

Financial and non-financial highlights

Revenue

<u>Q3 2019</u>	<u>9M 2019</u>
133,970	364,164
+16% from Q3 2018 +6% from Q2 2019	+16% from 9M 2018

Result from operating activities

<u>Q3 2019</u>	<u>9M 2019</u>
27,279	89,101
+13% from Q3 2018 -30% from Q2 2019	+66% from 9M 2018

EBITDA

<u>Q3 2019</u>	<u>9M 2019</u>
73,329	176,559
+26% from Q3 2018 +33% from Q2 2019	+30% from 9M 2018

EBITDA margin

<u>Q3 2019</u>	<u>9M 2019</u>
54.74%	48.48%
+4 points from Q3 2018 +11 points from Q2 2019	+5 points from 9M 2018

Adjusted EBITDA

<u>Q3 2019</u>	<u>9M 2019</u>
68,082	167,797
+31% from Q3 2018 +21% from Q2 2019	+37% from 9M 2018

Adjusted EBITDA margin

<u>Q3 2019</u>	<u>9M 2019</u>
50.82%	46.08%
+6 points from Q3 2018 +6 points from Q2 2019	+7 points from 9M 2018

Net debt to EBITDA

30 September 2019

6.93

4.82 as at 30-Sep-2018
6.80 as at 30-Jun-2019

Table of Contents

1. Profit or Loss Statement.....	3
1.1 Revenue.....	4
1.2 Other income.....	16
1.3 Operating expenses.....	16
1.5 Income tax expense/benefit.....	21
2. Balance Sheet	22
3. Cash Flow Statement.....	23

1. Profit or Loss Statement

Profit and loss statement

9 month period ended 30 September

GEL '000	Q3 2019	Q3 2018	y-o-y	Q2 2019	q-o-q	9M 2019	9M 2018	y-o-y % change	y-o-y Abs. change
Revenue	133,970	115,627	15.9%	125,975	6.3%	364,164	314,219	15.9%	49,945
Other income	5,373	8,672	-38.0%	-389	-1482.8%	13,229	17,449	-24.2%	-4,220
Employee benefits expense	-37,429	-36,292	3.1%	-42,328	-11.6%	-117,308	-110,280	6.4%	-7,028
Depreciation and amortization	-23,574	-29,289	-19.5%	-16,293	44.7%	-64,939	-88,622	-26.7%	23,683
Electricity, consumables and maintenance costs	-11,790	-12,358	-4.6%	-10,759	9.6%	-33,804	-32,903	2.7%	-901
Impairment loss/gain on trade receivables	-22,476	-4,679	380.4%	-43	51838.9%	-22,519	6,149	-466.2%	-28,668
Other expenses	-16,795	-17,532	-4.2%	-17,412	-3.5%	-49,722	-52,237	-4.8%	2,515
Result from operating activities	27,279	24,148	13.0%	38,752	-29.6%	89,101	53,775	65.7%	35,326
Net finance income/loss	-49,636	-80,015	-38.0%	-87,533	-43.3%	-152,355	-33,982	348.3%	-118,372
Profit before income tax	-22,357	-55,866	-60.0%	-48,780	-54.2%	-63,254	19,793	-419.6%	-83,047
Income tax expense(benefit)	-90	-332	-73.0%	-297	-69.9%	-610	-1,546	-60.5%	936
Profit and total comprehensive income	-22,447	-56,199	-60.1%	-49,078	-54.3%	-63,864	18,247	-450.0%	-82,111
EBITDA	73,329	58,117	26.2%	55,088	33.1%	176,559	136,248	29.6%	40,311
EBITDA margin	54.7%	50.3%	NA	43.7%	NA	48.5%	43.4%	NA	5.1%
Adjusted EBITDA	68,082	51,994	30.9%	56,509	20.5%	167,797	122,610	36.9%	45,186
Adjusted EBITDA Margin	50.8%	45.0%	NA	44.9%	NA	46.1%	39.0%	NA	7.1%

*During second quarter of 2019, there was an accounting adjustment in other income category, resulting negative non-continuing income.

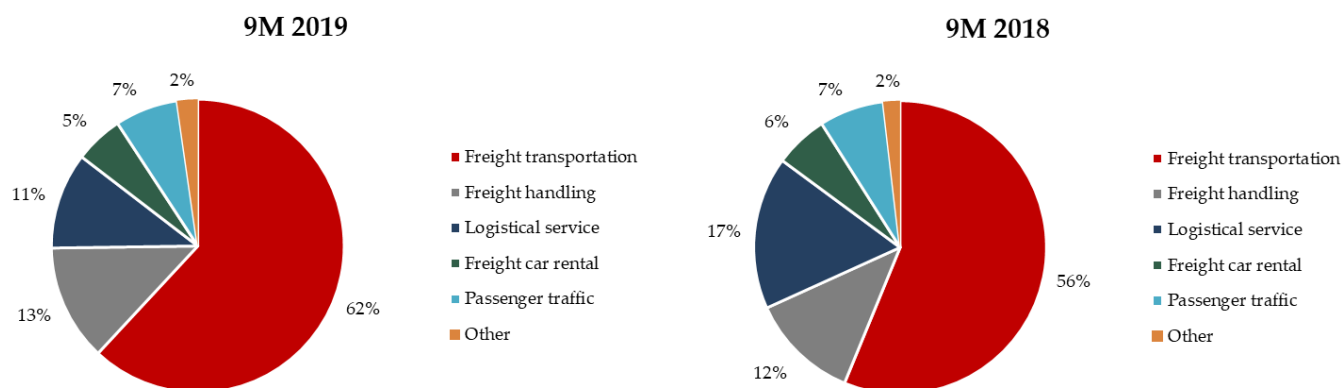
1.1 Revenue

Revenue breakdown

9 month period ended 30 September

GEL '000	Q3 2019	Q3 2018	y-o-y	Q2 2019	q-o-q	9M 2019	9M 2018	% Change	% Change at constant currency	Abs. Change
Freight transportation*	79,405	61,152	29.8%	75,431	5.3%	225,572	176,620	27.7%	14.4%	48,952
Freight handling*	16,649	12,851	29.6%	21,972	-24.2%	46,768	37,795	23.7%	10.8%	8,973
Logistical service*	15,702	20,331	-22.8%	13,007	20.7%	38,685	52,983	-27.0%	-34.6%	-14,298
Freight car rental	5,557	6,506	-14.6%	6,106	-9.0%	19,529	18,523	5.4%	-5.6%	1,006
Passenger traffic	13,992	12,997	7.7%	6,608	111.7%	25,334	22,463	12.8%	1.0%	2,871
Other	2,664	1,790	48.8%	2,850	-6.6%	8,275	5,835	41.8%	27.0%	2,440
Revenue	133,970	115,627	15.9%	125,975	6.3%	364,163	314,219	15.9%	3.8%	49,944
Other income	5,373	8,672	-38.0%	-389	-1482.8%	13,229	17,449	-24.2%	-32.1%	-4,220
Freight transportation	79,405	61,152	29.8%	75,431	5.3%	225,572	176,620	27.7%	14.4%	48,953
Liquid cargoes	31,801	25,998	22.3%	31,456	1.1%	91,145	74,414	22.5%	9.7%	16,731
Oil products	31,646	26,553	19.2%	31,244	1.3%	90,768	71,627	26.7%	13.5%	19,141
Crude oil	155	529	-70.7%	212	-27.0%	377	2,787	-86.5%	-87.9%	-2,410
Dry cargoes	47,604	35,154	35.4%	43,975	8.3%	134,427	102,206	31.5%	17.8%	32,221
Ores	11,003	6,746	63.1%	9,031	21.8%	28,769	20,591	39.7%	25.2%	8,178
Grain	3,710	911	307.2%	1,210	206.7%	6,010	5,624	6.9%	-4.3%	386
Ferrous metals and scrap	2,606	2,533	2.9%	1,886	38.2%	7,043	6,928	1.7%	-8.9%	114
Sugar	2,992	1,995	50.0%	5,893	-49.2%	12,523	6,994	79.0%	60.4%	5,529
Chemicals and fertilizers	2,402	3,056	-21.4%	2,345	2.4%	10,692	10,330	3.5%	-7.3%	363
Construction freight	1,877	1,476	27.1%	2,298	-18.3%	6,606	4,708	40.3%	25.7%	1,899
Industrial freight	2,209	1,274	73.4%	2,357	-6.3%	5,633	3,927	43.4%	28.5%	1,706
Cement	609	437	39.4%	545	11.7%	1,687	1,262	33.6%	19.7%	424
Other	20,197	15,643	29.1%	18,411	9.7%	55,464	41,842	32.6%	18.7%	13,622
Freight turnover (million ton-km)	719	645	11.4%	679	5.8%	2,082	1,942	7.2%	NA	140
Revenue / ton-km (in Tetri)	11.05	9.48	16.6%	11.11	-0.5%	10.83	9.09	19.1%	6.7%	1.74

The following charts represent revenue breakdown for the nine months ended 30 September 2019 and 2018:



Freight transportation revenue

Most of the Group's revenue (about 62 percent in first 9 months of 2019) is derived from freight transportation. GR's freight transportation revenue consists of liquid and dry cargoes. The split between liquid and dry cargo revenue in first 9 months of 2019 was about 40 and 60 percent, respectively.

Freight transportation revenue, has increased by 28 percent (GEL 49.0 million) during the nine months ended 30 September 2019, compared to the same period of the previous year.

Average rates

	Q3 2019	Q3 2018	% Change	Q2 2019	% Change	9M 2019	9M 2018	% Change
USD	2.92	2.53	15.41%	2.74	10.41%	2.78	2.49	11.63%
CHF	2.96	2.57	15.23%	2.73	15.23%	2.79	2.56	9.08%

Reporting date spot rates

	30-Sep-19	31-Dec-18	% Change	30-Sep-18	% Change	31-Dec-17
USD	2.96	2.68	10.41%	2.62	13.01%	2.59
CHF	2.98	2.73	9.13%	2.68	11.05%	2.66

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 and total freight transportation in ton-kilometers during the nine months ended 30 September 2019 has increased by 3 percent and 7 percent, respectively, compared to the same period of the previous year. Total Transported volumes of liquid cargo has decreased by 11 percent, while transported volumes of dry cargo has increased by 10 percent. Total

freight transportation in ton-kilometers of liquid cargo has decreased by 15 percent, while transportation in ton-kilometers has increased by 21 percent. (see Appendix 1 and Appendix 2).

Oil Products

9 month period ended 30 September

	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	90,768	71,627	26.7%	13.5%
Freight volume (ton '000)	2,175	2,335	-6.8%	NA
Freight turnover (million ton-km)	626	686	-8.7%	NA
Revenue / ton-km (in Tetri)	14.49	10.43	39.0%	24.5%

Oil products

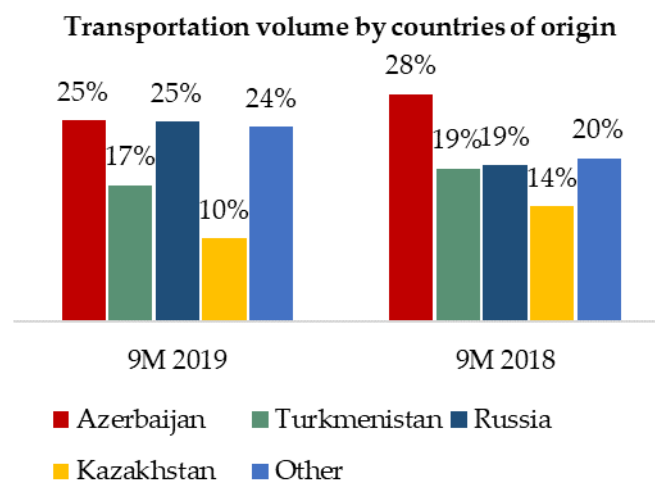
Revenue from the transportation of oil products for Q3 2019 increased by 19 percent, compared to Q3 2018 and increased by 1 percent, compared to Q2 2019.

Main products in oil products category were fuel diesel, gasoil, special petrol and light aviation fuel in 9 months of 2019.

Main directions of cargo

Oil products currently are the main component of liquid cargo (99 percent of the transportation volume of liquid cargo in 9M 2019). They are mainly transported by rail, as there is practically no competition from pipelines.

Oil products transported by the Group during nine months period ended 30 September 2019 mainly originated from Azerbaijan, Turkmenistan, Russia and Kazakhstan, with significant changes in transportation direction mix compared to the same period of 2018. The share of Russia increased to 25 percent from 19 percent, while the share of Azerbaijan, Turkmenistan and Kazakhstan was down to 25 percent, 17 percent and 10 percent, respectively in total oil products transported by the Group.

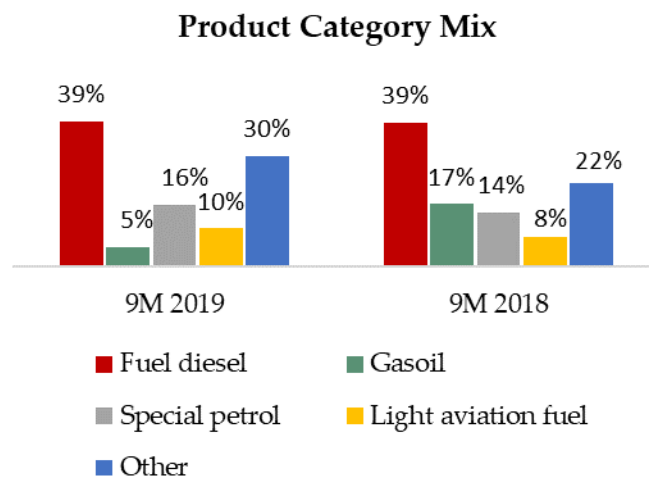


Factors influencing performance

Ton-kilometers – 9 percent decrease in transportation turnover was mainly driven by decreased transported volume by 7 percent, mainly caused by decreased transportation of gasoil from Kazakhstan by 108,000 tons and decreased transportation from Azerbaijan by 113,000. Another reason was decreased average transportation distance by 2 percent, mainly driven by change in product direction mix. Share of transported volume from Kazakhstan and Azerbaijan (which covers relatively

longer distances) in total transportation volume of oil products has decreased, and the share of Russia (which covers shorter distances) has increased.

Revenue/ton-km (in Tetri) - increase in average revenue per ton-kilometer during the period under review, compared to the same period of the previous year, was mainly due to changes in product category mix. The shares of special petrol and aviation light fuel (which are relatively more profitable products) have increased and shares of gasoil (which is relatively less profitable product) has decreased in total oil products transported by Georgian Railway. Another reason was changes in product direction mix. The shares from Armenia increased (which is relatively more profitable direction), while the shares from Georgia decreased (relatively less profitable direction).



Crude Oil

9 month period ended 30 September

	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	377	2,787	-86.5%	-87.9%
Freight volume (ton '000)	12	124	-90.5%	NA
Freight turnover (million ton-km)	3	49	-93.6%	NA
Revenue / ton-km (in Tetri)	12.10	5.64	114.5%	92.2%

Crude oil

Revenue from the transportation of crude oil for Q3 2019 decreased by 71 percent, compared to Q3 2018 and by 27 percent, compared to Q2 2019.

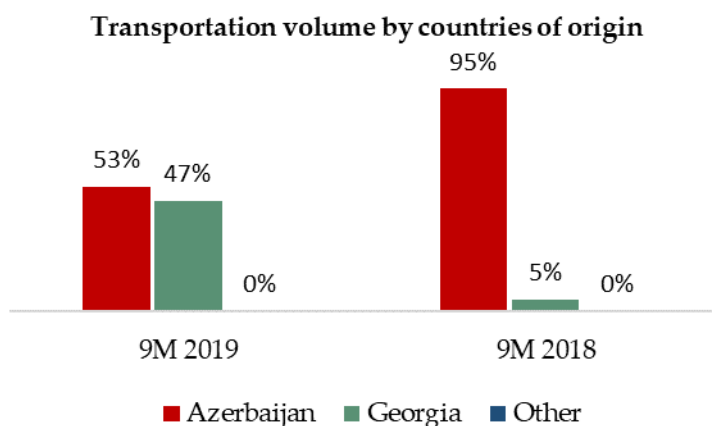
Main directions of cargo

Within the nine months ended 30 September 2019, the destination country was Georgia, while 90,000 tons and 33,000 tons were transported to Italy and USA respectively, in the same period of the previous year.

Factors influencing performance

Ton-kilometers – 94 percent decrease in transportation turnover was mainly caused by decreased volumes from Azerbaijan by 112,000 tons.

Revenue/ton-km (in Tetri) – 92 percent increase in average revenue per ton-kilometer at constant currency during the period under review, compared to the same period of the previous year was driven by change in product direction mix. The share of freight volumes to Georgia (relatively more profitable direction) increased in the nine months ended 30 September 2019, while volumes to Italy and USA decreased, in total transported volumes of crude oil.



Ores

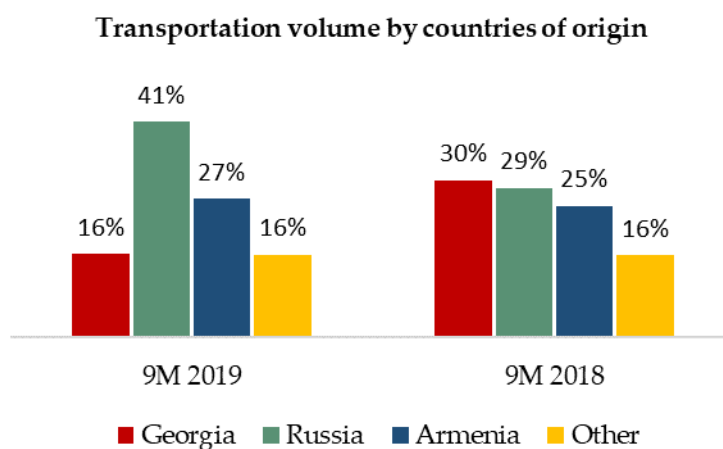
9 month period ended 30 September

	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	28,769	20,591	39.7%	25.2%
Freight volume (ton '000)	1,387	1,182	17.3%	NA
Freight turnover (million ton-km)	361	240	50.3%	NA
Revenue / ton-km (in Tetri)	7.98	8.58	-7.0%	-16.7%

Ores

Revenue from the transportation of ores for Q3 2019 increased by 63 percent, compared to Q3 2018 and by 22 percent, compared to Q2 2019.

Main products in ore products category were copper ores and concentrates and bituminous coal in 9 months of 2019.



Main directions of cargo

Ores transported by the Group during nine months ended 30 September 2019, was mainly originated from Russia, Armenia and Georgia.

Factors influencing performance

Ton-kilometers – 50 percent increase in transportation turnover was mainly driven by increased volumes from Russia and Armenia by 235,000 tons and 71,000 tons, respectively.

Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer by 7 percent was mainly caused by change in product direction mix. Share of transported volumes from Georgia (which is relatively more profitable direction) decreased, while the share of volumes from Russia (which is relatively less profitable direction) has increased.

Grain

9 Month period ended 30 September

	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	6,010	5,624	6.9%	-4.3%
Freight volume (ton '000)	298	353	-15.6%	NA
Freight turnover (million ton-km)	66	75	-11.2%	NA
Revenue / ton-km (in Tetri)	9.04	7.52	20.3%	7.8%

Grain

Revenue from the transportation of grain for Q3 2019 increased by 2.8 million, compared to Q3 2018 and by 2.5 million, compared to Q2 2019.

Main directions of cargo

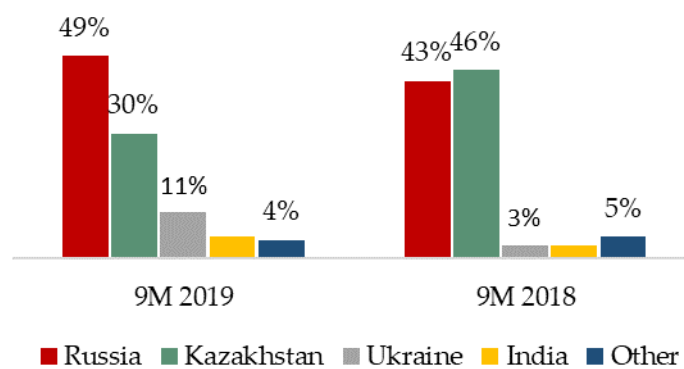
Grain and grain products transported by the Group during nine months ended 30 September 2019 was mainly originated from Russia, Kazakhstan and Ukraine.

Factors influencing performance

Ton-kilometers – 11 percent decrease in freight turnover was mainly caused by decreased transportation volumes from long-distance routes such as Kazakhstan and Russia, by 71,000 tons and 6,000 tons, respectively.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was mainly driven by changes in product direction mix and product category mix. The share of freight transported to Armenia (which is relatively more profitable direction) has increased and the share of meslin (which is relatively more profitable product) has increased in total grain products transported by the Group.

Transportation volume by countries of origin



Sugar

9 month period ended 30 September

	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	12,523	6,994	79.1%	60.4%
Freight volume (ton '000)	281	250	12.6%	NA
Freight turnover (million ton-km)	103	90	14.7%	NA
Revenue / ton-km (in Tetri)	12.19	7.81	56.2%	39.9%

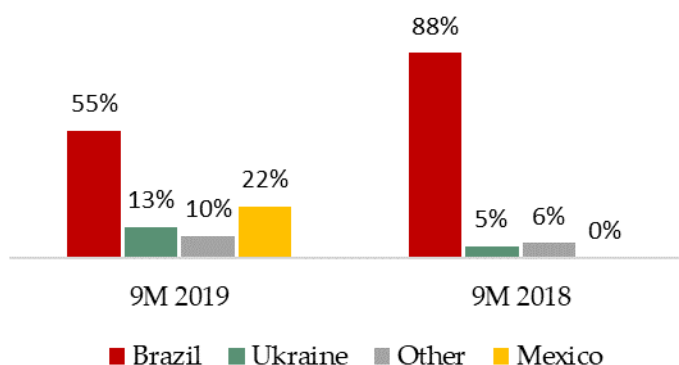
Sugar

Revenue from the transportation of sugar for Q3 2019 increased by 50 percent, compared to Q3 2018, but decreased by 49 percent, compared to Q2 2019.

Main directions of cargo

Sugar transported by the Group during nine months ended 30 September 2019 was mainly directed to Azerbaijan, Georgia and Armenia. Significant countries of origin were Brazil, Ukraine and Mexico.

Transportation volume by countries of origin

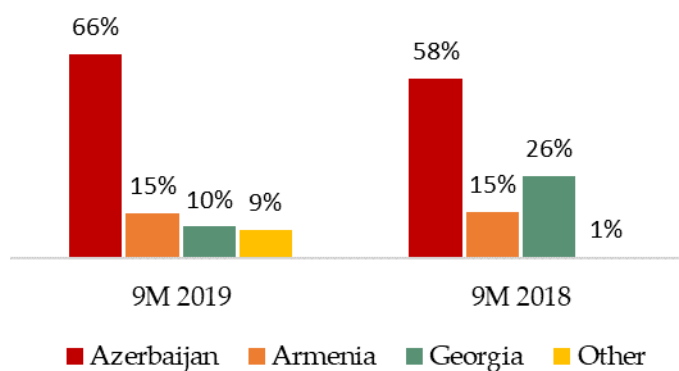


Factors influencing performance

Ton-kilometers – 15 percent increase in freight turnover during the period under review, compared to the same period of the previous year, was mainly driven by increased volume transported to Azerbaijan and Armenia by 41,000 tons and 4,000 tons, respectively.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was caused by change in product category mix. The share of cane sugar and white sugar (relatively more profitable products) have increased significantly in total sugar transportation volume.

Transportation volume by destination countries



Construction freight

9 month period ended 30 September

	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	6,606	4,708	40.3%	25.8%
Freight volume (ton '000)	762	850	-10.4%	NA
Freight turnover (million ton-km)	115	120	-3.9%	NA
Revenue / ton-km (in Tetri)	5.74	3.93	46.0%	30.9%

Construction freight

Revenue from the transportation of construction freight for Q3 2019 increased by 27 percent, compared to Q3 2018 but decreased by 18 percent, compared to Q2 2019.

Main products in construction freight category were pebble, gravel, crushed stones, gypsum, anhydrite, limestone, dolomite and other calcareous stones in 9 months of 2019.

Main directions of cargo

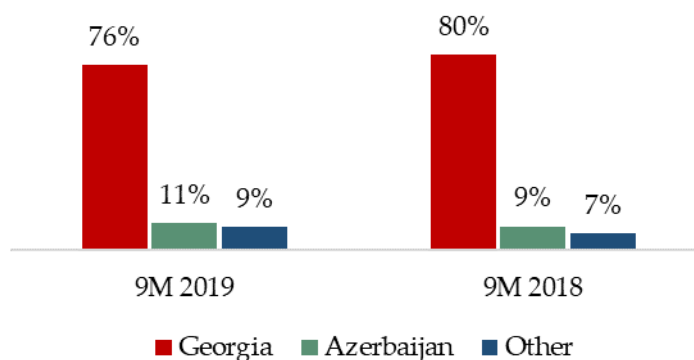
Construction freight transported by the Group during nine months ended 30 September 2019 was mainly originated from Georgia, Azerbaijan and Spain and destined to Georgia, Azerbaijan and Armenia.

Factors influencing performance

Ton-kilometers – 4 percent decrease in freight turnover was mainly caused by decreased transportation of limestone, which covers longer distances.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was mainly driven by changes in product direction mix and product category mix. The share of freight transported from Azerbaijan (which is relatively more profitable direction) has increased and the share of gypsum (which is relatively more profitable product) has increased in total construction freight transported by the Group.

Transportation volume by countries of origin



Industrial freight

9 month period ended 30 September

	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	5,633	3,927	43.4%	28.5%
Freight volume (ton '000)	312	285	9.4%	NA
Freight turnover (million ton-km)	66	49	34.7%	NA
Revenue / ton-km (in Tetri)	8.54	8.01	6.5%	-4.6%

Industrial freight

Revenue from the transportation of industrial freight for Q3 2019 increased by 73 percent, compared to Q3 2018 but decreased by 6 percent, compared to Q2 2019.

Main products in industrial freight category were bentonite, cement clinkers, silica sand and barite in 9 months of 2019.

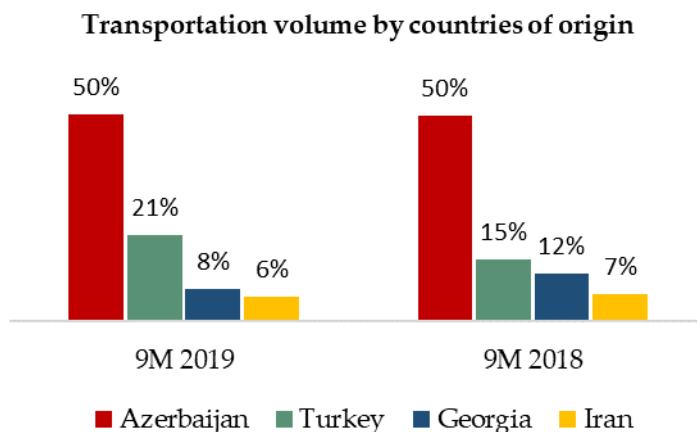
Main directions of cargo

Industrial freight transported by the Group during nine months ended 30 September 2019 was mainly originated from Azerbaijan, Georgia, Turkey and Iran.

Factors influencing performance

Ton-kilometers – 35 percent increase in freight turnover was mainly caused by increased transportation volumes from and to Georgia by 23,000 tons and 37,878 tons, respectively.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was mainly driven by changes in product direction mix and product category mix. The share of freight transported to Georgia (which is relatively more profitable direction) has increased and the share of cement clinkers (which is relatively more profitable product) has increased in total industrial freight transported by the Group.



Cement

9 Month period ended 30 September

	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	1,687	1,262	33.7%	19.7%
Freight volume (ton '000)	92	102	-9.9%	NA
Freight turnover (million ton-km)	22	21	4.6%	NA
Revenue / ton-km (in Tetri)	7.56	5.91	27.8%	14.5%

Cement

Revenue from the transportation of cement for Q3 2019 increased by 38 percent, compared to Q3 2018 and by 12 percent, compared to Q2 2019.

Main directions of cargo

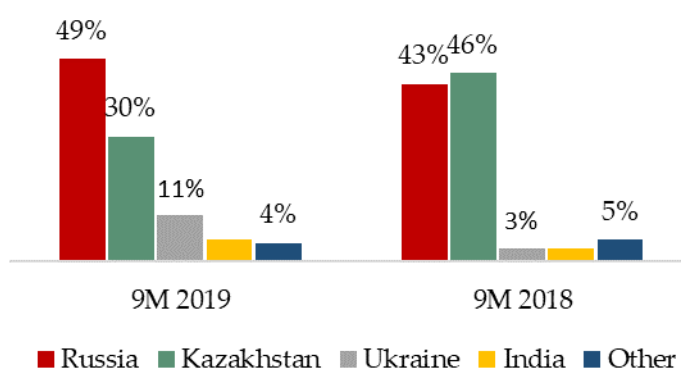
Cement transported by the Group during nine months ended 30 September 2019 was mainly originated from Georgia and Azerbaijan.

Factors influencing performance

Ton-kilometers – 5 percent increase in freight turnover was mainly caused by increased average transportation distance.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was mainly driven by increased tariffs on Georgian route and hydraulic cements.

Transportation volume by countries of origin



Other products

9 month period ended 30 September

	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	55,464	41,842	32.6%	18.7%
Freight volume (ton '000)	1,576	1,192	32.3%	NA
Freight turnover (million ton-km)	489	376	30.1%	NA
Revenue / ton-km (in Tetri)	11.35	11.14	1.9%	-8.8%

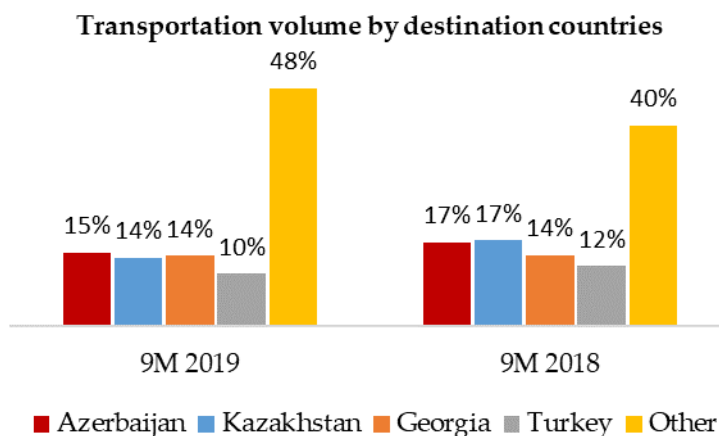
Other product categories

Revenue from the transportation of other product categories for Q3 2019 increased by 29 percent, compared to Q3 2018 and by 10 percent, compared to Q2 2019.

Main products in other products category were methanol, mineral waters, meat products and petroleum in 9 months of 2019.

Main directions of cargo

Freight from other products category in nine months ended 30 September 2019 was mainly originated from Azerbaijan, Georgia, Ukraine, USA, China and Kazakhstan. Main destination countries were Azerbaijan, Kazakhstan, Georgia and Turkey. Main products transported in first nine months period of 2019 were methanol (about 19 percent of total volume), mineral waters (about 7 percent of total volume), meat products (about 7 percent of total volume) and petroleum (about 5 percent of total volume).

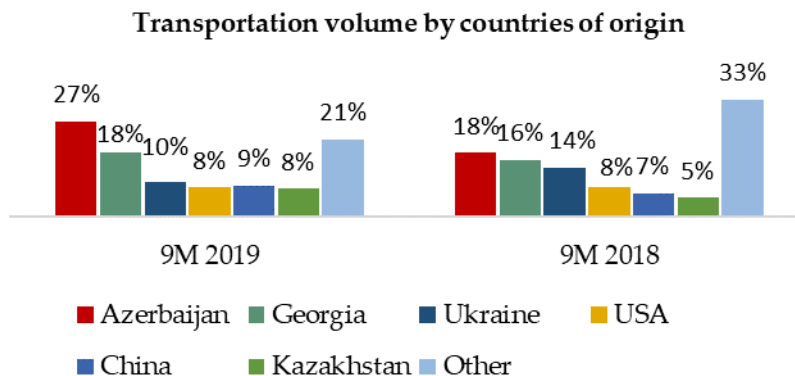


Factors influencing performance

Ton-kilometers – 30 percent increase in transportation turnover was mainly driven by increased volumes transported to Azerbaijan, Kazakhstan and China by 206,000 tons, 60,000 tons and 60,000 tons, respectively.

Revenue/ton-km (in Tetri) – 2 percent increase in average revenue per ton-kilometer was driven by changes in product

direction mix and product category mix. The share of Azerbaijan (relatively more profitable direction) has increased, while the share of Ukraine (relatively less profitable directions) has decreased in total volumes transported. The share of methanol (relatively more profitable product) increased from 10 percent to 19 percent in total other products category transported.



Logistical services

Revenue from logistical service for Q3 2019 decreased by 23 percent, compared to Q3 2018, but increased by 21 percent, compared to Q2 2019.

The decrease in logistical services by GEL 14.3 million during the nine months ended 30 September 2019, compared to the same period of the previous year, was mostly caused by completion of two-year contract (USD 22.0 million) of oil trade between one significant counterparty company and Georgian Railway's subsidiary company. As well as decreased crude oil transportation by subsidiaries.

Freight handling

The increase in revenue from freight handling by 24 percent (GEL 9.0 million) during the nine months ended 30 September 2019, compared to the same period of 2018, was mainly caused by increased revenues from station services as well as more than 24 hours services.

Freight car rental

Revenue from freight car rental increased by 5 percent (GEL 1.0 million) during the nine months ended 30 September 2019, compared to the same period of 2018. GR's stand-alone revenue from freight car rental declined, because of decreased usage of semi-wagons and grain carriers, however increase of Group's revenue from freight car rental was caused by subsidiary company's contribution, which was generated by freight car rental revenue from grain carriers.

Passenger transportation

<i>9 month period ended 30 September</i>				<i>In '000 GEL</i>
	9M 2019	9M 2018	% Change	Abs. change
Revenue	25,334	22,463	12.8%	2,871
Number of passengers	2,350	2,243	4.82%	107

Revenue from passenger transportation has increased by 13 percent (GEL 2.9 million) during the nine months ended 30 September 2019, compared to the same period of the previous year, while the number of passengers has increased by 4.8 percent. The higher increase in revenue was driven by rise in average passenger transportation tariffs, from second half of 2018.

Other revenue

The increase in other revenue by GEL 2.4 million during the first nine months of 2019, compared to the same period of 2018 was mostly attributable to increased revenues from realization of materials and scrap.

1.2 Other income

In order to better illustrate the operational profitability of the Group, other income is divided 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).

Other income

9 month period ended 30 September

In GEL '000

	9M 2019	9M 2018	% Change	Abs. change
Continuing operations	2,976	2,897	2.73%	79
Non-continuing operations	10,253	14,552	-29.54%	-4,299
Total	13,229	17,449	-24.18%	-4,220

Continuing operations increased slightly by 3 percent, during nine months ended 30 September 2019, compared to the same period of the previous year.

Non-continuing operations decreased by GEL 4.3 in first nine months of 2019, compared to the same period of 2018, due to decreased revenue from sales of fixed assets.

1.3 Operating expenses

Operating expenses for Q3 2019 increased by 12 percent, compared to Q3 2018 and by 29 percent compared to Q2 2019.

Total operating expenses for the nine months ended 30 September 2019 increased by GEL 10.4 million, compared to the same period of the previous year. This was mainly caused by increase in employee benefits expense and impairment loss on trade receivables. This was partly offset by decrease in depreciation and amortization expenses.

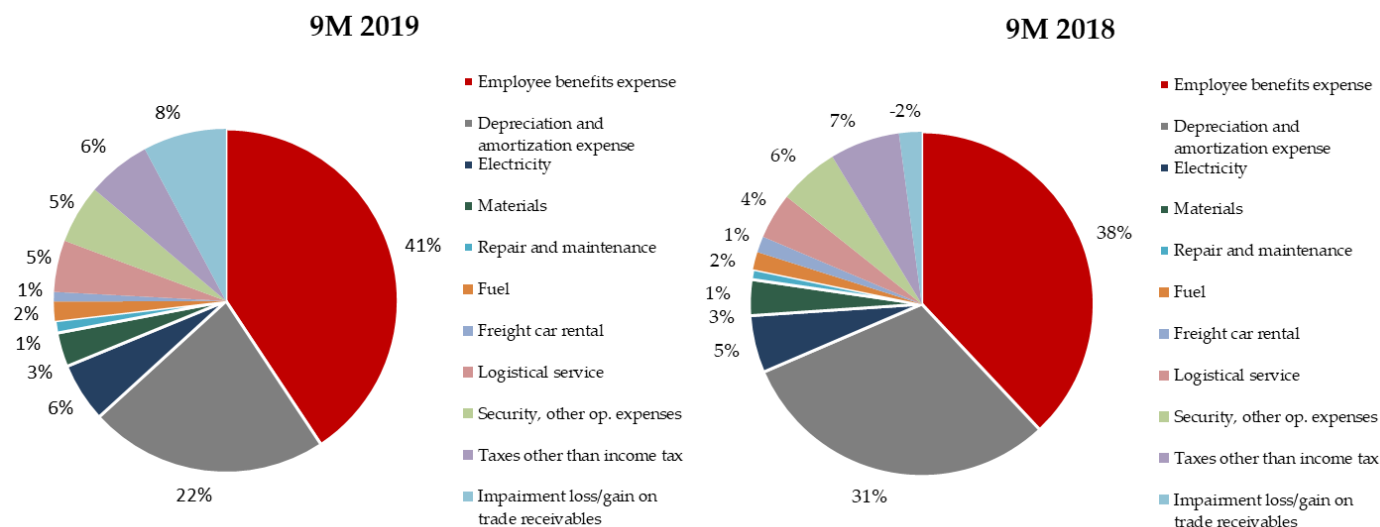
Operating expenses

9 Month period ended 30 September

In GEL '000

	9M 2019	9M 2018	% Change	Abs. change
Employee benefits expense	117,308	110,280	6.37%	7,028
Depreciation and amortization expense	64,939	88,622	-26.72%	-23,683
Electricity	16,076	15,640	2.79%	436
Materials	9,272	9,765	-5.05%	-493
Repair and maintenance	3,307	2,749	20.29%	558
Fuel	5,150	4,749	8.44%	401
Freight car rental	2,589	4,385	-40.96%	-1,796
Logistical service	13,983	12,488	11.97%	1,495
Security, other op. expenses	15,873	16,353	-2.94%	-480
Taxes other than income tax	17,277	19,010	-9.12%	-1,733
Impairment loss/gain on trade receivables	22,519	-6,149	-466.22%	28,668
Total	288,293	277,894	3.74%	10,400

The following charts represent the cost structure for nine months ended 30 September 2019 and 2018:



Employee benefits expense

The increase in employee benefits expense during the nine months ended 30 September 2019, compared to the same period of the previous year, was mainly due to increased amount of employee bonuses and funded pension expenses.

Law on funded pension

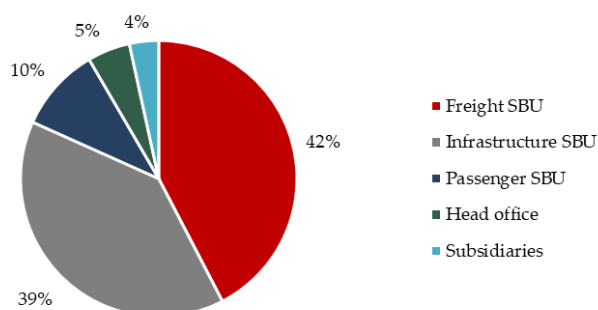
This Law of funded pension which was introduced from January 2019 regulates relations associated with funded pensions. The relations associated with funded pensions is implemented independently of the state pension and state compensation. Joining the funded pension scheme is mandatory for all employees, in the part of a salary income, except for employees who have attained the age of 60 (in the case of female employees, the age of 55) before the entry into force of this Law. Joining the funded pension scheme is voluntary for all employees who have attained the age of 60 years.

Employee's salaries are mostly fixed and normally are not affected by changes in transportation volumes.

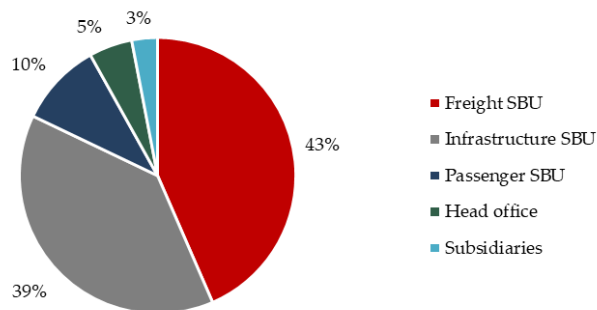
Number of employees (excluding subsidiaries) by the end of September 2019 was equal to 12,270 and by the end of September 2018 was 12,261.

Following charts show the headcount by strategic business units and head office of the Company.

Distribution of staff by business units as at the end of September 2019



Distribution of staff by business units as at the end of September 2018



Depreciation and amortization expense

Decrease with GEL 23.7 million in depreciation and amortization expenses was caused due to impairment of property, plant and equipment of GEL 691.4 million in 2018.

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 nine months ended 30 September 2019 materials, repair and maintenance expenses remained about the same level, compared to the same period of 2018.

Electricity expenses

9 month period ended 30 September

In GEL '000

	9M 2019	9M 2018	% Change	Abs. change
Electricity expense of traction	13,532	13,121	3.13%	411
Utility expenses	2,545	2,519	1.02%	26
Total	16,076	15,640	2.79%	436

There was a 3 percent increase in electricity expenses of traction during the nine months ended 30 September 2019, compared to the same period of 2018, because of gross ton-kilometers rise by about 6 percent. . 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 2019			9M 2018		
	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)
January	11.3	389.4	0.130	10.9	361.4	0.130
February	11.0	413.5	0.130	10.9	416.9	0.130
March	12.3	488.7	0.130	11.5	435.8	0.130
April	11.5	458.7	0.130	11.0	424.0	0.129
May	10.4	398.4	0.130	10.1	364.3	0.129
June	11.1	437.4	0.130	11.9	481.4	0.129
July	11.7	444.3	0.130	12.8	501.1	0.130
August	12.7	502.4	0.130	11.2	400.5	0.130
September	12.0	458.1	0.130	10.8	386.7	0.130
Total	104.2	3,990.9	0.130	101.2	3,772.1	0.130

Note: The table above includes only electricity consumed of traction

Freight car rental expense

Freight car rental expense in the first nine months ended 30 September 2019, compared to the same period of the previous year, decreased by about GEL 1.7 million. This decrease was caused by the implementation of contract between Georgian Railway and one counterparty railway that released GR from certain freight car rental expenses in 2019.

Logistical service expenses

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 2019 have increased by about 12 percent (GEL 1.5 million), compared to the same period of the previous year. The increase was mainly caused by increased expenses of GR's subsidiary, which serves container transportation, which was partly offset by reduced expenses of another subsidiary that mainly serves crude oil and oil products transported by the Company.

Impairment loss on trade receivables

Increase with GEL 28.7 million in impairment loss on trade receivables was caused due to impairment of two-year contract (USD 22.0 million) of oil trade between one significant counterparty company from Turkmenistan and Georgian Railway.

Taxes other than income tax

9 month period ended 30 September

In GEL '000

	9M 2019	9M 2018	% Change	Abs. change
Property tax	7,786	9,887	-21.2%	-2,101
Land tax	8,889	8,864	0.3%	25
Other taxes*	601	259	132.1%	342
Total	17,277	19,010	-9.1%	-1,733

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

During the 9 months ended 30 September 2019, compared to the same period of 2018, property tax has decreased by 18 percent (GEL 1.2 million), which was mainly caused by impairment of property, plant and equipment. Property tax will also be reduced after putting the Modernization project into operation, as railway infrastructure related linear assets are free of property tax and assets under the project are taxed by property tax while under construction in progress. The decrease in property tax was partly offset by the increase of custom penalties, during the first two quarter of 2019 compared to the same period of previous year.

1.4 Finance income and cost

Finance income and cost

9 month period ended 30 September

In GEL '000

	9M 2019	9M 2018	% Change	Abs. change
Interest income	10,390	12,388	-16.1%	-1,998
Impairment gain on cash in bank	69	0	NA	69
Impairment loss on loans	-17	-1,579	-98.9%	1,562
Interest expense	-37,738	-34,326	9.9%	-3,411
FX gain/loss	-125,059	-10,464	1095.1%	-114,595
Net finance income/loss	-152,355	-33,982	348.3%	-118,373

In the nine months ended 30 September 2019 the Group showed GEL 152.4 million net finance loss, compared to net finance loss of GEL 34.0 million in the same period of 2018. The negative difference of GEL 118.4 million was mainly due to the fluctuation of GEL against foreign currencies.

GEL/USD exchange rate fluctuation has significant effect on net finance income/loss. Due to GEL depreciation against USD by 10 percent as at 30 September 2019 compared to 31 December 2018 (GEL/USD exchange rate 2.96 versus 2.68), the Group experienced net foreign exchange loss of GEL 125.1 million in first nine months of 2019, as well as due to depreciation of GEL against USD (about 1 percent) as at 30 September 2018 compared to 31 December 2017 (GEL/USD exchange rate 2.62 versus 2.59), the Group showed net foreign exchange loss of GEL 10.5 million in the same period of 2018.

Higher interest expense during the nine months ended 30 September 2019, compared to the same period of 2018, was mainly due to depreciation of GEL against USD.

Lower interest income by GEL 2.0 million in nine months ended 30 September 2019, compared to the same period of 2018 was mainly due to lower average interest rates.

1.5 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. During the first nine months of 2019 income tax expense decreased by 61 percent (GEL 0.9 million) due to preliminary decisions, compared to the same period of previous year and equaled to GEL 0.6 million.

2. Balance Sheet

Balance sheet

9 Month period ended 30 September

	30-Sep-19	30-Jun-19	% Change	Abs. change	31-Dec-18	% Change	Abs. change
TOTAL ASSETS	2,289,284	2,299,665	-0.5%	(10,381)	2,264,011	1.1%	25,273
<i>Changes are mainly due to:</i>							
Property, plant and equipment	1,846,728	1,839,300	0.4%	7,428	1,826,590	1.1%	20,137
Trade and other receivables	40,910	59,316	-31.0%	-18,406	40,912	0.0%	-2
Cash and cash equivalents	246,616	246,188	0.2%	428	241,308	2.2%	5,309
TOTAL LIABILITIES	1,824,233	1,812,168	0.7%	12,065	1,734,796	5.2%	89,437
<i>Changes are mainly due to:</i>							
Loans and borrowings (LT)	1,552,290	1,506,228	3.1%	46,062	1,336,665	16.1%	215,624
Trade payables and advances received	158,999	168,201	-5.5%	-9,202	191,610	-17.0%	-32,611

Significant changes in assets

During the first nine months of 2019, GEL 20.1 million increase in property, plant and equipment, compared to the same period of 2018, was mainly due to the Construction in Progress (mostly under the Modernization Project).

Cash and cash equivalents increased by GEL 5.3 million in the nine months ended 30 September 2019, compared to the 31 December 2018, which was mainly caused by increased cash receipts from customers and decreased cash outflows on acquisition of property, plant and equipment. (see heading 3 "Cash Flow Statement").

Significant changes in liabilities

During the first nine months of 2019, the increase of GEL 215.1 million in long-term borrowings, in the first nine months of 2019, was mainly due to debt revaluation, as GEL has depreciated against USD by about 10 percent and the Group's debts are denominated in USD.

GEL 32.6 million decrease in trades and other payables was mainly due to decreased amount of payments to suppliers as well as decreased liability on ongoing infrastructure project.

3. Cash Flow Statement

Cash flow statement

9 Month period ended 30 September

In GEL
'000

	Q3 2019	Q3 2018	Q2 2019	9M 2019	9M 2018
Cash flows from operating activities					
Cash receipts from customers	137,969	121,358	116,907	366,953	363,685
Cash paid to suppliers and employees	-64,612	-75,183	-81,053	-202,859	-202,901
Cash flows from operations before income taxes paid	73,357	46,175	35,855	164,095	160,784
Income tax paid	-	-	(250)	(250)	-
Net cash from operating activities	73,357	46,175	35,605	163,845	160,784
Cash flows from investing activities					
Acquisition of property, plant and equipment	-27,652	-32,133	-27,629	-82,007	-92,654
Proceeds from sale of property, plant and equipment	3,109	12,323	9,251	13,584	15,688
Interest received	2,934	3,200	3,354	8,789	9,600
Refund of the loan	-	-	-	-	-
Net cash used in investing activities	-21,609	-16,609	-15,024	-59,634	-67,366
Cash flows from financing activities					
Repayment of borrowings	0	0	-5,895	-5,895	-5,337
Interest paid	-54,273	-47,484	-2,001	-108,128	-99,047
Net cash from used in financing activities	-54,273	-47,484	-7,896	-114,023	-104,384
Net increase/(decrease) in cash and cash equivalents	-2,525	-17,919	12,684	-9,813	-10,966
Cash and cash equivalents at 1 January	246,188	243,486	222,377	241,308	243,018
Effect of exchange rate fluctuations on cash and cash equivalents	3,017	9,948	10,994	15,052	3,463
Cash and cash equivalents provision	(64.0)	0	133.0	69	-
Cash and cash equivalents at the end of the period	246,616	235,515	246,188	246,616	235,515

Operating activities

Net cash from operating activities increased by GEL 3.1 million in the nine months ended 30 September 2019, compared to the same period of the previous year. The change was driven by increase in cash receipts from customers by GEL 3.3 million, mostly due to the cash collection from partnering railways.

The cash paid to suppliers and employees remained at about the same level.

Investing activities

Cash used in investing activities decreased by GEL 7.7 million in the nine months ended 30 September 2019, compared to the same period of the previous year. The decrease was mainly due to the decrease in acquisition of property, plant and equipment. This was mainly caused due to lower cash outflows on Modernization Project in first nine months' period of 2019, compared to the same period of 2018.

Financing activities

Cash used in financing activities increased by GEL 9.6 million in the nine months ended 30 September 2019. This change was caused by higher interest paid in the nine months ended 30 September 2019, compared to the same period of the previous year, due to significant 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

In thousand tons

	Q3 2019	Q3 2018	y-o-y	Q2 2019	q-o-q	9M 2019	9M 2018	% Change	Abs. Change
Liquid cargoes	732	837	-12.6%	739	-1.0%	2,187	2,459	-11.1%	-272
Oil products	726	815	-11.0%	733	-1.0%	2,175	2,335	-6.8%	-160
Crude oil	6	22	-73.2%	6	1.7%	12	124	-90.5%	-113
Dry cargoes	1,954	1,660	17.7%	1,818	7.5%	5,576	5,052	10.4%	524
Ores	519	381	36.2%	472	10.1%	1,387	1,182	17.3%	205
Grain	130	93	39.8%	72	81.3%	298	353	-15.6%	-55
Ferrous metals and scrap	132	129	2.0%	117	12.5%	387	406	-4.7%	-19
Sugar	99	95	4.0%	102	-3.1%	281	250	12.6%	31
Chemicals and fertilizers	130	119	9.2%	107	21.5%	482	432	11.5%	50
Construction freight	249	263	-5.5%	247	0.8%	762	850	-10.4%	-89
Industrial freight	123	95	28.6%	126	-2.5%	312	285	9.4%	27
Cement	35	37	-5.4%	31	15.5%	92	102	-9.9%	-10
Other	537	445	20.5%	545	-1.5%	1,576	1,192	32.3%	385
Total	2,686	2,497	7.6%	2,557	5.0%	7,763	7,512	3.3%	252

Appendix 2

Breakdown of freight transportation in ton-kilometers

9 Month period ended 30 September

In million ton-kilometers

	Q3 2019	Q3 2018	y-o-y	Q2 2019	q-o-q	9M 2019	9M 2018	% Change	Abs. Change
Liquid cargoes	212	247	-14.1%	204	4.1%	629	736	-14.5%	-107
Oil products	211	238	-11.6%	202	4.4%	626	687	-8.8%	-61
Crude oil	1	9	-85.5%	2	-29.8%	3	49	-93.7%	-46
									0
Dry cargoes	507	398	27.2%	475	6.6%	1,453	1,206	20.5%	247
Ores	139	83	67.6%	123	12.7%	361	240	50.3%	121
Grain	35	14	151.9%	13	161.6%	66	75	-11.2%	-8
Ferrous metals and scrap	34	25	33.2%	26	29.0%	90	86	5.6%	5
Sugar	33	33	-0.9%	39	-15.7%	103	90	14.7%	13
Chemicals and fertilizers	31	44	-29.8%	31	-0.5%	141	150	-6.3%	-10
Construction freight	36	36	0.9%	39	-8.5%	115	120	-3.9%	-5
Industrial freight	24	16	54.1%	28	-12.1%	66	49	34.7%	17
Cement	9	7	18.9%	7	17.5%	22	21	4.6%	1
Other	167	141	18.5%	169	-1.1%	489	376	30.1%	113
Total	719	645	11.4%	679	5.8%	2,082	1,942	7.2%	140

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 2018 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 2018 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-Jun-19	30-Sep-18
Financial indebtedness	1,591,210	1,417,326
less:		
Available credit facilities	150,208	159,910
Cash	246,616	235,515
Net Financial Indebtedness:	1,194,386	1,021,901
	Twelve-month period ended	Twelve-month period ended
The most recent annual financial period	31-Dec-18	31-Dec-17
Results from operating activities	-644,886	-280,467
Depreciation add-back	113,804	109,703
Impairment loss on property, plant and equipment add-back	691,387	382,616
Impairment loss on trade receivables	12,017	
EBITDA	172,320	211,852
Net Financial Indebtedness/EBITDA	6.93	4.82