11.8%	3.8	32.1
Total	**273.6**	**5.3%**	**13.7**	**260.0**

The types of freight that positively contributed to the nine month period-over-period change in freight transportation revenue were mainly Oil products and most of the Dry cargo categories. This was partly offset by the decrease in revenue from transportation of Crude oil.

Liquid cargo revenues:

The following graph presents distribution of revenue from liquid cargo transportation by months, for the nine month periods ended 30 September 2014 and 2013:



Revenue from transportation of liquid cargo decreased by 0.4 per cent (GEL 0.5 million) in the nine month period ended 30 September 2014 compared to the same period of 2013 as a result of the decreased revenue from crude oil transportation by 22.8 million GEL. This decrease was partly offset by the increased revenue from oil products transportation (GEL 22.3 million).

Revenue from crude oil decreased due to lower volumes of crude oil transportation (1.5 million ton), a result of CPC pipeline expansion. This could have been offset by the Kashaan field production, however it was delayed.

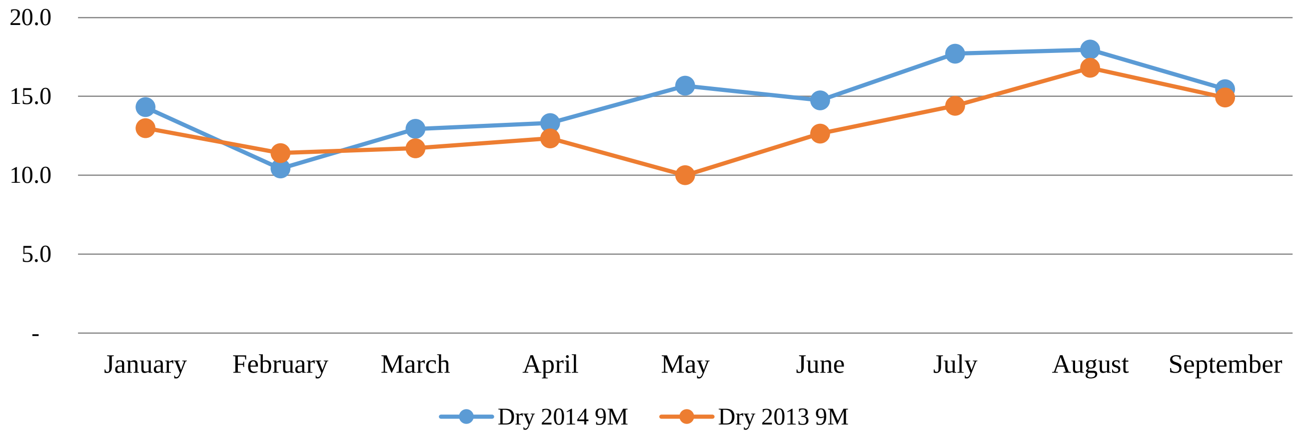
The offsetting factor was the increased oil products transportation by 9 per cent (350 thousand tons). Transportation of oil products is more profitable for the company, as the tariff on oil products is higher and is equal to 13.5 US dollar per ton, compared to crude oil tariff which is equal to 10.8 US dollar per ton.One factor to mention here is that the bulk of the increase of oil products took place in the third quarter. This gives grounds for expected improvement in future periods.

Another offsetting factors of the decrease in crude oil were higher transportation tariffs and the addition of Georgian Transit LLC (from Q2 2013) and GR Transit Line LLC (from Q2 2014) as subsidiaries to the company. As Georgian Transit and GR Transit Line are mainly a liquid freight forwarding companies, the margin of freight forwarding was added to the revenue of the company from cargo transportation.

Another offsetting reason for the decreased crude oil transportation was the appreciation of USD against Georgian Lari by 5.8 per cent on average, as the tariffs for transportation are set in USD.

Dry cargo revenues:

The following graph shows distribution of revenues from dry cargo transportation by months in the nine month periods ended 30 September 2014 and 2013:



Dry cargo volumes for the nine month period ended 30 September 2014 increased by 2 per cent (120 thousand tons) and revenues increased by 12 per cent (14.2 million GEL) compared to the previous year. The main reasons for the increased revenues were increased revenue from transportation of industrial freight, Sugar and Ferrous Metals and ferrous metal scrap.

Revenue from Industrial freight increased by 41 per cent (GEL 2.3 million), while there was an insignificant decrease in transported amount of this cargo. The main reason of the increased revenue from industrial freight transportation was the switch of the cargo to a higher yielding transportation direction. In first nine months of 2014, about 53 thousand tonnes of industrial freight were transported in new direction from Black sea ports to Azerbaijan with an average tariff of GEL 23 per ton. During nine month 2013 GR transported 146 thousand tonnes of industrial freight internally in Georgia with an average tariff of 4.2 GEL per ton, while in the nine month 2014 internal transportation of industrial freight was only 12 thousand tons. During the nine months ended 30 September 2014 internal transportation within Georgia comprised 4 per cent of industrial freight, compared to 44 per cent in the same period of 2013.

Increase in revenue from Ferrous Metals and Ferrous Metal Scrap was 26.6 per cent (GEL 3.4 million) and resulted from respective increase in transported volumes by 8 per cent (60 thousand tonnes). The main reason for such difference between increased volume and revenue was switching to higher yielding direction, namely to Azerbaijan. Management expects that this positive trend will be continued in the future.

Increased revenue from sugar during first nine month of the year 2014 increased by 23.7 per cent (2.7 million GEL), compared to the first nine month of the year 2013. The main reason was the higher average tariff for transportation.

General cause for improved revenue was also an increase in USD average exchange rate against Georgian Lari by 5.8 per cent, as the tariffs for transportation are set in USD.

Freight handling revenue:

The following table sets forth the breakdown of freight handling revenue for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
'000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Station Services	33,264	6.7%	2,083	31,181
Delay of Railcars	6,149	-37.9%	-3,759	9,908
Other	10,804	29.7%	2,495	8,357
Freight handling	50,217	1.6%	819	49,446

Revenue from freight handling increased by 1.6 per cent (GEL 0.8 million) in the nine month period ended 30 September compared to the same period of the previous year. Increase was caused by the increase in revenues from station services by 6.7 per cent (GEL 2.1 million) caused by the optimization of station service tariffs which were increased in H2 2013.

Other freight handling services increased by 29.7 per cent (GEL 2.5 million). The increase was due to the subsidiary Georgia Transit LLC, which was acquired in the end of Q1 2013. Due to the absence of Q1 2013 freight handling service revenues of Georgia Transit, there was an increase in total three quarters of 2014.

Total increase was partly offset by the decrease in revenue from penalties on the delay from railcars in stations by 37.9 per cent (GEL 3.8 million). The reason is the contracts for wagon capital repairs, which was active in 2013. The contractor could not fulfil its duties in a timely manner, which caused fines for railcar delays in stations. In 2014 this contract no longer had an effect.

Freight car rental revenue:

The following table sets forth the revenues from freight car rental for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
'000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Freight car rental	29,060	18.4%	4,507	24,553

Revenue from freight car rental increased by 18.4 per cent (GEL 4.5 million) in the nine month period ended 30 September 2014 compared to the same period in 2013. The increase was mainly caused by the increased freight car rental days in Turkmenistan. Management believes the reason of this were bottlenecks on Afghanistan border as the Afghanistan government has changed recently and the cargo would be halted on the border for a long periods of time. Adding to the effect is the fact that when railcars are delayed for 30-45 days, freight car rental daily tariff is multiplied by a coefficient of 1.3x, while for the delay of more than 45 days the tariff gets a coefficient of 3x. Bottlenecks at Afghanistan border caused the increased use of these higher coefficients.

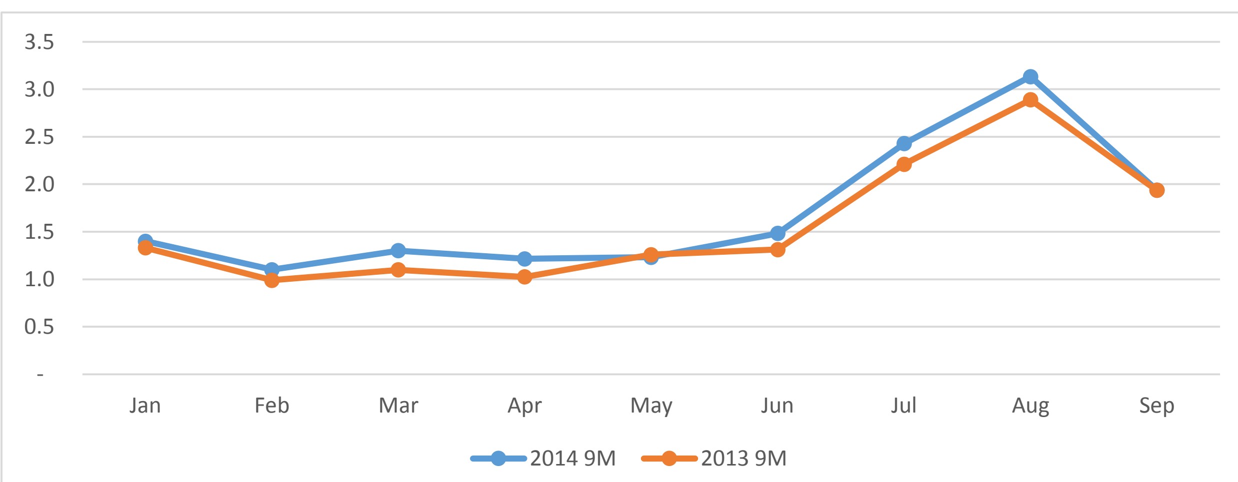
2.1.2. Passenger revenues

The following table sets forth the revenues from passenger transportation for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Passenger transportation	15,228	8.4%	1,180	14,048

Passenger revenues increased by 8.4 per cent (GEL 1.2 million) in the nine month period ended 30 September 2014 compared to the same period of the previous year. In the nine month period of 2014, GR transported 6.1 per cent less passengers than in the same period of 2013. The disproportion between the change in passenger number and change in revenues is caused by the increased share of expensive seats sold. This is caused by the addition of new trains to the mainline direction, while some trains for regional transportation were dismissed. As a rule, regional transportation tickets cost a lot less than the main-line direction.

The following graph shows distribution of revenues from passenger transportation by month in the nine month periods ended 30 September 2014 and 2013:



2.1.3. Other revenues

The following table sets forth other revenue for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
'000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Other revenue	3,410	87.1%	1,587	1,823

Other revenue comprises of items such as: revenue from rent of space in buildings, sale of scrap, repair services and such. Other revenue increased by 87.1 per cent (GEL 1.6 million), due to some changes in such operations.

2.1.4. Other income

The following table sets forth other income for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
'000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Other Income	15,315	65.4%	6,053	9,262
Of which:				
Continuing Operations	15,033	73.1%	6,346	8,687
Non-Continuing Operations	282	-51.0%	- 293	575

In the nine month period ended 30 September 2014 other income increased by 65.4 per cent (GEL 6.1 million), compared to the same period of the previous year. Other income mostly comprises of items such as penalties accrued on debtors or creditors, gain on inventory revaluation, revenue from communication services, revenue for inflicted loss on company from third parties, revenue from the surplus of inventory, revenue from heavy equipment services, revenue from subsidiary companies (namely Trans Caucasus Terminals LLC) and other.

In order to better illustrate the operational profitability of the company, GR divides other income into two categories: income which is reoccurring between the periods due to their nature (for example such are revenue from subsidiary company (TCT), penalties on creditors and debtors, different types of non-core revenues and some other items) – this is classified as income from continuing operations. Second type of other income comes from one time sources, such as provisions, gain/loss on inventory revaluation and other items, which are not expected to reoccur in the following periods.

The increase in other income was caused by the increase in continuing operations by GEL 6.4 million. The reason behind this increase was changes in accounting procedures: during year 2013 revenue from subsidiary company Trans Caucasus Terminals was included in revenues from freight operations, while during first nine month 2014 revenue from subsidiary company Trans Caucasus Terminals (GEL 6.1 million) was included in other income.

2.2.Operating expenses

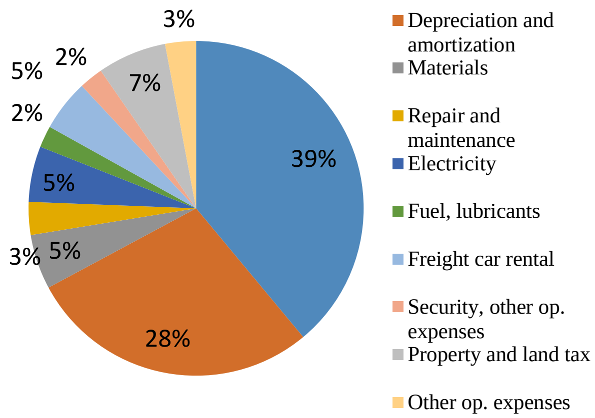
The following table sets forth total expenses of Georgian Railway JSC, excluding Finance Costs, Interest Income/Expense and Profit Tax, for the nine month periods ended 30 September of years 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Staff costs	-107,347	7.8%	- 7,727	- 99,620
Depreciation and amortization	-77,664	5.8%	-4,247	-73,417
Materials	-14,589	24.0%	- 2,820	-11,769
Repair and maintenance	- 8,754	46.1%	-2,761	-5,993
Electricity	- 14,811	-4.1%	641	-15,452
Fuel, lubricants	- 5,762	-4.8%	288	- 6,050
Freight car rental	-13,691	-15.6%	2,532	-16,223
Security, other op. expenses	-6,364	12.0%	- 682	- 5,682
Property and land tax	-18,347	9.4%	-1,582	-16,765
Other op. expenses	-8,193	-31.2%	3,711	-11,904
Total	**- 275,522**	**4.8%**	**-12,647**	**- 262,875**

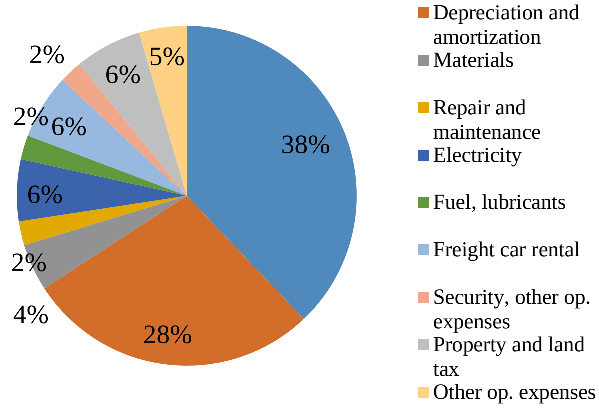
Total expenses for the nine month period ended 30 September 2014 increased by 4.8 per cent (GEL 12.6 million) compared to the nine month period ended 30 September 2013, the main reasons of which was the increase in salary expense and depreciation and amortization.

The following charts sets forth the cost structure for the nine month periods ended 30 September of years 2014 and 2013:

Cost structure for the 9M 2014



Cost structure for the 9M 2013



2.2.1. Staff cost

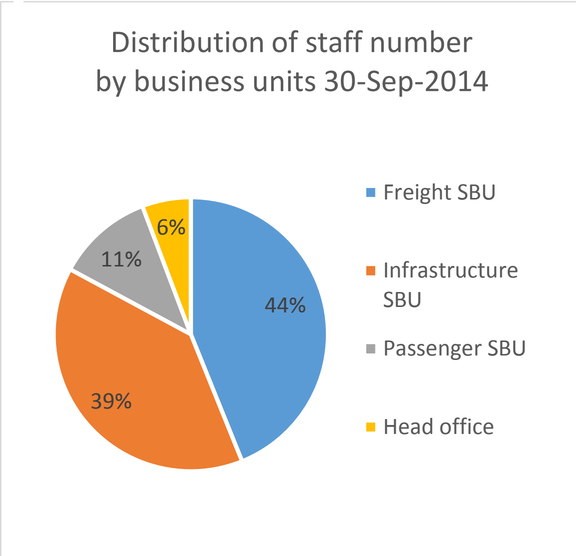
The following table sets forth staff costs for the nine month periods ended 30 September for years 2014 and 2013:

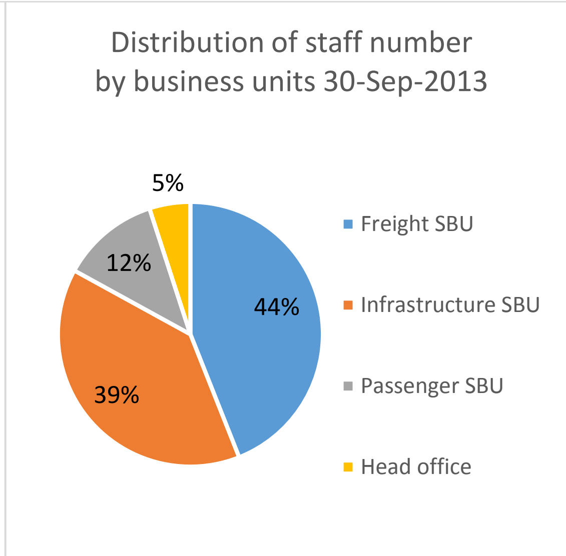
	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Staff costs	107,347	7.8%	7,727	99,620

Main reason for increase in staff costs by 7.8% (GEL 7.7 million) was increase in salary expenses that took place during 2013, showing full effect in 2014. The increase was also partly a result of higher bonuses paid during 2014. During the first nine month of 2014 Georgian Railway paid 4.9 million GEL as bonus to its employees, representing a GEL 2.2 million increase compared to the same period of 2013.

Employee number at the end of September 2014 was equal to 12,730 and accordingly at the end of September 2013 the number of employees was 12,646. Average salary during the first nine month 2014 was GEL 937 compared to GEL 875 in the same period of 2013.

Following charts show the distribution of staff number by strategic business units and head office of the company (excluding subsidiaries):





2.2.2. Materials, Repair and Maintenance Expenses

The following table sets forth materials and repair and maintenance expenses for the nine month periods ended 30 September for years 2014 and 2013:

	9 month period ended 30 September			
'000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Materials	14,589	24.0%	2,820	11,769
Repair and maintenance	8,754	46.1%	2,761	5,993
Total	23,343	31.4%	5,581	17,762

Total expense for materials, repair and maintenance services for the nine month period ended 30 September 2014 increased by 31.4 per cent (GEL 5.6 million) compared to the nine month period ended 30 September 2013. Materials expenses increased by 24 per cent (GEL 2.8 million). Main reason of the increase in materials expense was increased expenses on new types of materials, which are used for scheduled wagon repairs. These are done periodically and this time were started in H2 2013. Repair and maintenance expense increased by 46.1 per cent (GEL 2.8 million) in the first 9 month of 2014 compared to the same period in 2013. This was caused by the increased number of routine repairs of rolling stock between the periods. Following the completion of these works, no such repairs should be needed for some time.

2.2.3. Electricity and Fuel Expenses

The following table sets forth electricity expense for the nine month periods ended 30 September 2014 and 2013:

Electricity Expense:

	9 month period ended 30 September			
'000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Electricity	14,811	-4.1%	- 641	15,452

Electricity expense for the nine month period ended 30 September 2014 decreased by 4.1 per cent (GEL 0.6 million) compared to the nine month period ended 30 September 2013. The decrease was mainly caused by the decrease in cargo transportation volumes (mainly crude oil) in the nine months of 2014.

The following table shows purchased electricity for cargo transportation purposes and an average electricity expense per gross ton-kilometre of cargo:

	2014			**2013**		
	GW	**Gross ton km (mln.)**	**GW per gross bln ton.km**	**GW**	**Gross ton km (mln.)**	**GW per gross bln ton.km**
January	15.0	722.6	20.8	18.2	928.2	19.6
February	12.4	580.3	21.4	16.2	835.1	19.4
March	15.4	771.4	20.0	17.4	907.1	19.2
April	14.3	701.7	20.4	15.9	819.7	19.5
May	15.0	750.7	19.9	13.6	675.2	20.2
June	14.6	729.7	20.0	13.7	709.5	19.4
July	17.0	861.6	19.7	16.3	831.7	19.6
August	16.2	816.3	19.9	18.1	940.4	19.2
September	15.3	757.7	20.2	16.6	824.0	20.1
Total	**135.2**	**6692.0**	**20.2**	**146**	**7470.9**	**19.5**

Fuel expenses:

The following table sets forth fuel expense for the nine month period ended 30 September for years 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Fuel, lubricants	5,762	-4,8%	- 288	6,050

Fuel (and lubricants) expense in the nine month period ended 30 September 2014 decreased by 4.8 per cent compared to the nine month period ended 30 September 2013. The reason for the decrease was decreased prices per kilogram of fuel purchased (by approximately 5.7 per cent).

2.2.4. Freight car rental expense

The following table sets forth freight car rental expense for the nine month period ended 30 September for years 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Freight car rental	13,691	-15.6%	- 2,532	16,223

Freight car rental expenses for the nine month period ended 30 September 2014 decreased by 15.6 per cent (GEL 2.5 million) compared to the nine month period ended 30 September 2013. The decrease was mainly caused by the decrease of crude oil transportation. This cargo was usually transported with wagons owned by Azerbaijan Railway. The decrease in transportation caused subsequent decrease in freight car rental expense. The increase in other cargo categories had smaller effect on the freight car rental expense as the wagons used for these cargoes are mostly of Georgian origin.

2.2.5. Security and other expenses

The following table sets forth security and other operating expenses for the nine month period ended 30 September for years 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Security, other op. expenses	6,364	12.0%	682	5,682
Other op. expenses	8,193	-31.2%	- 3,711	11,904
Total	**14,557**	**-17.2%**	**- 3,029**	**17,586**

Total security and other operating expenses for the nine month period ended 30 September 2014 decreased by 17.2 per cent (GEL 3.0 million) compared to the nine month period ended 30 September 2013.

Other operating expenses mainly consist of items such as: municipal, communication, legal costs, consultancy, membership fees, write offs and etc. The expense decreased by 31.2 per cent (GEL 3.7 million), mainly because of the correction of prior period entries. Whereby in nine months 2013 there was an additional expense resulting from such corrections, in nine months 2014 the result was a decrease in expenses.

The decrease in other operating expenses was partly offset be the increase in security expenses.

2.2.6. Property and land taxes

Following table sets forth the breakdown of Property and Land taxes for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Property Tax	9,665	8.2%	732	8,933
Land tax	7,669	11.1%	764	6,905
Other Tax	1,013	9.4%	87	926
Total	**18,347**	**9.4%**	**1,582**	**16,765**

Property tax increased by 8.2% (GEL 0.7 million) due to the increase in property, caused by the increased value of GR’s railcar fleet and increase in construction in progress in nine month period ended 30 September 2014 compared to nine month period ended 30 September 2013. Land tax increased due to the decision of local governments in several regions in Georgia to increase the tax calculation coefficient on land tax they charge.

2.3. Finance costs and income

The following table sets forth the breakdown of financial costs and income for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Interest income	7,979	-12.8%	- 1,171	9,150
Impairment loss on trade receivables	-2,468	-37.9%	1,505	-3,973
Law Provisions	-	-100.0%	1,642	-1,642
Interest expense	-9,140	51.5%	-3,108	-6,032
FX gain/loss	-11,359	312.5%	-8,605	-2,754
Net finance loss	**-14,988**	**185.4%**	**- 9,737**	**-5,251**

Net finance loss during the nine month 2014 increased compared to the net finance loss in the same period of year 2013. Main reason was FX change, namely the appreciation of USD against GEL, causing revaluation of company’s liabilities denominated in USD.This FX effect is not of monetary nature (until the maturity of the bonds in 2022) and changes are in line with USD movement against GEL.

2.4. Income Tax Expense

The following table shows the Income Tax Expense for the nine month period ended 30 September of years 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Income tax	15,540	9.7%	1,380	14,160

Increase in income tax expense was somewhat in line with the increased income before taxes in the nine month period ended 30 September 2014.

2.5. Profitability

The following Table show the calculation of EBITDA, EBITDA margin, Adjusted EBITDA and Adjusted EBITDA margin for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
’000 GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Revenues	371,635	6.2%	21,740	349,895
Other income	15,315	65.4%	6,053	9,262
Expenses	- 275,522	4.8%	- 12,647	-262,875
Result from Operating Activities	**111,428**	**15.7%**	**15,146**	**96,282**
Depreciation add-back	77,664	5.8%	4,247	73,417
EBITDA	**189,092**	**11.4%**	**19,393**	**169,699**
EBITDA Margin	**50.9%**			**48.5%**
Non-continuing operations from other income	-282			-575
Write-offs	-1,723			165
Adjusted EBITDA	**187,087**	**10.5%**	**17,798**	**169,289**
Adjusted EBITDA Margin	**50.3%**			**48.4%**

Adjusted EBITDA for the nine month period ended 30 September 2014 amounted to GEL 187 million, representing an increase of 10.5 per cent (GEL 17.8 million) compared to the same period of the previous year. Adjusted EBITDA margin amounted to 50.3 per cent, compared to the 48.4 per cent for the nine month period ended 30 September 2013.

3. Cash flows

'000GEL	9 month period 2014	9 month period 2013
Cash flows from operating activities		
Cash receipts from customers	372,217	348,311
Cash paid to suppliers and employees	(170,680)	(165,890)
Cash flows from operations before income taxes and interest paid	**201,537**	**182,421**
Income tax paid	(2,335)	(16,059)
Net cash from operating activities	**199,202**	**166,362**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(71,210)	(134,922)
Proceeds from sale of property, plant and equipment	71	186
Increase/Decrease in term deposits	-	(48)
Increase/Decrease in restricted cash	-	59,597
Interest received	7,662	11,648
Net cash used in investing activities	**(63,477)**	**(63,539)**
Cash flows from financing activities		
Repayment of borrowings	-	(26)
Interest paid	(72,826)	(69,764)
Dividends paid	(20,000)	(18,000)
Cash distribution to the owner	-	
Net cash from /(used in) financing activities	**(92,826)**	**(87,790)**
Net increase/(decrease) in cash and cash equivalents	**42,899**	**15,033**
Cash and cash equivalents at 1 January	208,996	115,076
Effect of exchange rate fluctuations on cash and cash equivalents	1,049	437
Cash and cash equivalents at the end of the period	**252,944**	**130,546**
Bank deposits	-	38,062
Total Cash and cash equivalents	**252,944**	**168,608**

3.1. Net cash from operating activities

The following table shows cash from operating activities for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
’000GEL	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Cash flows from operating activities				
Cash receipts from customers	372,217	6.9%	23,906	348,311
Cash paid to suppliers and employees	(170,680)	2.9%	(4,790)	(165,890)
Cash flows from operations before income taxes and interest paid	**201,537**	10.5%	19,116	**182,421**
Income tax paid	(2,335)	-85.5%	13,724	(16,059)
Net cash from operating activities	**199,202**	19.7%	32,840	**166,362**

Net cash from operating activities in the nine month period ended 30 September 2014 increased by 19.7 per cent (GEL 32.8 million) compared to the same period in 2013. This was mainly caused by the increase in cash receipts from customers by 6.9 per cent (GEL 23.9 million) and by the decreased in income tax paid by 85.5 per cent (GEL 13.7 million). Cash receipts from customers increased due to increased revenues of the company while decrease in income tax paid was caused by the existing surplus of value added tax, giving GR an ability not to pay other taxes.

The increase of net cash from operating activities was partly offset by the increase in cash paid to suppliers and employees by 2.9 per cent (GEL 4.8 million) mainly as a result of increased salary expense.

3.2. Net cash used in investing activities

The following table shows cash from investing activities for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
Cash flows from investing activities	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Acquisition of property, plant and equipment	(71,139)	-47.2%	63,597	(134,736)
Purchase of a company share	-			(48)
Increase/Decrease in term deposits	-		(59,597)	59,597
Interest received	7,662	-34.2%	(3,986)	11,648
Net cash used in investing activities	**(63,477)**	0%	62	**(63,539)**

During the nine month period ended 30 September 2014 total net cash used in investing activities has not changed significantly. Decrease in acquisition of property, plant and equipment by 47.2 per cent (GEL 63.6

million) was offset by the decrease in term deposits by GEL 59.6 million and by the decreased in interest received by 34.2 per cent (GEL 4.0 million).

Absence of change in term deposits was caused by the changed accounting treatment of bank deposits. Due to their nature, at the year end of 2013, GR along with the external auditors classified these bank cash balances as cash and cash equivalents. Subsequently no movement between cash and cash equivalents and term deposits had taken place, as they have been merged.

Cash spent on capital expenditures on the other hand has decreased significantly. Cash paid for Bypass project was GEL 8.9 million in the Q3 2014 and GEL 26.4 million in the Q3 2013, this decrease was caused by the fact that Bypass project is being considered for possible improvements. Until the decision on the project is made, work is suspended. Cash paid for Modernization Project was GEL 19.7 million in the Q3 2014 and GEL 40.1 million in Q3 2013, the reason of this is a slow-down of the project pace. This is caused by the fact that GR has an opportunity to build two tunnels in the mountainous gorge section instead of one with no additional cost. This would double the capacity of the track. This however has to be approved by the government, which requires certain procedures and time. Until the necessary approvals are collected, the project continues in a slower pace. Other capital expenditures also decreased during first nine month of the year 2014. Other CAPEX was equal to 42.6 million GEL in nine month of the year 2014 and 68.3 million GEL it the nine month of the year 2013.

3.3 Net cash used in financing activities

The following table shows cash from financing activities for the nine month periods ended 30 September 2014 and 2013:

	9 month period ended 30 September			
Cash flows from financing activities	**2014 9M**	**% Change**	**Abs. Change**	**2013 9M**
Interest paid	(72,826)	4.4%	(3,062)	(69,764)
Dividends paid	(20,000)	11.1%	(2,000)	(18,000)
Repayment of borrowings	-	-100%	26	(26)
Net cash used in financing activities	**(92,826)**	5.7%	(5,036)	**(87,790)**

The Company's total net cash used in financing activities increased by 5.7 per cent (GEL 5.0 million). This was mainly caused by the increase in interest paid by 4.4 per cent (GEL 3.1 million) and by the increase in dividends paid by 11.1 per cent (GEL 2.0 million). Interest paid increased due to appreciation of USD against GEL. Company's dividend payments are restricted by its covenants for the bonds, according to which starting from 2013, 50% of previous years' consolidated net income is the maximum amount that can be paid in any given year.

4. Balance Sheet

’000GEL	30 Sep 2014	% change	Abs. change	31 Dec 2013
ASSETS				
Non-current assets				
Property, plant and equipment	2,386,887	1.7%	39,700	2,347,187
Deferred tax Assets	1,557	0.0%	-	1,557
Other non-current assets	190,488	5.3%	9,626	180,862
Goodwill	46	0.0%	-	46
Total non-current assets	**2,578,978**	**1.9%**	**49,326**	**2,529,652**
Current assets				
Inventories	30,586	-29.0%	-12,473	43,059
Current tax assets	5,689	-51.3%	-6,000	11,689
Trade and other receivables	62,665	19.6%	10,263	52,402
Prepayments and other current assets	14,184	-64.0%	-25,245	39,429
Cash and cash equivalents	252,942	21.0%	43,946	208,996
Total current assets	**366,066**	**3.0%**	**10,491**	**355,575**
Total assets	**2,945,044**	**2.1%**	**59,817**	**2,885,227**
EQUITY AND LIABILITIES				
Equity				
Share capital	1,052,091	0.2%	2,016	1,050,075
Non-cash owner contribution reserve	34,213	8.0%	2,540	31,673
Retained earnings	544,894	11.8%	57,515	487,379
Total equity	**1,631,198**	**4.0%**	**62,071**	**1,569,127**
Non-current liabilities				
Loans and borrowings	921,974	1.0%	8,780	913,194
Advance received from the Government	229,377	-1.0%	(2,215)	231,592
Trade and other payables	52	0.0%	-	52
Deferred tax liabilities	64,475	10.3%	6,039	58,436
Total non-current liabilities	**1,215,878**	**1.0%**	**12,604**	**1,203,274**
Current liabilities				
Loans and borrowings	15,532	-54.0%	(18,215)	33,747
Trade payables and advances received	57,920	3.1%	1,759	56,161
Liabilities to the Government	8,346	-30.0%	(3,571)	11,917
Provisions	7,581	23.2%	1,427	6,154
Other current liabilities	8,589	77.2%	3,742	4,847
Total current liabilities	**97,968**	**-13.2%**	**(14,858)**	**112,826**
Total liabilities	**1,313,846**	**-0.2%**	**(2,254)**	**1,316,100**
Total equity and liabilities	**2,945,044**	**2.1%**	**59,817**	**2,885,227**

4.1. Non-current Assets

The following table sets forth breakdown of non-current assets as of 30 September 2014 and 31 December 2013:

’000 GEL	30 Sep 2014	% change	Abs. change	31 Dec 2013
ASSETS				
Property, plant and equipment	2,386,887	1.7%	39,700	2,347,187
Deferred tax Assets	1,557	0.0%	-	1,557
Other non-current assets	190,488	5.3%	9,626	180,862
Goodwill	46	0.0%	-	46
Total non-current assets	**2,578,978**	**1.9%**	**49,326**	**2,529,652**

Total non-current assets increased by 1.9 per cent (GEL 49.3 million) as at the 30 September 2014, compared to 31 December 2013. The increase was mainly caused by increase in property, plant and equipment by 1.7 per cent (GEL 39.7 million). This increase was due to increase in construction-in-progress in the framework of Modernization and Tbilisi Bypass project. Other non-current assets increased by 5.3 per cent (GEL 9.6 million), the main reason of this increase was increase in prepayments for non-current assets caused by the increase payment to wagon-building company. Another reason of the increase was purchase of materials for different capital projects.

4.2. Current Assets

The following table sets forth breakdown of current assets as of 30 September 2014 and 31 December 2013:

’000 GEL	30 Sep 2014	% change	Abs. change	31 Dec 2013
Inventories	30,586	-29.0%	(12,473)	43,059
Current tax assets	5,689	-51.3%	(6,000)	11,689
Trade and other receivables	62,665	19.6%	10,263	52,402
Prepayments and other current assets	14,184	-64.0%	(25,245)	39,429
Cash and cash equivalents	252,942	21.0%	43,946	208,996
Total current assets	**366,066**	**3.0%**	**10,671**	**355,575**

Total current assets increased by 3.0 per cent (GEL 10.7 million) as at the 30 September 2014 compared to 31 December 2013. Increase in trade and other receivables and total cash and cash equivalents was partly offset by the decrease in current tax assets, inventories and prepayments and other current assets. Increase in Trade and other receivables was caused by increase in payments receivable from foreign railways, mainly from Azerbaijan. Decrease in inventories is mainly caused by the used materials acquired at the end of 2013 and temporarily increased number of repairs, while the decrease in prepayment and other current assets was caused by the usage of tax surpluses for compensating income tax payable and property and land taxes.

4.3. Equity

The following table sets forth breakdown of equity as of 30 September 2014 and 31 December 2013:

’000 GEL	30 Sep 2014	% change	Abs. change	31 Dec 2013
Share capital	1,052,091	0.2%	2,016	1,050,075
Non-cash owner contribution reserve	34,213	8.0%	2,540	31,673
Retained earnings	544,894	11.8%	57,515	487,379
Total equity	**1,631,198**	**4.0%**	**62,071**	**1,569,127**

Total equity increased by 4.0 per cent (GEL 62.1 million) as at the 30 September 2014, compared to 31 December 2013. The increase mainly was caused by an increase in retained earnings by 11.8 per cent (GEL 57.5 million) in line with net income for the nine month period and dividend payments. Share capital and non-cash owners contribution reserve increased as a result of some land transfers from the government to the company.

4.4. Non-current liabilities

The following table sets forth breakdown of non-current liabilities as of 30 September 2014 and 31 December 2013:

’000 GEL	30 Sep 2014	% change	Abs. change	31 Dec 2013
Loans and borrowings	921,974	1.0%	8,780	913,194
Advance received from the Government	229,377	-1.0%	(2,215)	231,592
Trade and other payables	52	0.0%	-	52
Deferred tax liabilities	64,475	10.3%	6,039	58,436
Total non-current liabilities	**1,215,878**	**1.0%**	**12,604**	**1,203,274**

Total increase in non-current liabilities was 1.0 per cent (GEL 12,6 million) as of 30 September 2014, compared to 31 December 2013. Increase in loans and borrowings were caused by the difference in USD/GEL exchange rate between 30 September 2014 and 31 Dec 2013, as the liabilities are mostly in USD.

GEL 229.4 million relating to the advances received from the government, represent the amount for which the company has made an agreement with the government of Georgia, that when the Bypass project is completed, the company would transfer the freed-up land to the government. In return, the amount of GEL 229.4 million would be subtracted from the retained earnings of the company. The subtraction is already made, however the project is not yet complete and the land remains with the company. Thus the amount is shown in the balance sheet as a liability. As already stated, Bypass project is negotiated to be postponed for about 3 years. In case the project is cancelled, the liability indicated in the balance sheet will be added back to the retained earnings of the company, without any monetary effect. Decrease in advances received from the Government are a result of the transfer of the part of the land, which was not needed for current operations, to the state in accordance with the existing agreement.

4.5. Current liabilities

The following table sets forth breakdown of current liabilities as of 30 September 2014 and 31 December 2013:

’000 GEL	**30 Sep 2014**	**% change**	**Abs. change**	**31 Dec 2013**
Loans and borrowings	15,532	-54.0%	(18,215)	33,747
Trade payables and advances received	57,920	3.1%	1,759	56,161
Liabilities to the Government	8,346	-30.0%	(3,571)	11,917
Provisions	7,581	23.2%	1,427	6,154
Other current liabilities	8,589	77.2%	3,742	4,847
Total current liabilities	**97,968**	**-13.2%**	**(14,858)**	**112,826**

Total current liabilities decreased by 13.2 per cent (GEL 14.9 million) as at the 30 September 2014, compared to the 31 December 2013, which was mainly caused by the decrease in loans and borrowings by 54.0 per cent (GEL 18.2 million). This was due to the fact that, loans and borrowings in the current liabilities consist of accrued coupon payable on the existing Eurobond obligations. As the payments are made in January and July, at December 31 the accrued amount is higher, than as at September 30. Liabilities to the government decreased as a result of the certain assets being transferred to the state. These assets were taken out of the capital of the company in previous periods, but were recorded as a liability as the actual transfer was delayed. Currently, as the transfer was made, the liability decreased.

5. Operational Performance Report

5.1. Traffic report

5.1.1. Freight traffic data

The following table sets forth breakdown of the freight transportation volumes, by type of freight transported, for the nine month periods ended 30 September 2014 and 2013:

Ton, Millions	**9 month period ended 30 September**			
	2014 Q3	***% Change***	***Abs. Change***	**2013 Q3**
Liquid Cargoes	**5.5**	**-16.9%**	**-1.13**	**6.7**
of which				
Crude Oil	1.4	-51.9%	-1.48	2.8
Oil Products	4.2	9.2%	0.35	3.8
Dry Cargoes	**6.9**	**1.8%**	**0.12**	**6.7**
of which				
Grain	0.6	4.7%	0.03	0.6
Construction Freight	1.3	23.6%	0.26	1.1
Cement	0.3	-33.4%	-0.17	0.5
Industrial Freight	0.4	-14.1%	-0.06	0.4
Ferrous Metals and Scrap	0.8	7.6%	0.06	0.7
Ores	1.4	-1.5%	-0.02	1.4
Sugar	0.4	1.7%	0.01	0.4
Chemicals, fertilizers	0.4	4.8%	0.02	0.4
Other	1.2	0.6%	0.01	1.2
Total	**12.4**	**-7.5%**	**-1.01**	**13.4**

In the nine months of 2014 total freight transportation volumes decreased by 7.5 per cent (1.0 million tons), compared to the same period of the previous year. The decrease was caused by the decrease in liquid cargo transportation by 16.9 per cent (1.13 million tons) which in its turn was due to the decrease in Crude Oil. The reason for a decrease of crude oil is an expansion of CPC pipeline and redirection of Kazakh TCO oil from GR. Production of crude oil from Kashagan field was postponed, thus a possible substitution for the lost volumes did not take place.

Decrease of crude oil was offset by increase in oil products, which is profitable for the company, as the tariff on oil products is higher and equals to 13.5 US dollar per ton, compared to crude oil tariff which is equal to 10.8 US dollar per ton. Transportation of oil products increased because of increased transportation of certain types of oil products. During the first nine month of 2014 there was a significant increase in transportation of heavy fuel oil from Azerbaijan and Kazakhstan. This was a result of successful effort of the company to reallocate the transportation path of this cargo to Georgian corridor. Another reasons of the increase during the first nine month of the year 2014 was increase in gas-oil transportation from Azerbaijan, caused by the increase in demand on this product in the global market, (a result of the changes in diesel production process). The bulk of the increase in oil products took place in late months of Q3 2014, which provides grounds for the expectation of improved performance for future periods.

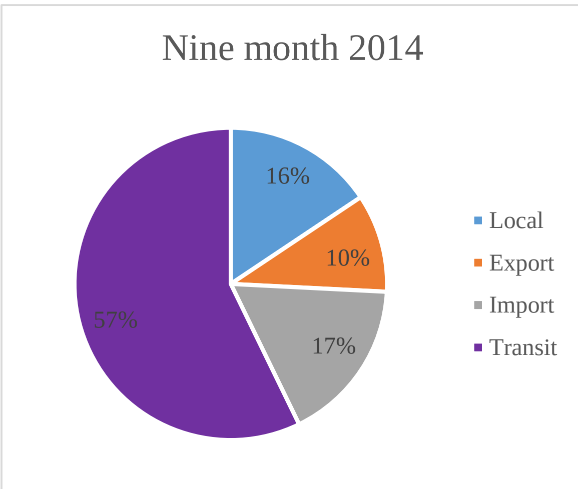
Dry cargo increased overall. Main reason was transportation of construction freight, which in the nine month of year 2014, increased by 24 per cent (260 thousand tons). The reason of this increase was renovation of some construction projects in 2014, caused by the stabilization of political situation within the country. Main offsetting factor was the decrease in transportation of cement in nine month 2014 decreased by 33 per cent (170 thousand tons), caused by the decrease of transportation of cement from Georgia to Azerbaijan by 182 thousand tons.

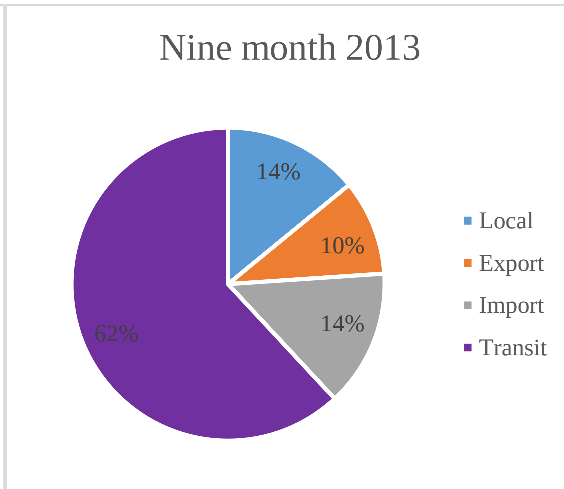
The following table sets forth the breakdown of freight transportation volumes by types of freight transported by months in 2014:

Tons, Millions	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Liquid Cargoes	**0.58**	**0.52**	**0.67**	**0.57**	**0.61**	**0.60**	**0.71**	**0.67**	**0.62**
of which									
Crude Oil	0.20	0.12	0.25	0.23	0.07	0.14	0.10	0.13	0.14
Oil Products	0.39	0.40	0.42	0.34	0.54	0.46	0.61	0.54	0.48
Dry Cargoes	**0.71**	**0.60**	**0.71**	**0.70**	**0.81**	**0.78**	**0.92**	**0.85**	**0.77**
of which									
Grain	0.07	0.03	0.04	0.05	0.04	0.05	0.09	0.13	0.10
Construction Freight	0.10	0.10	0.14	0.13	0.16	0.16	0.19	0.18	0.18
Cement	0.03	0.03	0.04	0.04	0.04	0.04	0.05	0.04	0.02
Industrial Freight	0.02	0.04	0.04	0.03	0.07	0.04	0.07	0.03	0.02
Ferrous Metals and Scrap	0.10	0.07	0.10	0.08	0.10	0.09	0.09	0.08	0.07
Ores	0.15	0.14	0.17	0.15	0.19	0.15	0.18	0.17	0.13
Sugar	0.07	0.05	0.01	0.04	0.06	0.06	0.04	0.08	0.04
Chemicals, fertilizers	0.07	0.04	0.05	0.04	0.04	0.03	0.05	0.01	0.05
Other	0.10	0.10	0.13	0.14	0.11	0.15	0.16	0.13	0.16
Total	**1.30**	**1.12**	**1.38**	**1.27**	**1.42**	**1.38**	**1.63**	**1.52**	**1.39**

From the table above we can see that transportation of grain has been increased in last months. Management expects that this positive trend will be continued, as grain transportation is seasonal and H2 demonstrates better performance than H1 in general. We can see that recent trends in transportation also include increase in construction freight transportation in the last months.

The following graphs show freight transportation volumes by type of transportation for the nine month periods ended 30 September 2014 and 2013:

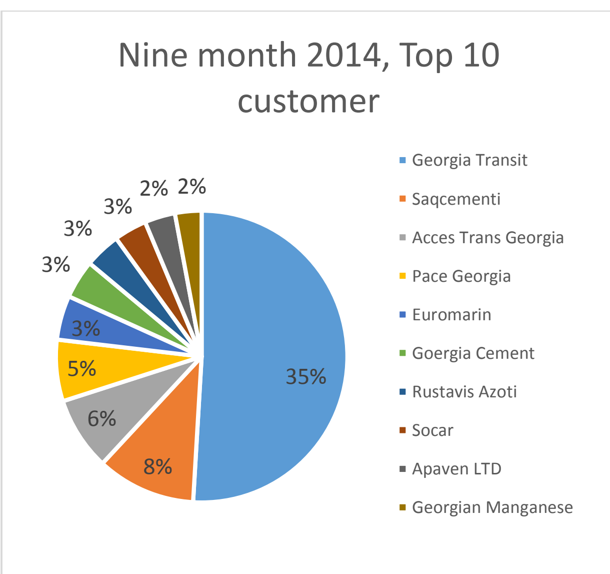


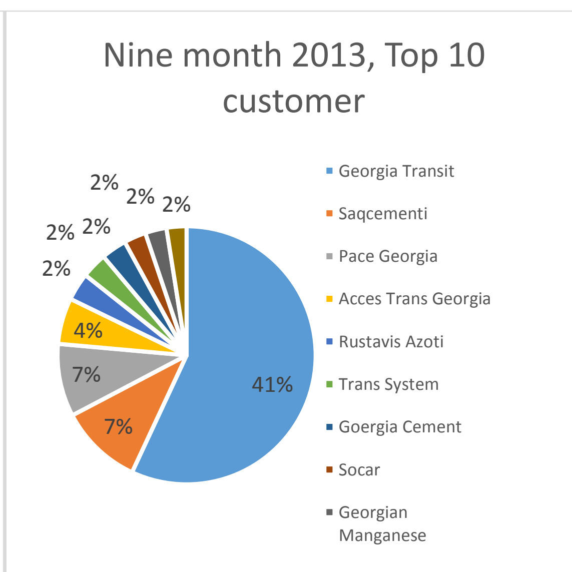


Top 10 freight customers in the month periods ended 30 September 2014 and 2013:

In 3Q 2014 top ten freight customers transported 70% (8.5 million ton) of total freight volume – 12.2 million ton:

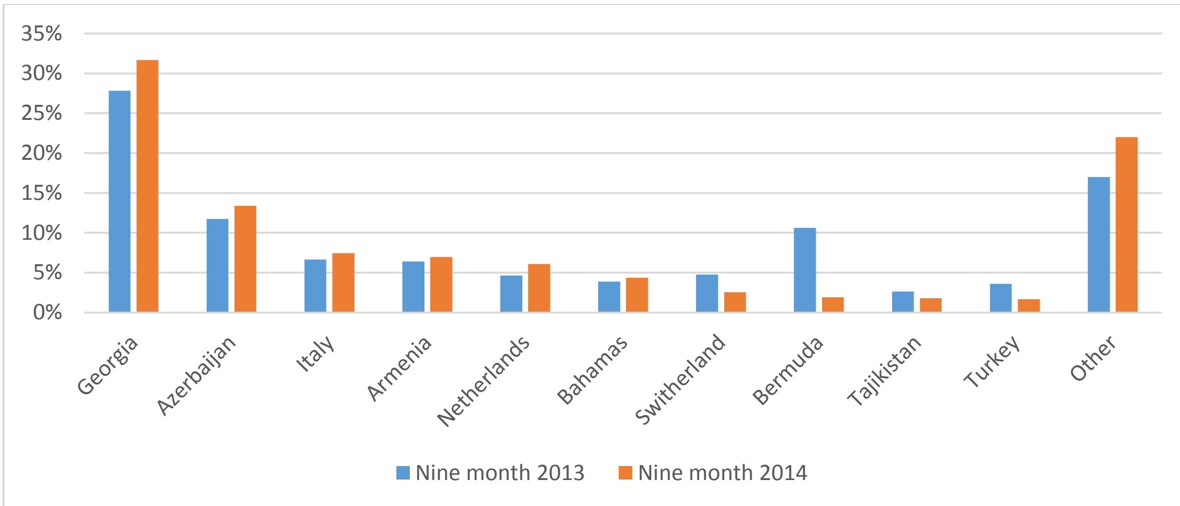
In 3Q 2013 top ten freight customers transported 77% (10.1million ton) of total freight volume – 13.2 million ton:





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

Countries of destination Q3 2014 and Q3 2013



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

Countries of origin Q3 2014 and Q3 2013