



Q3 financial and non-financial highlights

- Revenue for Q3 2017, decreased by 8 percent compared to Q3 2016, but increased by 21 percent, compared to Q2 2017;
- Results from operating activities for Q3 2017, decreased by 84 percent compared to Q3 2016, but increased by 79 percent, compared to Q2 2017;
- EBITDA for Q3 2017, decreased by 65 percent compared to Q3 2016, but increased by 59 percent, compared to Q2 2017;
- EBITDA margin for Q3 2017, decreased from 118 percent to 45 percent as compared to Q3 2016, but increased by 11 points, compared to Q2 2017 (34 percent);
- Adjusted EBITDA for Q3 2017, decreased by 25 percent compared to Q3 2016, but increased by 64 percent, compared to Q2 2017;
- Adjusted EBITDA margin for Q3 2017, decreased from 52 percent to 43 percent as compared to Q3 2016, but increased by 20 points, compared to Q2 2017 (32 percent);
- Net Debt to EBITDA has increased from 3.49 as at 30 June 2017 to 3.59 as at 30 September 2017.

9M financial and non-financial highlights

- Revenue for 9M 2017 decreased by 6 percent, compared to 9M 2016;
- Results from operating activities for 9M 2017 decreased by 70 percent, compared to 9M 2016;
- EBITDA for 9M 2017 decreased by 43 percent, compared to 9M 2016;
- EBITDA margin for 9M 2017 decreased from 69 percent to 42 percent, as compared to 9M 2016;
- Adjusted EBITDA for 9M 2017 decreased by 16 percent, compared to 9M 2016;
- Adjusted EBITDA margin for 9M 2017 decreased from 44 percent to 39 percent, as compared to 9M 2016;
- Net Debt to EBITDA has increased from 3.48 as at 31 December 2016 to 3.59 as at 30 September 2017;
- In January 2017 Fitch rating has downgraded Georgian Railway to 'B+' from 'BB-' and assigned a Stable Outlook. In September 2017, S&P Global Ratings revised its outlook to negative from stable;
- In the first nine months of 2017 the Group purchased two new passenger trains produced by Swiss rolling stock manufacturer Stadler.

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1. Profit or Loss Statement

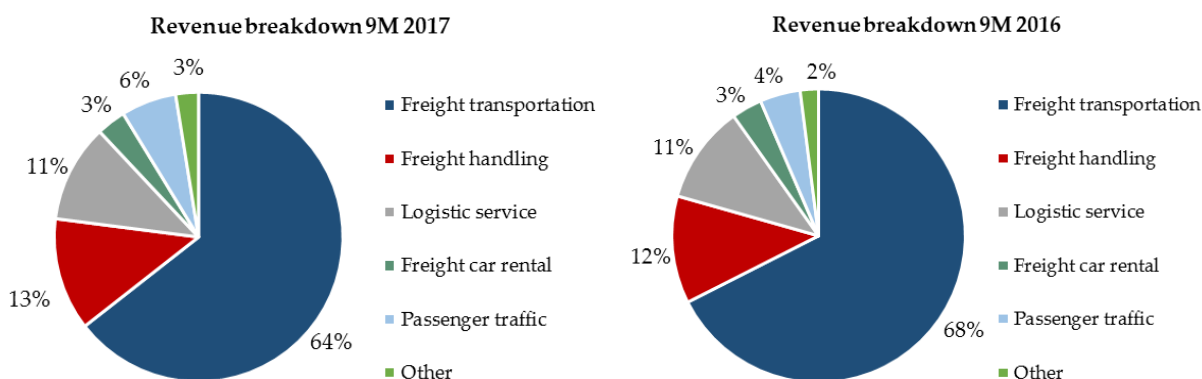
<i>GEL '000 period ended 30 September</i>	Q3 2017	Q3 2016	y-o-y	Q2 2017	q-o-q	9M 2017	9M 2016	y-o-y % change	y-o-y Abs. change
Revenue	108,967	118,670	-8.2%	89,911	21.2%	303,297	323,006	-6.1%	-19,709
Income from sale of fixed assets	2,431	77,455	-96.9%	0	N/A	2,431	77,455	-96.9%	-75,024
Other income	1,164	5,304	-78.1%	5,211	-77.7%	11,047	14,344	-23.0%	-3,297
Employee benefits expense	-35,559	-36,660	-3.0%	-38,380	-7.4%	-109,394	-109,110	0.3%	-284
Depreciation and amortization	-30,298	-24,933	21.5%	-20,462	48.1%	-82,273	-77,563	6.1%	-4,710
Electricity, consumables and maintenance costs	-10,383	-10,929	-5.0%	-10,550	-1.6%	-31,682	-34,538	-8.3%	2,856
Other expenses	-17,575	-13,559	29.6%	-15,266	15.1%	-49,861	-49,465	-0.8%	-396
Result from operating activities	18,747	115,348	-83.7%	10,464	79.2%	43,565	144,129	-69.8%	-100,564
Net finance income/loss	-40,969	-2,485	1548.7%	12,862	-418.5%	50,677	3,209	1479.2%	47,468
Profit before income tax	-22,222	112,863	-119.7%	23,326	-195.3%	94,242	147,338	-36.0%	-53,096
Income tax expense(benefit)	-94	-32,254	-99.7%	-243	-61.3%	-542	-17,160	-96.8%	16,618
Profit and total comprehensive income	-22,316	80,609	-127.7%	23,083	-196.7%	93,700	130,178	28.0%	-36,478
EBITDA	49,045	140,281	-65.0%	30,926	58.6%	125,838	221,692	-43.2%	-95,854
EBITDA margin	45.0%	118.2%	N/A	34.4%	N/A	41.50%	68.60%	N/A	-27.1%
Adjusted EBITDA	46,698	61,905	-24.6%	28,398	64.4%	118,048	140,595	-16.0%	-22,548
Adjusted EBITDA Margin	42.9%	52.2%	N/A	31.6%	N/A	38.90%	43.50%	N/A	-4.6%

1.1 Revenue

<i>GEL '000 period ended 30 September</i>	Q3 2017	Q3 2016	y-o-y	Q2 2017	q-o-q	9M 2017	9M 2016	% Change	% Change at constant currency	Abs. Change
Freight transportation*	68,538	76,831	-10.8%	58,757	16.6%	195,474	218,147	-10.4%	-16.1%	-22,673
Freight handling*	13,201	13,169	0.2%	11,683	13.0%	38,174	38,252	-0.2%	-5.9%	-78
Logistical service*	10,462	14,477	-27.7%	9,722	7.6%	33,203	34,869	-4.8%	-10.8%	-1,666
Freight car rental	4,044	3,352	20.6%	2,263	78.7%	9,910	10,833	-8.5%	-13.9%	-923
Passenger traffic	10,846	7,981	35.9%	4,135	162.3%	18,787	14,382	30.6%	30.4%	4,405
Other	1,876	2,860	-34.4%	3,351	-44.0%	7,749	6,523	18.8%	17.2%	1,226
Revenue	108,967	118,670	-8.2%	89,911	21.2%	303,297	323,006	-6.1%	-11.5%	-19,709
Income from sale of fixed assets	2,431	77,455	-96.9%	0	NA	2,431	77,455	-96.9%	NA	-75,024
Other income	1,164	5,304	-78.1%	5,211	-77.7%	11,047	14,344	-23.0%	NA	-3,297
Freight transportation	68,538	76,831	-10.8%	58,757	16.6%	195,474	218,147	-10.4%	-16.1%	-22,673
Liquid cargoes	28,257	34,459	-18.0%	24,672	14.5%	84,860	98,014	-13.4%	-18.9%	-13,154
Oil products	27,352	25,037	9.2%	23,018	18.8%	78,536	76,845	2.2%	-4.3%	1,691
Crude oil	905	9,421	-90.4%	1,654	-45.3%	6,324	21,169	-70.1%	-72.0%	-14,845
Dry cargoes	40,281	42,372	-4.9%	34,085	18.2%	110,614	120,133	-7.9%	-13.7%	-9,519
Ores	6,963	6,652	4.7%	6,087	14.4%	19,385	18,673	3.8%	-2.7%	712
Grain	1,864	5,907	-68.4%	1,739	7.2%	5,840	10,154	-42.5%	-46.1%	-4,314
Ferrous metals and scrap	3,004	4,011	-25.1%	2,382	26.1%	8,125	17,167	-52.7%	-55.6%	-9,042
Sugar	6,180	5,368	15.1%	4,207	46.9%	14,514	16,851	-13.9%	-19.3%	-2,337
Chemicals and fertilizers	3,509	1,445	142.8%	1,676	109.4%	8,723	6,439	35.5%	26.9%	2,284
Construction freight	1,863	1,567	18.9%	1,811	2.9%	5,206	4,846	7.4%	0.6%	360
Industrial freight	1,157	884	30.9%	1,371	-15.6%	3,660	2,640	39.6%	29.9%	1,020
Cement	360	308	16.9%	506	-28.9%	1,029	712	44.5%	35.4%	317
Other	15,379	16,228	-5.2%	14,306	7.5%	44,131	42,650	3.5%	-3.1%	1,481
Freight turnover (million ton-km)	709	936	-24.3%	666	6.5%	2,193	2,560	-14.3%	-14.3%	-367
Revenue / ton-km (in Tetri)	9.67	8.21	17.8%	8.82	9.6%	8.91	8.52	4.6%	-2.0%	0.39

* For better presentation, we have separated "logistical services" from "freight transportation" and "freight handling". "Logistical services" represents revenue generated by freight forwarding subsidiaries.

The following charts represent revenue breakdown for the nine months ended 30 September 2017 and 2016:



Freight transportation revenue

Freight transportation revenue has decreased by 11 percent (GEL 8.3 million) during the third quarter of 2017, compared to the same period of the previous year, but increased by 17 percent (GEL 9.8 million) compared to the second quarter of 2017.

Freight transportation revenue has decreased by 10 percent (GEL 22.7 million) during the nine months ended 30 September 2017, compared to the same period of the previous year.

	Average rate			Reporting date spot rates			
	9M 2017	9M 2016	% Change	30-Sep-17	31-Dec-16	30-Sep-16	31-Dec-15
USD	2.48	2.32	6.7%	2.48	2.65	2.33	2.39
CHF	2.52	2.37	6.3%	2.55	2.60	2.40	2.42

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

Total freight volume transported by the Group during the nine months ended 30 September 2017 has decreased by 11 percent, compared to the same period of previous year. The decrease was shown in both liquid and dry cargoes (see Appendix 1).

Oil product

Revenue from the transportation of oil products for Q3 2017 increased by 9 percent, compared to Q3 2016 and by 19 percent, compared to Q2 2017.

9 month period ended 30 September

	9M 2017	9M 2016	% Change	% Change at constant currency
Revenue (GEL'000)	78,536	76,845	2.2%	-4.3%
Freight volume (ton '000)	2,970	2,660	11.6%	11.6%
Freight turnover (million ton-km)	933	794	17.5%	17.5%
Revenue / ton-km (in Tetri)	8.42	9.68	-13.1%	-18.5%

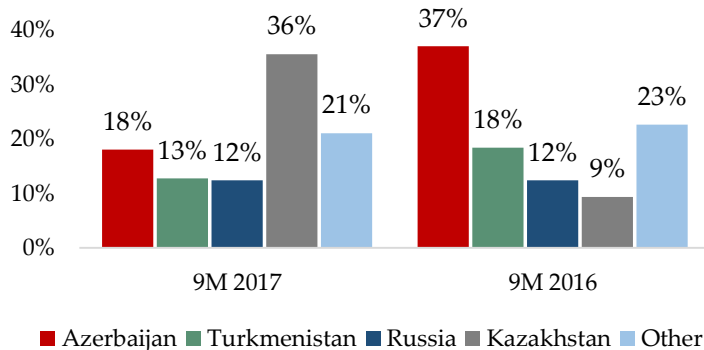
*For better presentation, we have separated "logistical services" from "freight transportation" and "freight handling". "Logistical services" represents revenue generated by freight forwarding subsidiaries.

Transportation turnover of oil products for the nine months ended 30 September 2017, compared to the same period of 2016, has increased by 18 percent and freight volume was up by 12 percent, while transportation revenue has increased only by 2 percent. These disproportional changes were mainly caused by decrease in tariffs at the end of 2016 for some oil products, also by changes in product category and direction mixes.

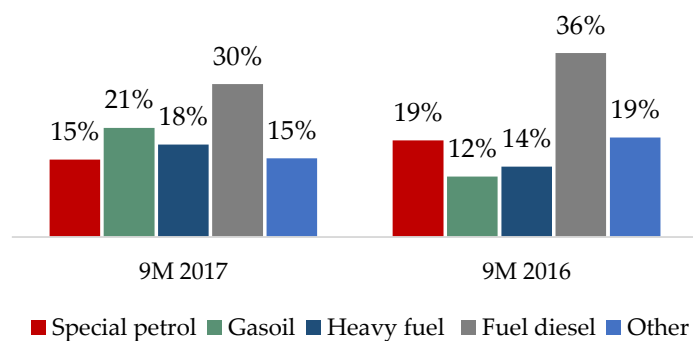
Share of transportation volume from Kazakhstan was up from 9 percent to 36 percent while, share of transportation volume from Azerbaijan was down from 37 percent to 18 percent.

The increase in transportation volume was mainly caused by increased transportation of gasoil by 320,000 tons and heavy fuel oil by 170,000 tons.

Transportation volume by countries of origin



Product category mix



Crude oil

Revenue from the transportation of crude oil for Q3 2017 decreased by 90 percent, compared to Q3 2016 and by 45 percent, compared to Q2 2017.

9 month period ended 30 September

	9M 2017	9M 2016	% Change	% Change at constant currency
Revenue (GEL'000)	6,324	21,169	-70.1%	-72.0%
Freight volume (ton '000)	321	1,389	-76.9%	-76.9%
Freight turnover (million ton-km)	126	549	-77.1%	-77.1%
Revenue / ton-km (in Tetri)	5.02	3.85	30.3%	22.1%

*For better presentation, we have separated "logistical services" from "freight transportation" and "freight handling". "Logistical services" represents revenue generated by freight forwarding subsidiaries.

Within the nine months ended 30 September 2017 main countries of origin for crude oil volumes transported were Azerbaijan and Turkmenistan, with significant changes in transportation direction mix compared to the same period of 2016.

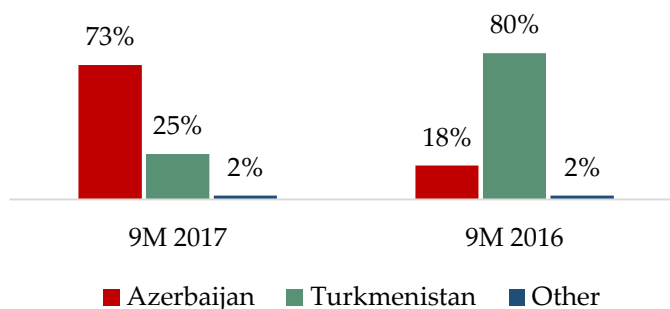
The decrease in transportation revenue by 70 percent in the nine months ended 30 September 2017, compared to the same period of 2016, was mainly caused by reduced transportation turnover, which was partly compensated by the increase in average revenue per ton-kilometer.

The decrease in transportation turnover during the period under review was mainly caused by the sharp fall (about 93 percent) in crude oil transportation volume from Turkmenistan.

The decrease in transportation turnover during the period under review was mainly caused by the sharp fall (about 93 percent) in crude oil transportation volume from Turkmenistan.

The increase in average revenue per ton-kilometer was due to the changes in transportation direction mix. Transportation share from Azerbaijan, relatively more profitable direction, has seen a considerable increase during the nine months ended 30 September 2017, compared to the same period of the previous year, while transportation volume from Turkmenistan has declined significantly.

Transportation volume by countries of origin



Grain

Revenue from the transportation of grain for Q3 2017 decreased by 68 percent, compared to Q3 2016 but increased by 7 percent, compared to Q2 2017.

9 month period ended 30 September

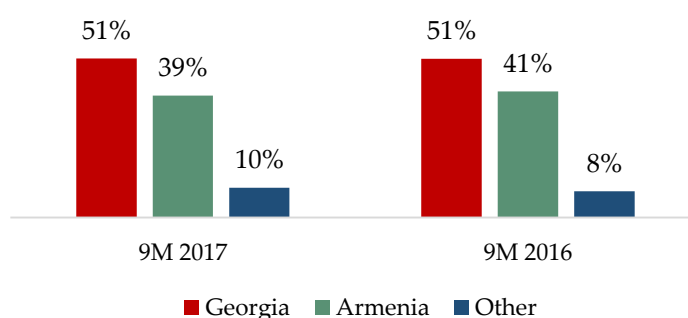
	9M 2017	9M 2016	% Change	% Change at constant currency
Revenue in GEL million	5,840	10,154	-42.5%	-46.1%
Freight volume (ton '000)	223	324	-31.2%	-31.2%
Freight turnover (million ton-km)	54	102	-46.6%	-46.6%
Revenue / ton-km (in Tetri)	10.76	9.98	7.8%	1.0%

*For better presentation, we have separated “logistical services” from “freight transportation” and “freight handling”. “Logistical services” represents revenue generated by freight forwarding subsidiaries.

The main country of origin for grain and grain products was Russia (about 76 percent during the nine months ended 30 September 2017). The main destination countries were Georgia and Armenia.

The decrease in transportation revenue by 42 percent in the period under review, compared to the same period of the previous year, was mainly caused by decreased transportation in the direction of Georgia and Armenia, by 51,000 and 44,000 tons, respectively.

Transportation volume by destination countries



Transportation volume has decreased by 31 percent, while transportation turnover was down by 47 percent in the nine months ended 30 September 2017, compared to the same period of 2016. These disproportional changes were caused by significant reduction in average transportation distance for one of the main destination countries, Georgia.

Ferrous metals and scrap

Revenue from the transportation of ferrous metals and scrap for Q3 2017 decreased by 25 percent, compared to Q3 2016 but increased by 26 percent, compared to Q2 2017.

9 month period ended 30 September

	9M 2017	9M 2016	% Change	% Change at constant currency
Revenue in GEL million	8,125	17,167	-52.7%	-55.6%
Freight volume (ton '000)	403	532	-24.2%	-24.2%
Freight turnover (million ton-km)	93	132	-29.3%	-33.1%
Revenue / ton-km (in Tetri)	8.73	13.05	-33.1%	-37.3%

*For better presentation, we have separated “logistical services” from “freight transportation” and “freight handling”. “Logistical services” represents revenue generated by freight forwarding subsidiaries.

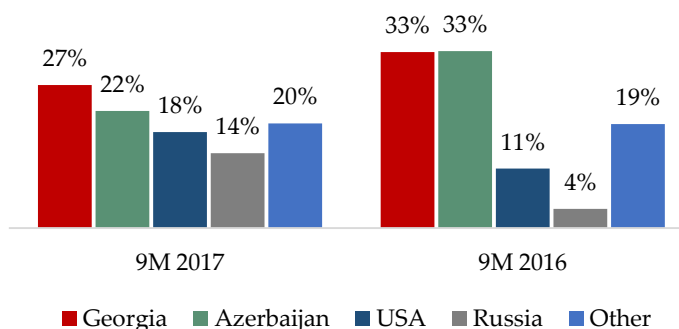
The main destination countries for ferrous metals and scrap during the period under review were Georgia, Azerbaijan, USA and Russia together creating 80 percent of total volume transported in the nine months ended 30 September 2017.

The decrease in transportation revenue by 53 percent during the period under review, compared to the same period of the previous year, was driven by reduced transportation turnover and average revenue per ton-kilometer.

During the nine months ended 30 September 2017, transportation volume has decreased by 24 percent, compared to the same period of 2016, while transportation turnover has decreased by 29 percent. This was caused by reduced share of Azerbaijan (which covers longer distances) from 33 to 22 percent of total volume transported by the Group and at the same time the reduction in transportation distance to Azerbaijan by 12 percent, while the share of Russia (which covers shorter distances) has increased from 4 percent to 14 percent.

The decrease in average revenue per ton-kilometer was due to ceased transportation of pipes for oil and gas pipelines to Azerbaijan, which are relatively more profitable products, because of changes in product category mix transported to Georgian direction and also due to the increase of shares of Russia and USA (which are less profitable directions) in total volume transported by the group.

Transportation volume by destination countries



Sugar

Revenue from the transportation of Sugar for Q3 2017 increased by 15 percent, compared to Q3 2016 and by 47 percent, compared to Q2 2017.

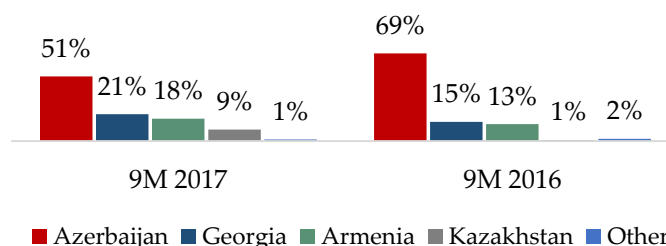
9 month period ended 30 September

	9M 2017	9M 2016	% Change	% Change at constant currency
Revenue in GEL million	14,514	16,851	-13.9%	-19.3%
Freight volume (ton '000)	305	445	-31.5%	-31.5%
Freight turnover (million ton-km)	107	164	-34.8%	-34.8%
Revenue / ton-km (in Tetri)	13.55	10.26	32.0%	23.7%

*For better presentation, we have separated "logistical services" from "freight transportation" and "freight handling". "Logistical services" represents revenue generated by freight forwarding subsidiaries.

Brazil was the main country of origin for transported volumes of sugar for the nine months ended 30 September 2017 and 2016, with the share of 92 percent and 93 percent, respectively. Main destination countries of the sugar were Azerbaijan, Georgia, Armenia and Kazakhstan with 99 percent of

Transportation volume by destination countries



total volume transported by the Group in total.

The transportation volume and turnover has decreased by 32 percent and 35 percent, respectively, while transportation revenue has decreased by 14 percent. These disproportional changes were caused by the contract according to which the entity was obliged to transport specified volume of sugar and in the case of failure it should have paid the amount of underperforming volumes. The entity failed to perform volumes amount of which was GEL 3.9 million. As a result, only transportation revenue increased.

The average revenue per ton-kilometer shows 32 percent increase in the nine months ended 30 September 2017, compared to the same period of 2016, because of the increase of revenue caused by underperformed volumes. Without this issue taken into account, the average revenue per ton-kilometer has decreased by 3 percent.

Chemicals and fertilizers

Revenue from the transportation of chemicals and fertilizers for Q3 2017 increased by 143 percent, compared to Q3 2016 and by 109 percent, compared to Q2 2017.

9 month period ended 30 September

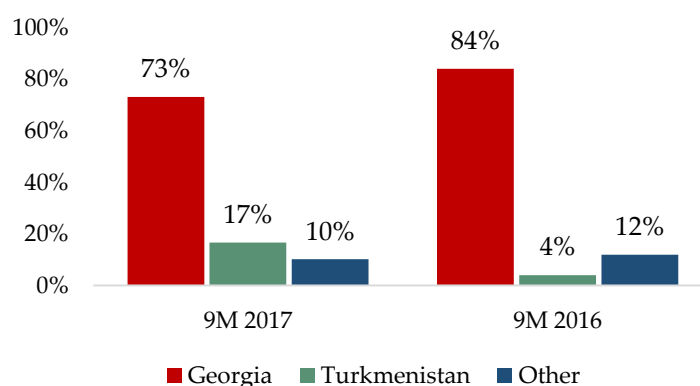
	9M 2017	9M 2016	% Change	% Change at constant currency
Revenue in GEL million	8,723	6,439	35.5%	26.9%
Freight volume (ton '000)	401	310	29.3%	29.3%
Freight turnover (million ton-km)	125	92	35.6%	35.6%
Revenue / ton-km (in Tetri)	6.99	6.99	-0.1%	-6.4%

**For better presentation, we have separated "logistical services" from "freight transportation" and "freight handling". "Logistical services" represents revenue generated by freight forwarding subsidiaries.*

The main countries of origin for transported volumes for chemicals and fertilizers during the period under review were Georgia and Turkmenistan, together creating 90 percent of total volume transported in the nine months ended 30 September 2017.

The increase in transportation revenue by 35 percent during the period under review, compared to the same period of the previous year, was mainly driven by increased volumes from Georgia by 54,000 tons and from Turkmenistan by 33,000 tons.

Transportation volume by countries of origin



During the nine months ended 30 September 2017, transportation volume has increased by 29 percent, compared to the same period of 2016, while transportation turnover has increased by 36 percent. These

disproportional changes were mainly caused by increased share of Turkmenistan (which covers longer distances) in total volume of chemicals and fertilizers transported by the Group.

Industrial freight

Revenue from the transportation of industrial freight for Q3 2017 increased by 31 percent, compared to Q3 2016 but decreased by 16 percent, compared to Q2 2017.

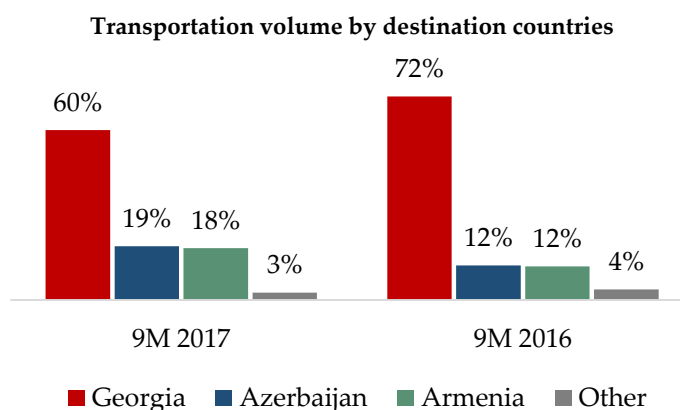
9 month period ended 30 September

	9M 2017	9M 2016	% Change	% Change at constant currency
Revenue in GEL million	3,660	2,640	38.6%	29.9%
Freight volume (ton '000)	198	196	0.9%	0.9%
Freight turnover (million ton-km)	36	30	20.3%	20.3%
Revenue / ton-km (in Tetri)	10.08	8.74	15.3%	8.0%

**For better presentation, we have separated "logistical services" from "freight transportation" and "freight handling". "Logistical services" represents revenue generated by freight forwarding subsidiaries.*

The main destination points for industrial freight transported by the Group during the nine months ended 30 September 2017 were Georgia, Azerbaijan and Armenia with the shares of 60 percent, 19 percent and 18 percent, respectively.

The increase in transportation revenue for the nine months ended 30 September 2017, compared to the same period of 2016, was caused by increased transportation turnover and average revenue per ton-kilometer.



During the period under review, transportation volume has increased by 1 percent, compared to the same period of the previous year, while transportation turnover has increased by 20 percent. These disproportional changes were mainly caused by the increased average transportation distance for one of the main destination countries, Armenia by 35 percent.

The increase in average revenue per ton-kilometer for the nine months ended 30 September 2017, compared to the same period of 2016, was mainly due to the increased transportation share to more profitable directions (Azerbaijan and Armenia), while transportation share to less profitable direction, Georgia, has decreased. The increase in average revenue per ton-kilometer was also caused by increased average revenue on freight transported to Georgia by 18 percent.

Logistical services

Revenue from logistical services for Q3 2017 decreased by 28 percent, compared to Q3 2016 but increased by 8 percent, compared to Q2 2017.

The decrease in logistical services by GEL 1.7 million during the nine months ended 30 September 2017, compared to the same period of the previous year, was mostly attributable to decreased logistical revenue from crude oil, transported from Turkmenistan. During the last nine months period of 2017, revenue generated from GR Transit, fell by 34 percent, compared to the same period of the previous year which was partly offset by increased revenues from other subsidiaries: GR Transit Line (revenue increased by 19 percent during the period under review, compared to the same period of the previous year) and GR Logistics and Terminals (revenue increased by 18 percent during the nine months ended 30 September 2017, compared to the same period of previous year).

Freight car rental

The reduction in revenue from freight car rental by 9 percent (GEL 0.9 million) during the nine months ended 30 September 2017, compared to the same period of 2016, was mainly caused by reduced usage of the Group's tank cars by Azerbaijan and Turkmenistan and by reduced usage of grain carriers by Azerbaijan.

Passenger transportation

Revenue from passenger transportation for Q3 2017 increased by 36 percent, compared to Q3 2016 and by 162 percent, compared to Q2 2017.

<i>9 month period ended 30 September</i>	<i>In '000</i>			
	9M 2017	9M 2016	% Change	Abs. change
Revenue	18,787	14,382	30.6%	4,405
Number of passengers	2,104	1,899	10.8%	205

Revenue from passenger transportation has increased by 31 percent (GEL 4.4 million) during the nine months ended 30 September 2017, compared to the same period of the previous year, while the number of passengers has increased by 11 percent. The higher increase in revenue was driven by increased number of passengers on the main line and international transportation (which has higher tariffs), while the number of passengers on regional transportation remained at about the same level.

Other revenue

The increase in other revenue by GEL 1.2 million during the nine months ended 30 September 2017, compared to the same period of 2016, was mostly attributable to increase in sale of scrap by 59 percent.

1.2 Income from sale of fixed assets

Income from sale of fixed assets decreased by 75 million during the nine months ended September 2017, compared to the same period of the previous year. This significant change was due to extremely high income in the nine months ended September 2016, which represents the sale of land to the Government of Georgia under the Bypass Project Memorandum (Bypass Project Memorandum was signed between

the Government of Georgia and Georgian Railway in April 2012. According to this memorandum, it was agreed that the Company will transfer land plots to the State, which will be freed up as a result of the Bypass Project and the Company will be reimbursed for the amount of VAT paid for sale).

1.3 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, 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).

<i>9 month period ended 30 September</i>			<i>In GEL '000</i>	
	9M 2017	9M 2016	% Change	Abs. change
Continuing operations	5,163	10,593	-51.3%	-5,430
Non-continuing operations	5,884	3,751	56.9%	2,133
Total	11,047	14,344	-23.0%	-3,297

The decrease in other income from continuing operations during the nine months ended 30 September 2017, compared to the same period of the previous year, was mainly due to the lower accrued penalty on debtors.

1.4 Operating expenses

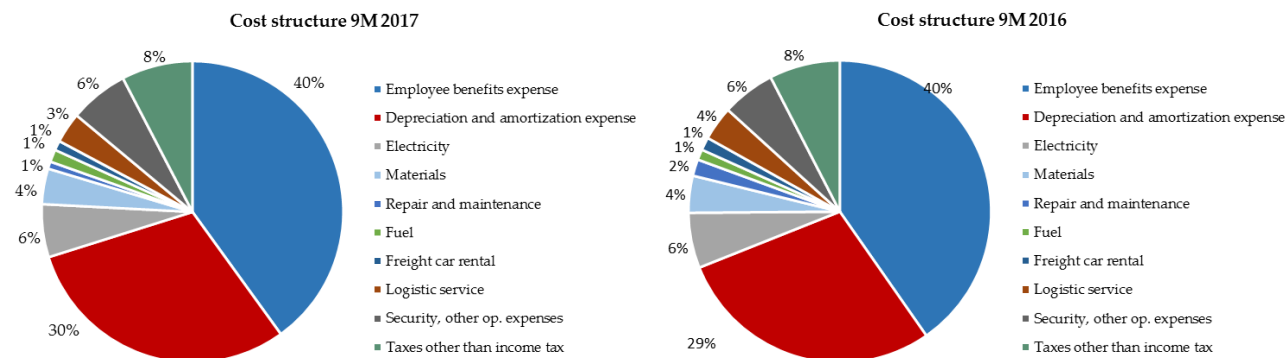
Operating expenses for Q3 2017 increased by 9 percent, compared to Q3 2016 and by 11 percent, compared to Q2 2017.

Total operating expenses for the nine months ended 30 September 2017 increased by GEL 2.5 million, compared to the same period of the previous year. This was mainly caused by increased depreciation and amortization expense as well as by higher security and other operating expenses.

<i>9 month period ended 30 September</i>			<i>In GEL '000</i>	
	9M 2017	9M 2016	% Change	Abs. change
Employee benefits expense	109,394	109,110	0.26%	284
Depreciation and amortization expense	82,273	77,563	6.07%	4,710
Electricity	15,504	15,998	-3.09%	-494
Materials	10,410	10,695	-2.66%	-285
Repair and maintenance	2,128	4,788	-55.56%	-2,660
Fuel	3,640	3,057	19.07%	583
Freight car rental	2,829	3,739	-24.34%	-910
Logistical service	8,953	9,861	-9.21%	-908
Security, other op. expenses	17,230	15,396	11.91%	1,834
Taxes other than income tax	20,849	20,469	1.86%	380
Total	273,210	270,676	0.94%	2,534

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

The following charts represent the cost structure for the nine months ended 30 September 2017 and 2016:

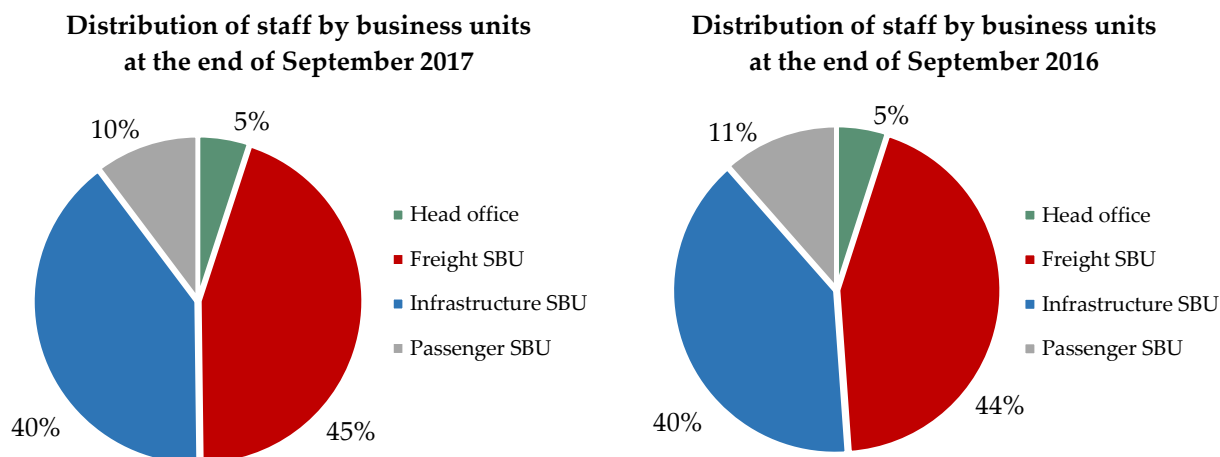


Employee benefits expense

The increase in employee benefits expense during the nine months ended 30 September 2017, compared to the same period of the previous year, was mainly due to higher cost of personal insurance as well as increased expenses on the business trips and aids provided to employees, which was partly offset by reduced expenses for bonus. 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 2017 was equal to 12,356 and by the end of September 2016 was 12,658.

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



Depreciation and amortization expense

Depreciation and amortization expense increased by 6 percent (GEL 4.7 million) during the period under review, compared to the same period of the previous year. This was mainly driven by increased depreciation of infrastructure assets, caused by decrease of the useful life of assets.

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 months ended 30 September 2017 transportation turnover decreased by 14 percent compared to the same period of the previous year consequently, material, repair and maintenance expenses decreased by GEL 2.9 million. The decrease was mainly caused by reduced expenditure on repair of rolling stocks and buildings.

Fuel expenses

During the nine months ended 30 September 2017 fuel expenses increased by 19 percent (GEL 0.6 million), compared to the same period of 2016. This was mainly caused by increased repair works of infrastructure, conducted by internal workforce.

Electricity expenses

<i>9 month period ended 30 September</i>	<i>In GEL '000</i>			
	9M 2017	9M 2016	% Change	Abs. change
Electricity expense of traction	13,118	13,716	-4.4%	-599
Utility expenses	2,386	2,282	4.6%	105
Total	15,504	15,998	-3.1%	-494

Electricity expense of traction decreased by 4 percent during the nine months ended 30 September 2017, compared to the same period of 2016, while gross ton-kilometers has decreased by about 14 percent. This disproportional change was mainly driven by increased tariffs of electricity on open market. Georgian Railway has fixed price for more than 90 percent of its electricity needs under agreement on electricity procurement, the rest of the electricity is procured on open market.

Purchased electricity and weighted average tariff

9 month period ended 30 September

	9M 2017			9M 2016		
	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)
January	14.5	620.3	0.121	12.4	491.3	0.119
February	12.6	497.4	0.121	13.5	586.8	0.119
March	12.5	490.7	0.119	12.7	536.2	0.115
April	11.4	416.7	0.118	12	498.5	0.116
May	10.9	408.3	0.117	12	502.9	0.116
June	11.5	451.7	0.116	12.4	537.8	0.116
July	12.4	459.5	0.116	13.1	562.4	0.116
August	12.3	465.8	0.117	15.5	684.6	0.117
September	12.6	489.3	0.118	13.8	596.4	0.116
Total	110.8	4299.6	0.118	117.4	4996.8	0.117

Note: The table above includes only electricity consumed of traction

Freight car rental expense

Freight car rental expense in the nine months ended 30 September 2017, compared to the same period of the previous year, decreased by about GEL 0.9 million mostly due to the reduced usage of tank cars.

Logistical services

Expenses for logistical services represent operating expenses of Georgian Railway's logistical subsidiaries. The expenses for logistical services in the nine months ended 30 September 2017 have decreased by about 9 percent (GEL 0.9 million), compared to the same period of the previous year. The decrease was mainly caused by reduced expenses of Georgian Railway's subsidiary that mainly serves crude oil and oil products transported by the Company.

Taxes other than income tax

	9 month period ended 30 September			In GEL '000	
	9M 2017	9M 2016	% Change	Abs. change	
Property tax	11,889	10,832	9.8%	1,057	
Land tax	8,865	8,880	-0.2%	-15	
Other taxes*	96	758	-87.4%	-662	
Total	20,849	20,469	1.9%	380	

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

In the nine months ended 30 September 2017, compared to the same period of 2016, property tax has increased by 10 percent (GEL 1.1 million), which was mainly caused by the increased property tax on CIP and transportation equipment. Property tax will be reduced after putting the Modernization Project into operation, as railway infrastructure related assets are free of property tax and assets under the project are taxed by property tax while under Construction In Progress.

1.5 Finance income and cost

<i>9 month period ended 30 September</i>				<i>In GEL '000</i>
	9M 2017	9M 2016	% Change	Abs. change
Interest income	12,873	18,408	-30.1%	-5,535
Impairment loss on trade receivables	-1,598	-5,339	-70.1%	3,741
Interest expense	-39,078	-38,013	2.8%	-1,065
FX gain	78,480	28,153	178.8%	50,327
Net finance income	50,677	3,209	1479.2%	47,468

In the nine months ended 30 September 2017 the Group showed GEL 50.7 million net finance income, compared to GEL 3.2 million in the same period of 2016. The positive difference of GEL 47.5 million was mainly due to the fluctuation of GEL against foreign currencies.

Lower interest income by GEL 5.5 million in the nine months ended 30 September 2017 compared to the same period of 2016, was mainly due to the lower average cash balances and lower interest rates. In addition, during the nine months ended 30 September 2016, GR received interest income from the loan provided to the state controlled entity by the end of 2015, which was fully repaid during the first nine months of 2016.

Impairment loss on trade receivables decreased by 70 percent (GEL 3.7 million) during the period under review, compared to the same period of the previous year. About 74 percent of Impairment loss on trade receivables, occurred in the first nine month of 2016, was an impairment loss of GR's partnering entity, which was fined because of overdue with payments. New agreement was signed between GR and this entity, according to which entity should pay its payables by new payment schedule and trade receivables were restructured.

Higher interest expense during the nine months ended 30 September 2017, compared to the same period of 2016, was mainly due to new passenger train loan and depreciation of GEL against USD by 7 percent.

GEL/USD exchange rate fluctuation has significant effect on net finance income/(cost). Due to GEL appreciation against USD by 7 percent as at 30 September 2017 compared to 31 December 2016 (GEL/USD exchange rate 2.48 versus 2.65), the Group experienced net foreign exchange gain of GEL 78.5 million, however due to relatively smaller appreciation of GEL against USD (about 3 percent) as at 30 September 2016 compared to 31 December 2015 (GEL/USD exchange rate 2.33 versus 2.39), the Group showed net foreign exchange gain of GEL 28.2 million.

1.6 Income tax expense/benefit

In May 2016, the Parliament of Georgia adopted amendments to the Tax Code of Georgia. The new tax code is effective from 1 January 2017. According to the new tax code, previously active profit tax regulation was changed to so-called "tax on distributed profits" model.

2. Balance Sheet

<i>GEL '000 period ended 30 September</i>	30-Sep-17	31-Jun-17	% Change	Abs. change	31-Dec-16	% Change	Abs. change
TOTAL ASSETS	3,245,725	3,240,475	0.16%	5,250	3,225,683	0.62%	20,041
<i>Changes are mainly due to:</i>							
Property, plant and equipment	2,746,757	2,727,515	0.71%	19,242	2,623,594	4.69%	123,163
Other non-current assets	128,125	128,956	-0.64%	-831	147,565	-13.17%	-19,440
Trade and other receivables	89,840	86,577	3.77%	3,263	99,649	-9.84%	-9,809
Cash and cash equivalents	203,319	217,138	-6.36%	-13,819	277,953	-26.85%	-74,634
TOTAL LIABILITIES	1,552,132	1,524,962	1.78%	27,170	1,626,407	-4.57%	-74,275
<i>Changes are mainly due to:</i>							
Loans and borrowings (LT)	1,315,651	1,278,212	2.92%	37,439	1,361,602	-3.37%	-45,950
Trade and other payables	103,263	91,160	13.28%	12,103	109,638	-5.81%	-6,375

Significant changes in assets

During the first nine months in 2017, GEL 123.2 million increase in property, plant and equipment was mainly due to the Construction In Progress (mostly under the Modernization Project) and procurement of two new passenger trains.

GEL 19.4 million decrease in other non-current assets was mainly due to the decrease in prepayments, mostly attributable to Modernization Project and related inventory balances.

There was GEL 9.8 million decrease in trade and other receivables in the nine months ended 30 September 2017. The decrease was driven by collection of receivables from partnering railway and appreciation of GEL against USD.

Cash and cash equivalents have decreased by GEL 74.6 million in the nine months ended 30 September 2017. Significant cash outflows have occurred due to cash outflows on investing activities, higher interest payments and repayment of current portion of the loan acquired for new passenger trains (*see heading 3 "Cash Flow Statement"*).

Significant changes in liabilities

There was GEL 46.0 million decrease in long-term borrowings in the nine months ended 30 September 2017 despite the fact that the Group has withdrawn additional amount of loan to purchase passenger trains. The decrease was mainly due to debt revaluation as GEL has appreciated against USD by about 7 percent and the Group's debts are denominated in USD.

Trade and other payables decreased by GEL 6.4 million during the first nine months in 2017. The decrease was mainly driven by the reduction in payables for new passenger trains acquired, as well as reduction in advances received for freight transportation, which was partly offset by the increase in payables for the Modernization Project.

3. Cash Flow Statement

<i>GEL '000 period ended 30 September</i>	9M 2017	9M 2016
Cash flows from operating activities		
Cash receipts from customers	329,524	329,360
Cash paid to suppliers and employees	-196,317	-192,556
Cash flows from operations before income taxes paid	133,207	136,804
Income tax paid	-2,691	-4,375
Net cash from operating activities	130,516	132,429
Cash flows from investing activities		
Acquisition of property, plant and equipment	-154,062	-153,843
Proceeds from sale of property, plant and equipment	2,456	0
Interest received	9,671	17,422
Issuance of the loan	0	-32,563
Repayment of the issued loans	1,036	37,838
Net cash used in investing activities	-140,899	-131,146
Cash flows from financing activities		
Proceeds from borrowings	50,248	42,349
Repayment of borrowings	-5,310	0
Interest paid	-101,643	-91,948
Dividends paid	0	-1,607
Net cash from used in financing activities	-56,705	-51,206
Net increase/(decrease) in cash and cash equivalents	-67,088	-49,923
Cash and cash equivalents at 1 January	277,953	294,784
Effect of exchange rate fluctuations on cash and cash equivalents	-7,546	-3,636
Cash and cash equivalents at the end of the period	203,319	241,225

Operating activities

Net cash from operating activities decreased by GEL 1.9 million in the nine months ended 30 September 2017, compared to the same period of the previous year. The change was driven by increase in cash payments to suppliers and employees by GEL 3.8 million, which was mainly driven by higher taxes due to VAT paid, higher cash payments for electricity and fuel as well as higher cash outflows for logistical services.

Investing activities

Cash used in investing activities has increased by GEL 9.8 million in the nine months ended 30 September 2017, compared to the same period of the previous year. The increase was mainly due to less cash inflow from interest. This was mainly caused by lower average cash balance held by the Group and lower interest rates during the nine months ended 30 September 2017, compared to the same period of 2016.

Issuance of the loan GEL 32.6 million in the nine months ended 30 September 2016 represents loans issued in USD, from which USD 6 million was provided to the parent company and USD 8.5 million was provided to the owner of liquid cargo terminal on the Black Sea, which GR took under management.

Repayment of the issued loans GEL 1.0 million during the nine months ended 30 September 2017 represents partial collection of principal due from the loan provided to the owner of liquid cargo terminal on the Black Sea. During the same period in 2016 the Group has collected GEL 37.8 million from the issued loan, which represents the portion of short-term loan (USD 16 million) that the Group provided to a state controlled entity by the end of 2015.

Financing activities

Proceeds from borrowings GEL 50.2 million represents the loan for financing the purchase of the new passenger trains. Repayment of borrowings GEL 5.3 million represents the amount paid for current portion of the loan acquired for new passenger trains.

Higher interest paid in the nine months ended 30 September 2017, compared to the same period of the previous year, was mainly due to the interest paid on loan for passenger trains, which was taken for new passenger trains and depreciation of GEL against USD, as the Groups debts are denominated in USD.

Appendix 1

Breakdown of freight transportation in tons

9 month period ended 30 September

	9M 2017	9M 2016	% Change	Abs. Change
Liquid cargoes	3,291	4,050	-18.7%	-759
Oil products	2,970	2,660	11.6%	309
Crude oil	321	1,389	-76.9%	-1,068
Dry cargoes	4,650	4,875	-4.6%	-224
Ores	1,055	1,099	-4.1%	-45
Grain	223	324	-31.2%	-101
Ferrous metals and scrap	403	532	-24.2%	-129
Sugar	305	445	-31.5%	-140
Chemicals and fertilizers	401	310	29.3%	91
Construction freight	870	828	-5.0%	-42
Industrial freight	198	196	-0.9%	2
Cement	62	47	31.1%	15
Other	1,133	1,092	3.8%	41
Total	7,941	8,924	-11.0%	-983

In thousand tons

Appendix 2

Breakdown of freight transportation in ton-kilometers

9 month period ended 30 September

	9M 2017	9M 2016	% Change	Abs. Change
Liquid cargoes	1,059	1,343	-21.2%	-284
Oil products	933	794	17.5%	139
Crude oil	126	549	-77.1%	-424
Dry cargoes	1,134	1,217	-6.8%	-83
Ores	221	236	-6.7%	-16
Grain	54	102	-46.6%	-47
Ferrous metals and scrap	93	132	-29.3%	-39
Sugar	107	164	-34.8%	-57
Chemicals and fertilizers	125	92	35.6%	33
Construction freight	119	111	6.7%	7
Industrial freight	36	30	20.3%	6
Cement	14	13	8.3%	1
Other	364	336	8.5%	29
Total	2,193	2,560	-14.3%	-367

In million ton-kilometers

Appendix 3

According to Condition 3 (d) of the “Terms and Conditions of the Notes” (The U.S. \$500,000,000 7.75% Notes due 11 July 2022 issued by Georgian Railway JSC on 5 July 2012), Georgian Railway and/or its subsidiary is entitled to incur financial indebtedness if the ratio of Net Financial Indebtedness of the Issuer and its Subsidiaries as of the date of such Incurrence to the aggregate amount of EBITDA for the most recent annual financial period for which consolidated financial statements have been delivered, does not exceed 3.5 to 1.

Given table sets forth calculation of Net Financial Indebtedness to EBITDA as at 30 September 2017 and according to the above-mentioned Condition 3 (d) of the “Terms and Conditions of the Notes”. However, this calculation is for information only and does not implicate that 30 September 2017 is the Incurrence date (or “the date of determination”) as defined in Condition 3 of the “Terms and Conditions of the Notes”.

Calculations of ratio of Net Financial Indebtedness to EBITDA:

In 000 GEL

Net Financial Indebtedness as at:	30-Sep-17	30-Jun-2017	31-Dec-2016
Financial indebtedness	1,350,423	1,334,534	1,418,774
less:			
Available credit facilities	136,068	133,288	161,400
Cash	203,319	217,138	277,953
Net Financial Indebtedness:	1,011,036	984,108	979,422
	Twelve-month period ended	Twelve-month period ended	Twelve-month period ended
The most recent annual financial period	31-Dec-16	31-Dec-16	31-Dec-16
Results from operating activities	175,488	175,488	175,488
Depreciation add-back	106,267	106,267	106,267
EBITDA	281,755	281,755	281,755
Net Financial Indebtedness/EBITDA	3.59	3.49	3.48