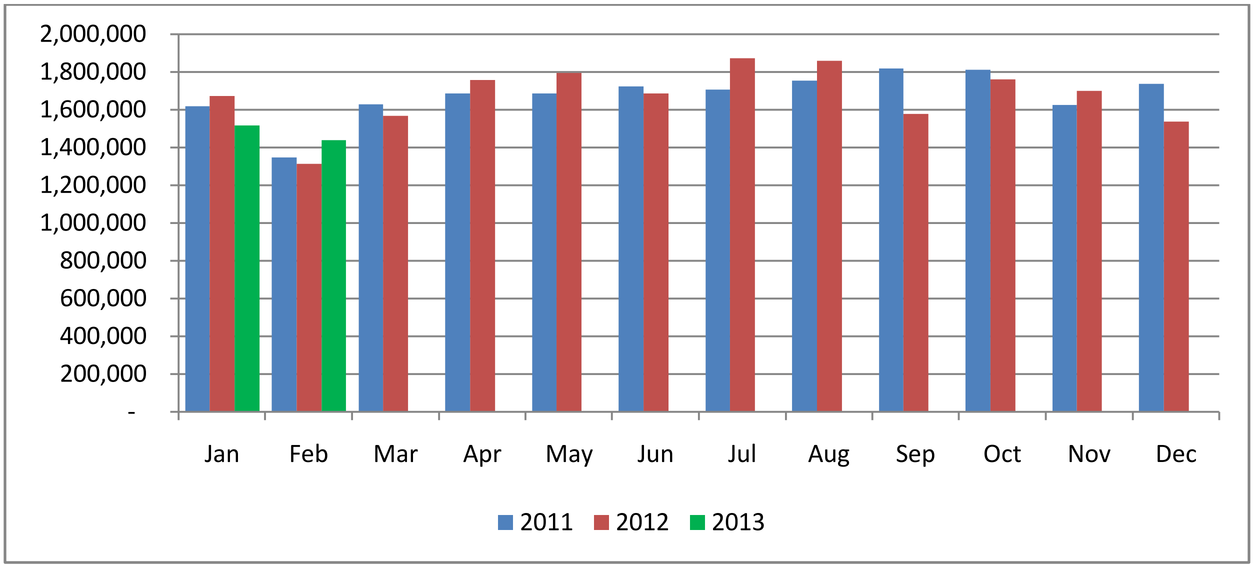
Georgian Railway JSC

Cargo Transportation Development in 2012 and January, February 2013

Total Cargo Volumes

Cargo transportation volumes in full year 2012 were on the same level as in full year 2011, however the proportion of dry and liquid cargo has slightly changed. In January 2013 there was a reduction in transportation volumes of 9% compared to January 2012 mainly due to the decrease in dry cargo. This was partly offset by the improvement of performance in liquid cargo. February 2013 shows an increase of 7% compared to February 2012, mainly as a result of increased liquid cargo transportation.

Following graph shows the monthly development for total cargo volumes in the years 2011, 2012 and January and February 2013:

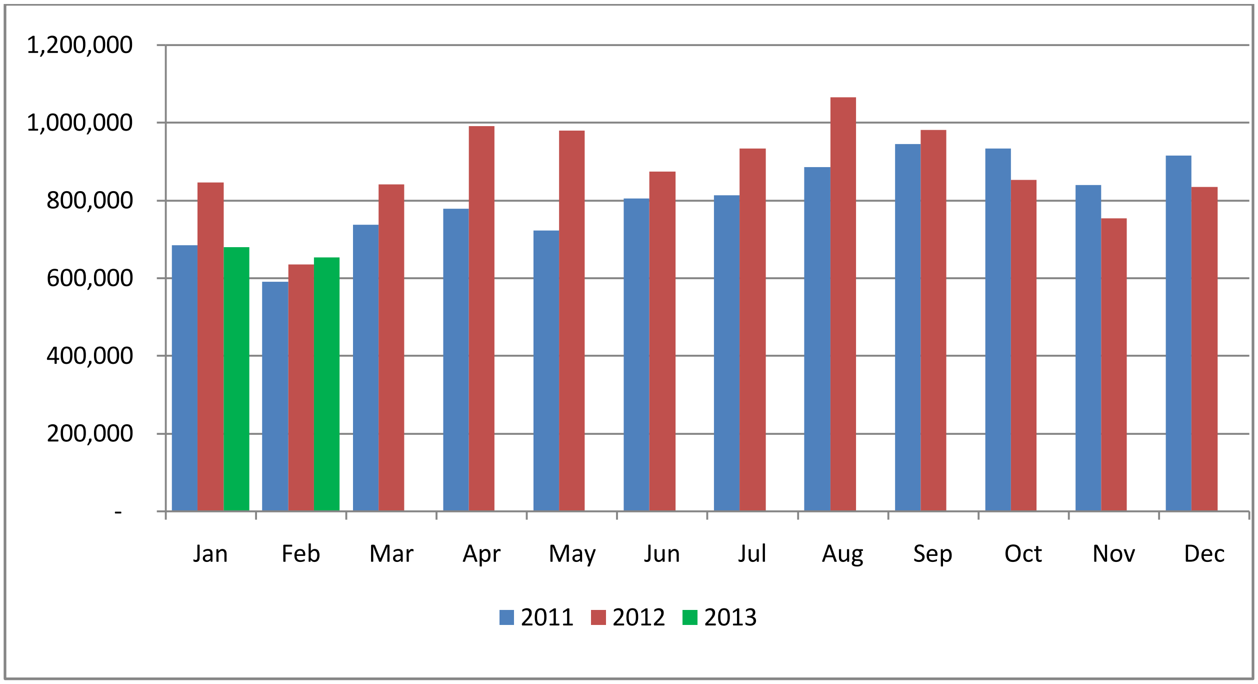


Dry Cargo

Transportation dynamics

Dry cargo transportation in full year 2012 has increased by 10% compared to the full year 2011. In January 2013 there was a decrease in dry cargo transportation by 20% compared to January 2012. February 2013 has shown a slight increase of 3% compared to February 2012.

Following graph shows the monthly development for dry cargo transportation in the years 2011, 2012 and January and February 2013 (Figures are in tons):



Dry cargo transportation in full year 2012 has increased compared to the full year 2011 manly caused by the increase in ores, grain, industrial freight, cement and sugar. However, it can be seen that in Q4 2012 there is a decrease in transportation of dry cargo. Management estimates that the reason for the decreased transportation in dry cargo in Q4 2012 was temporary stoppage of some construction projects after the parliamentary elections of 1 October, 2012 and the change in political power. Another reason was the strike in Poti port, which took place between November 1 and November 10 and strikes in several mines in Chiatura region (coal, manganese ore), which also negatively affected traffic volumes. Unfavorable weather conditions, in December 2012, also negatively affected transportation volumes.

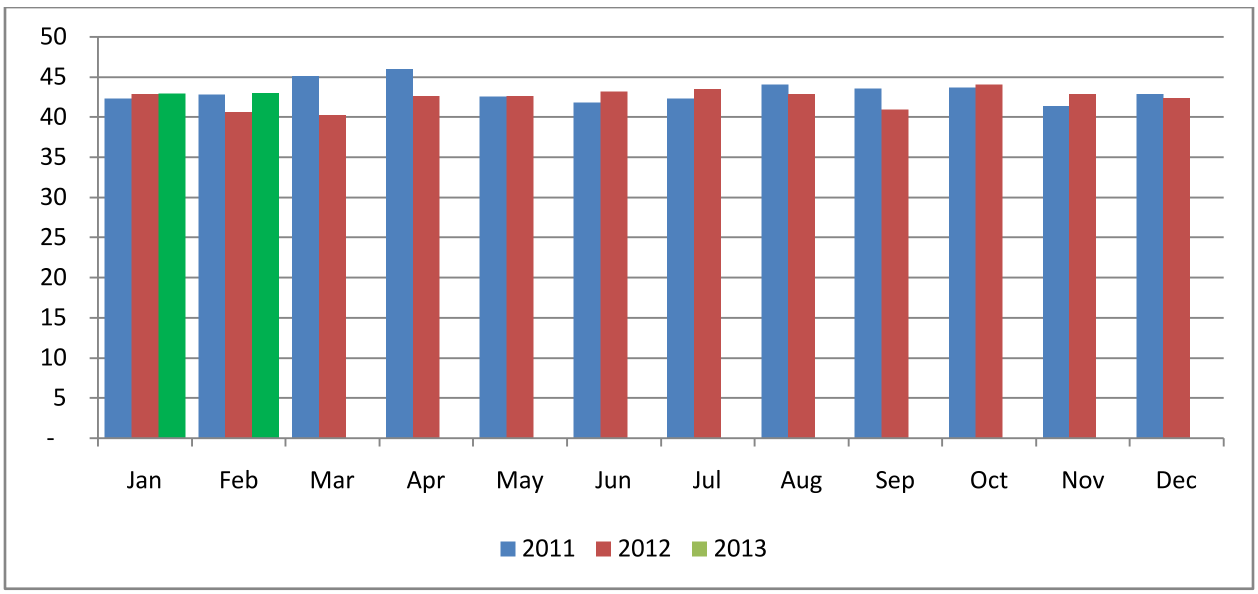
In January 2013 transportation dynamics of dry cargo was lower compared to January 2012 manly caused by the decrease in grain and construction materials. The decrease was partly offset by increase in transportation of chemicals and fertilizers. Reduced transportation of grain was a result of drought in Kazakhstan in 2012, which has reduced exportable supplies of grain. Decrease in transportation of construction materials was due to lower demand on these products which was caused by slowing down of speed of some big construction projects within the country.

Going forward, management expects that in 2013 construction projects will be restored and the demand for construction materials will increase again. As to the grain, if Kazakh suppliers will continue to experience problems with grain delivery there might be a continuing of decline in grain transportation in the first half of 2013.

Average Revenue per thousand ton-kilometers for dry cargo (USD):

Average revenue per thousand ton-kilometers for dry cargo has shown a small decrease of 2% on average in full year 2012 compared to the full year 2011. January of 2013 was relatively stable in terms of average revenue per 1,000 ton-km. There were insignificant changes compared to January of the previous year, while February of 2013 has shown 5% increased compared to February of the previous year.

Following graphs show the monthly development of average revenue per thousand ton-kilometers for dry cargo in the years 2011, 2012 and January and February 2013 (figures are in USD*):



*Until February 2012, Company quoted its tariffs in CHF. In February 2012 tariffs were translated to USD at a rate of 1.1. In order to calculate average revenue per ton-kilometers in USD before February 2012, the Company used average revenue per thousand ton-kilometers in CHF for such periods and divided it by 1.1;

Starting from February, 2013, Georgian Railway has increased all of its base tariffs for transportation by 3%. This does not have its effect on discounted transportation of liquid cargo as the tariffs set there remained the same. This increase of approximately 3% has already shown its effect in February.

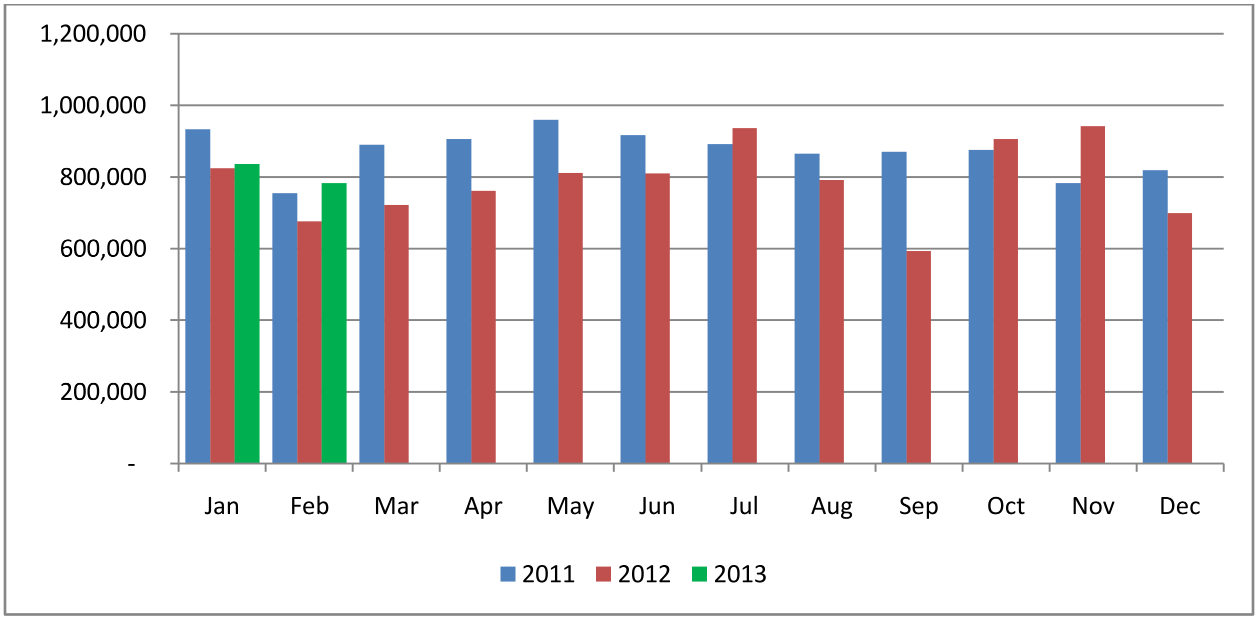
Going forward, management expects average revenue per thousand ton-km for dry cargo to remain stable in both USD and GEL terms, as the exchange rate of USD and GEL proved to be relatively stable in contrast to CHF/GEL exchange rate, which has shown significant fluctuations in previous periods, thus affecting company's revenues. Due to this in February 2012, Georgian Railway decided to set its tariffs in USD instead of CHF to achieve increased stability.

Liquid Cargo

Transportation dynamics

Liquid cargo transportation in full year 2012 has decreased by 10 compared to the full year 2011. In January 2013 there was an increase in transportation of liquid cargo by 2% compared to January 2012 and a decrease of 10% compared to January 2011 respectively. In February 2013, liquid cargo transportation increased by 16% compared to February of 2012.

Following graphs show the monthly development for liquid cargo transportation in the years 2011, 2012 and January and February 2013 (figures are in tons):



As it was mentioned above, Liquid cargo transportation in full year 2012 has reduced compared to the full year 2011. One of the reasons behind the decrease was extremely adverse weather conditions in Q1 2012, which had its effects on transportation volumes. Another reason for the decrease was tank car shortage in the corridor. GR has partially dealt with the shortage by renting additional 425 tank cars which have shown their positive effect on July's transportation volumes. In August and September of 2012 however, there was a decrease in liquid cargo transportation as a result of maintenance works on Tengiz production field. These works began in August and ended in late September. Following the completion of the maintenance works, transportation volumes rose in October and continued their positive development in November as well, once again revealing the effect of additionally rented tank cars. In December 2012 there was an accident on Kazakhstan oil production field, which took more than two weeks to be solved and thus caused a decline in liquid transportation volumes.

Liquid cargo transportation in January 2013 has risen compared to January 2012 caused by increase in crude oil; increase was offset by decrease in oil products transportation from Azerbaijan. In February, increase in liquid cargo transportation was both in crude oil and oil products and appears to be a result of additionally rented rolling stock by the company by the end of the first half of 2012.

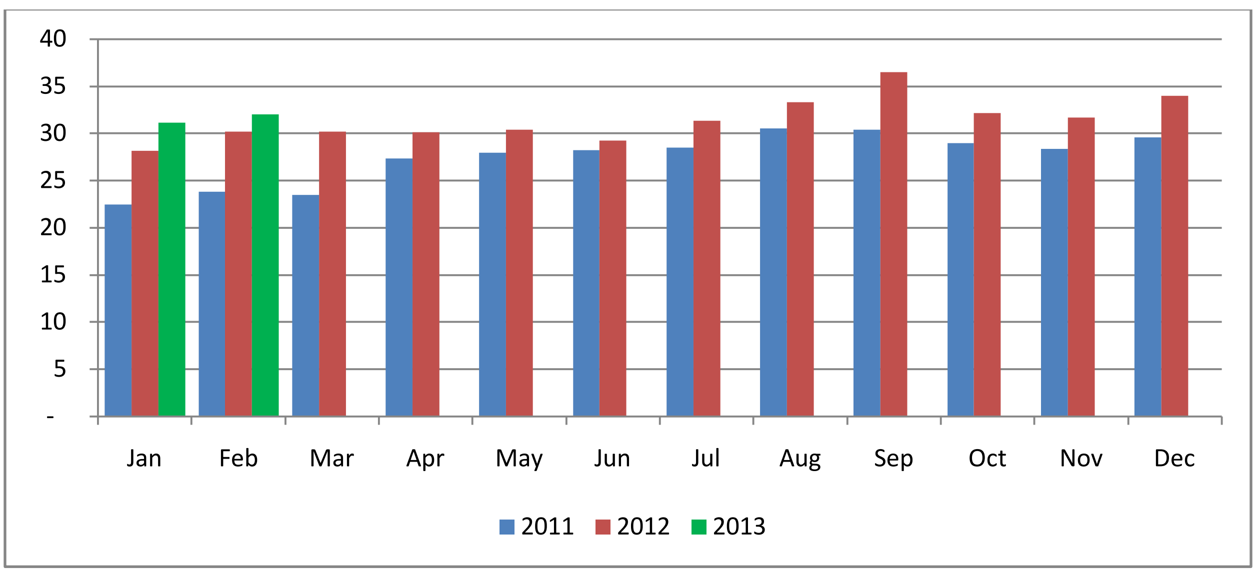
Average Revenue per thousand ton-kilometers for liquid cargo (USD):

Average revenue per thousand ton-kilometers for liquid cargo has shown a significant increase by 15% on average in full year 2012 compared to full year 2011. One can also see that in January 2013, the average revenue per thousand ton-kilometers for liquid cargo has shown a significant increase of 11% and 39% compared to January 2012 and January 2011 respectively. Below we can see the reasons of those variations in average revenue per thousand ton-kilometers for liquid cargo.

- Starting from April 2011, the company has decreased discounts for transportation of crude oil and oil products by 33% and 23% respectively.
- There was a decrease of discounts from February 2012, when the company decreased discounts for transportation of crude oil and oil products by USD 0.5 per ton of transported discounted liquid cargo.
- Starting From July 2012, the company adopted additional decrease of discounts for transportation of crude oil and oil products by USD 1.5 and USD 1.0 per ton respectively. This increase was done to enable the company to cover the costs associated with the rental of additional tank cars to serve the needs of the corridor.

Such increases in tariffs have had its effect on average revenue from transportation of liquid cargo in terms of USD. Namely, if speaking about January 2013 average revenue per thousand ton-km increase, the reasons were increases of tariffs in February 2012 and July 2012, which were not in effect in both January 2012, and January 2011.

Following graphs show the monthly development of average revenue per thousand ton-kilometers for liquid cargo in the years 2011, 2012 and January and February 2013 (figures are in USD*):



*Until February 2012, Company quoted its tariffs in CHF. In February 2012 tariffs were translated to USD at a rate of 1.1. In order to calculate average revenue per ton-kilometers in USD before February 2012, the Company used average revenue per thousand ton-kilometers in CHF for such periods and divided it by 1.1;

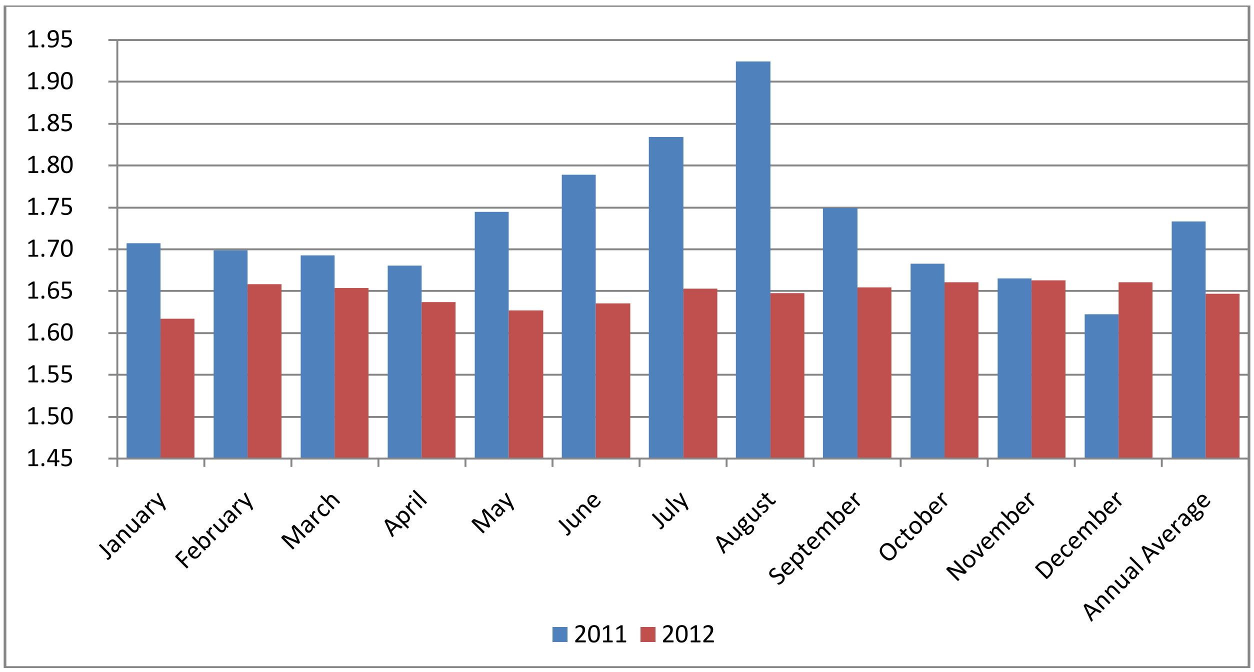
Management expects average revenue per thousand ton-kilometers for liquid cargo to remain higher than in the previous periods as a result of the mentioned tariff increases. This expectation is strengthened by the above-mentioned increase of base tariffs by 3% starting from February, 2013. However, as the increase did not concern discounted liquid cargo transportation and due to the fact that about a half of liquid cargo is under a discount, the effect of the increase will be weakened.

Exchange rate fluctuations:

Exchange rate has a significant impact on Company's revenues as most of the tariffs are quoted in foreign currency, while significant part of the expenses is fixed in Georgian Lari. In 2011 for example most of the freight tariffs were set in CHF, which was constantly appreciating through the year 2011. This was causing substantial increase of revenue in GEL terms while the expenses remained largely the same. Starting from September 2011, CHF exchange rate began to go down. As Swiss Franc did not prove to be a stable and reliable currency, Georgian Railway JSC changed its tariff policy and starting from February 2012 began quoting its freight tariffs in USD, which has shown more stability. The reason for the move was also to better align the revenues and costs of the company's customers, which mainly trade in USD or GEL. The transition was made using the exchange rate of 1.1 meaning that for every 1 Swiss Franc, company set USD 1.1 as a new tariff.

As anticipated, USD proved to be stable, which resulted in the absence of significant gains and losses from the fluctuations. However, as a negative side, significant appreciation which was experienced in 2011 was not present in 2012, thus decreasing revenue.

Following graph compares the exchange rates in 2011 and 2012. For ease of understanding GEL/CHF in 2011 and January 2012 were translated to GEL/USD at the rate of 1.1.



In total, average change of exchange rate in 2012 compared to 2011 was a decrease of about 5% with the subsequent impact on the revenues. In January USD continued its stable performance as the exchange rate has remained practically the same as in December 2012. Company does not expect fluctuations in the current average exchange rate, thus no positive or negative impacts on its revenues.