

H1 2018



CSNO 636426
45G1

MAX. GROSS
32,500 KG
71,850 LBS
3,000 KG
6,600 LBS

28,750 KG
63,270 LBS
76.3 CUM.
2,897 CUFT.

中远海运集团

COSCO
SHIPPING

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94346764

1

GR Today

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Economic
Overview



Georgian
Railway
EST. 1872

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Financial
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Liquidity
Position

GR Today



Economic
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Liquidity
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Company Financial Highlights



Revenue

Q2 2018

102,083

+14% from Q2 2017
+6% from Q1 2018

6M 2018

198,593

+2% from 6M 2017

EBITDA

Q2 2018

40,968

+32% from Q2 2017
+10% from Q1 2018

6M 2018

78,132

+2% from 6M 2017

EBITDA margin

Q2 2018

40.13%

+6 points from Q2 2017
+2 points from Q1 2018

6M 2018

39.34%

0 points from 6M 2017

Adjusted EBITDA

Q2 2018

36,621

+29% from Q2 2017
+8% from Q1 2018

6M 2018

70,617

-1% from 6M 2017

Adjusted EBITDA margin

Q2 2018

35.87%

+4 points from Q2 2017
+1 points from Q1 2018

6M 2018

35.56%

-1 points from 6M 2017

Net Debt to EBITDA

30 June 2018

4.51

3.49 as at 30-Jun-2017
4.39 as at 31-Mar-2018

Key Operating Measures



Total freight revenue per ton-km (in GEL)

Q2 2018
0.14

+12% from Q2 2017
+3% from Q1 2018

6M 2018
0.13

+13% from 6M 2017

Passenger revenue per passenger-km (in GEL)

Q2 2018
0.04

+17% from Q2 2017
+102% from Q1 2018

6M 2018
0.03

+13% from 6M 2017

Revenue per average number of employees (in GEL '000)

Q2 2018
8.05

+12% from Q2 2017
+6% from Q1 2018

6M 2018
15.64

+3% from 6M 2017

Operating expenses per ton-km (in GEL)

Q2 2018
0.12

+113% from Q2 2017
+98% from Q1 2018

6M 2018
0.15

+20% from 6M 2017

Ton-km per average number of Freight SBU employees in '000

Q2 2018
120.36

+1% from Q2 2017
+5% from Q1 2018

6M 2018
234.80

-11% from 6M 2017

Pass-km per average number of Passenger SBU employees '000

Q2 2018
119.30

+15% from Q2 2017
+23% from Q1 2018

6M 2018
216.92

+9% from 6M 2017

Fitch Ratings

B+, Outlook Stable

S&P Global

B+, Outlook Negative

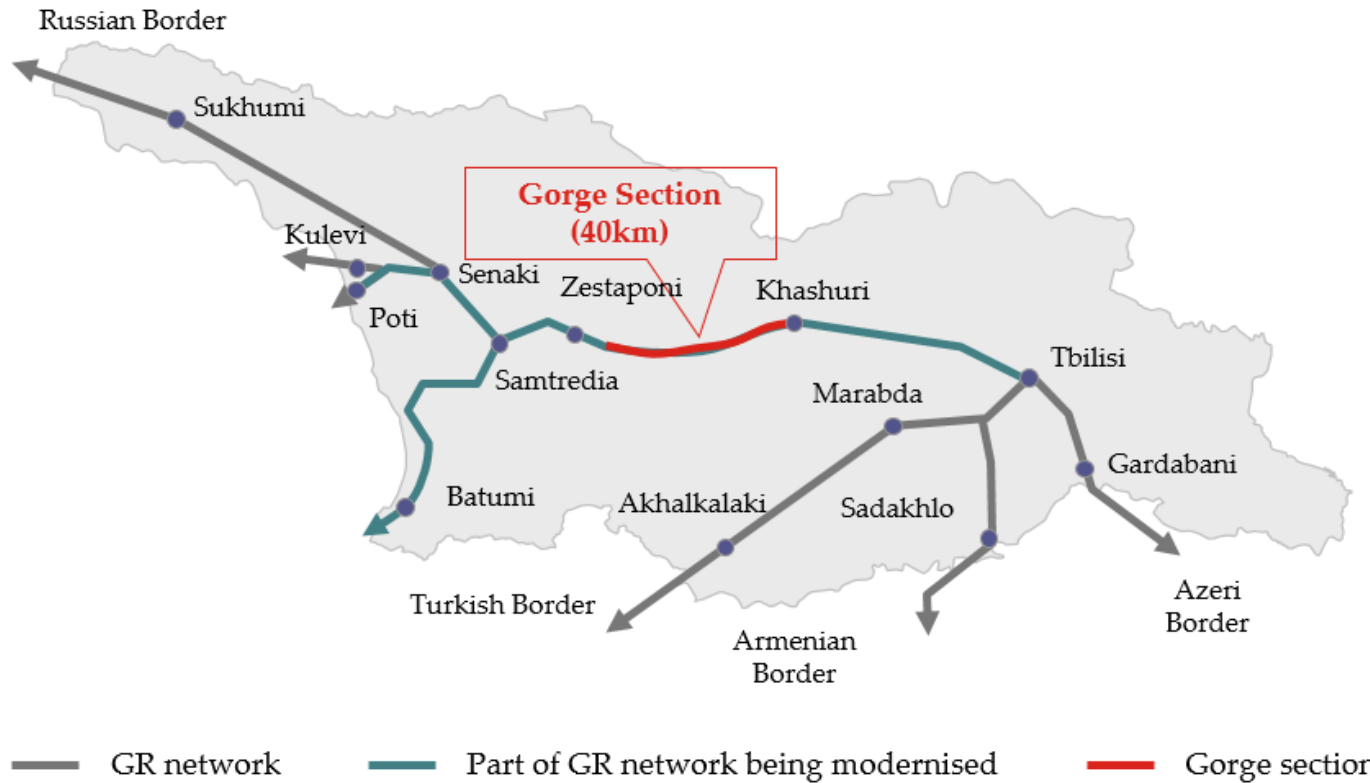
1,443km Operational network length

97% Electrified

92 Freight stations

32 Railroad tunnels

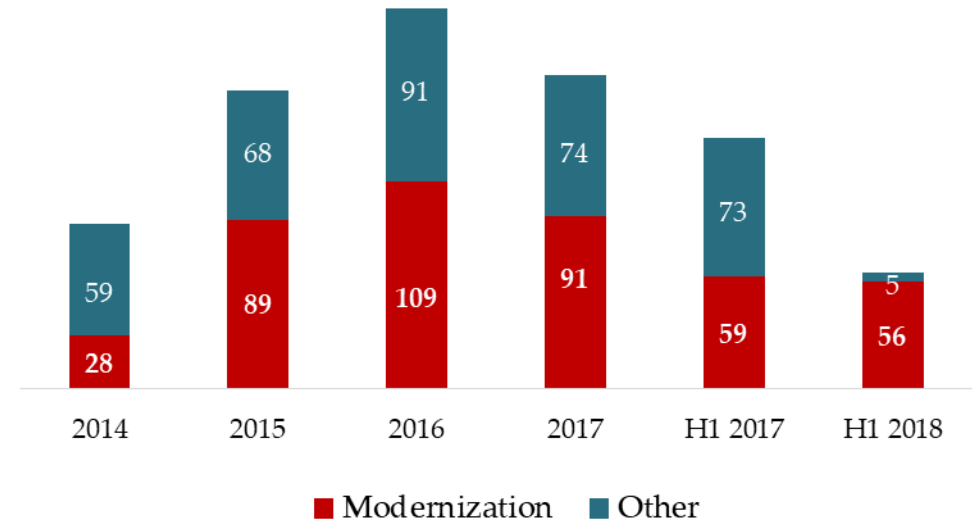
1,325 Railroad bridges



Modernization

- Expected to be completed by 2019;
- Designed to increase transportation capacity of infrastructure from the current annual 27 million tons to 48 million, with the possibility of further expansion to a potential 100 million per annum;
- Supports future corridor developments: Anaklia Deep Sea port, Poti Port expansion, etc.;
- Reduced operational expenses;
- Improved operational safety;
- Increased train speeds;
- From 2010 till 30 June 2018 the Company invested GEL 724m in Modernization project.

Cash Flow used for acquisition of PP&E (GEL million)



Baku-Tbilisi-Kars (“BTK”)

- New corridor from the Caspian Sea to Europe via Turkey;
- Opening day – 30 October 2017;
- Will transport both goods and passengers between Central Asia and Europe;
- Expected to increase cargo transportation capacity of existing line by up to 15mtn;
- GR has been granted the right to operate the Georgian portion of the new line;
- GR expects this line to attract cargo transportation businesses which may currently use the alternative routes offered through Iran;
- If cargo switches to BTK line, profitability will increase.



**Economic
Overview**

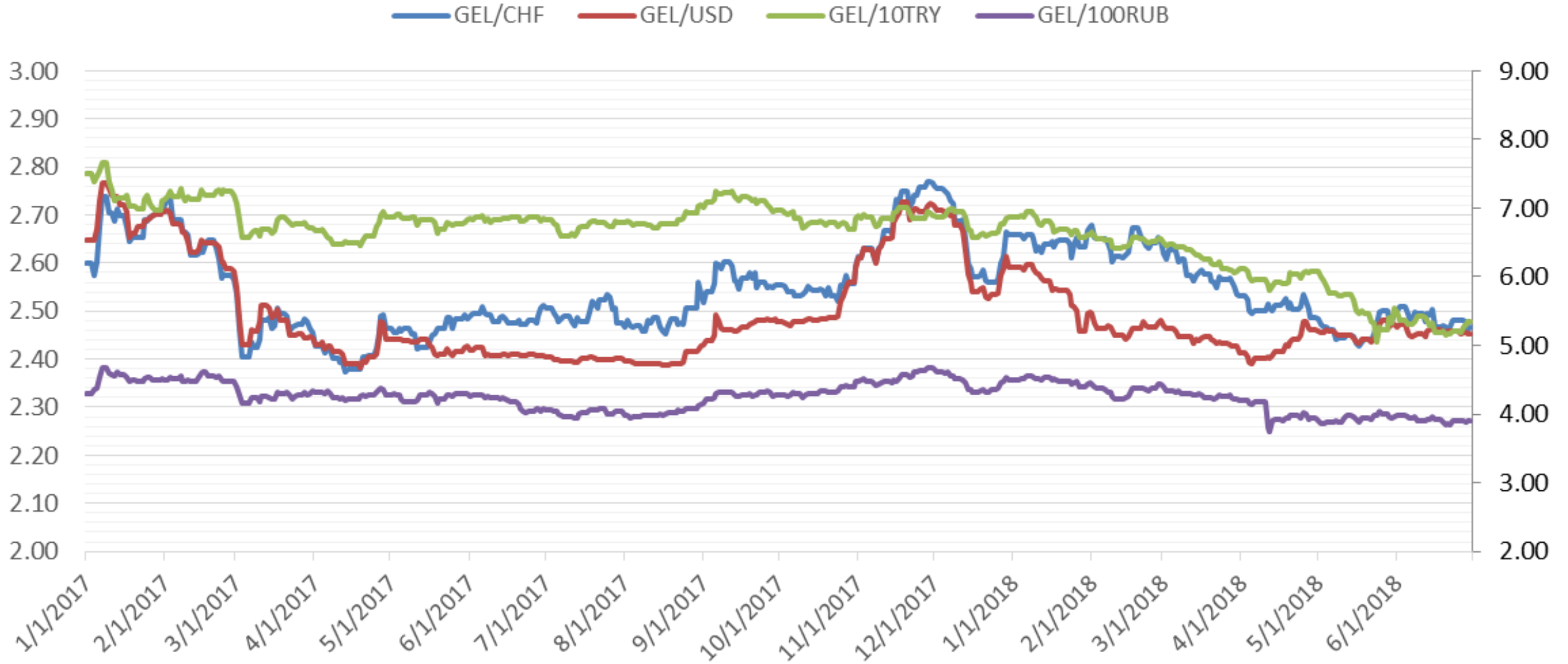
GR Today



**Financial
Results**

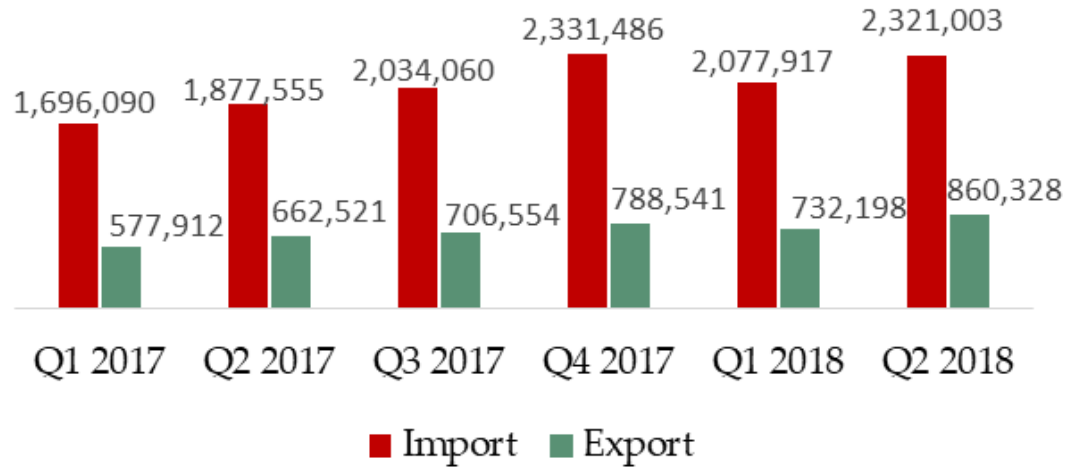
**Liquidity
Position**

GEL Exchange Rate

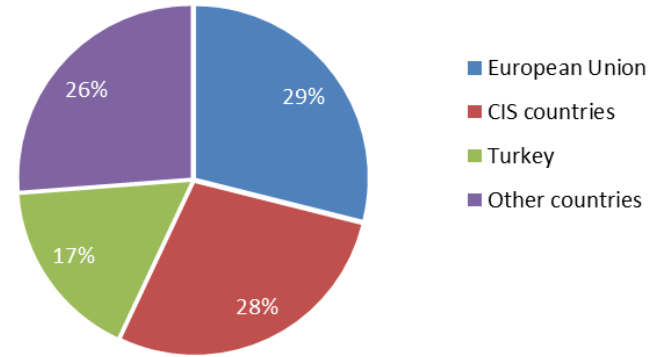


Macroeconomic Environment in Georgia

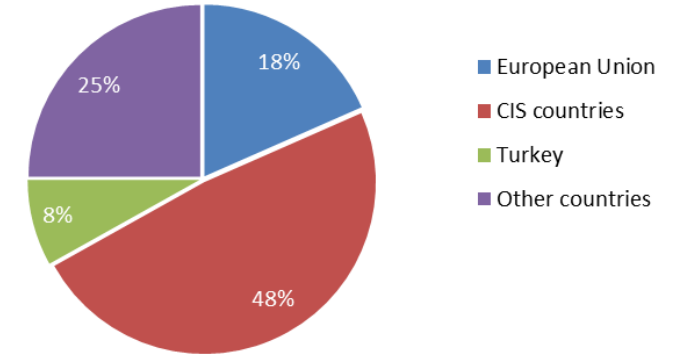
Georgian Trade Dynamics



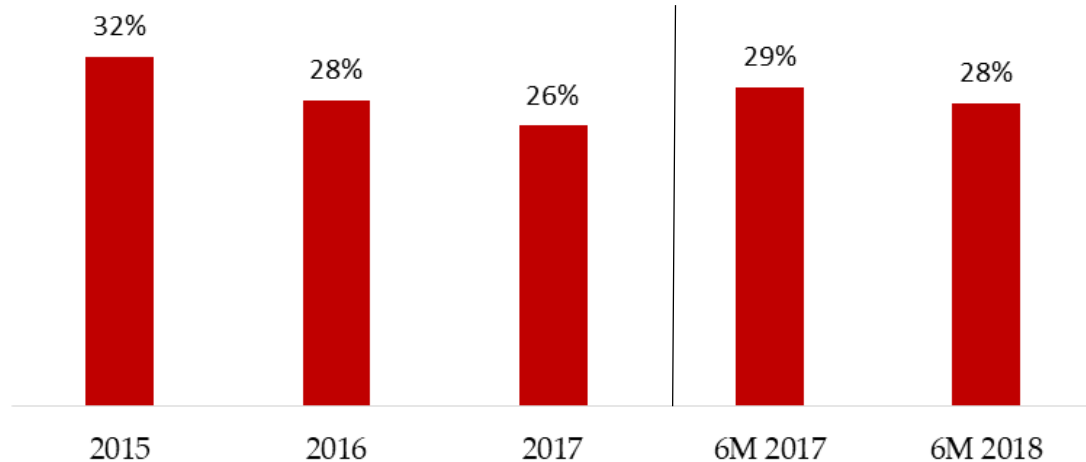
Import by countries for 6M 2018



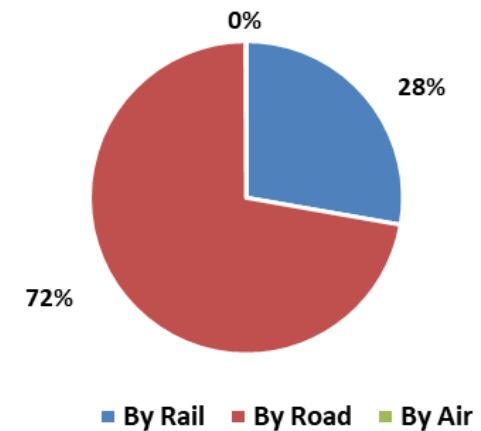
Export by countries for 6M 2018



Share of GR in Total Freight Transportation in Georgia



Freight transportation by types for 6M 2018



Macroeconomic Environment in Region

Global Commodity Prices (BLOOMBERG) Commodity	Spot price	% change		
	Q2 2018	Q3 2018	Q4 2018	Q1 2019
ICE Brent (Crude oil)	73.63	1.10%	-0.20%	-0.80%
ICE Gasoil	643.25	0.40%	-0.20%	0.00%
UK NBP Nat Gas	57.05	0.50%	12.00%	-4.80%
Wheat	487.75	-0.20%	3.50%	3.20%
Aluminum	2042	0.00%	0.70%	0.80%
Iron ores	62.5	1.50%	-0.30%	-1.00%

Macroeconomic Measures of Partnering Countries for 2017 (IMF)

	% Change from 2016			
	GDP	Inflation rate	Import	Export
Azerbaijan	0.07%	13.00%	-9.99%	-11.0%
Turkey	7.05%	11.14%	8.73%	11.58%
Kazakhstan	3.99%	7.43%	4.50%	20.08%
Turkmenistan	6.47%	8.04%	-22.0%	-9.00%

Economic
Overview

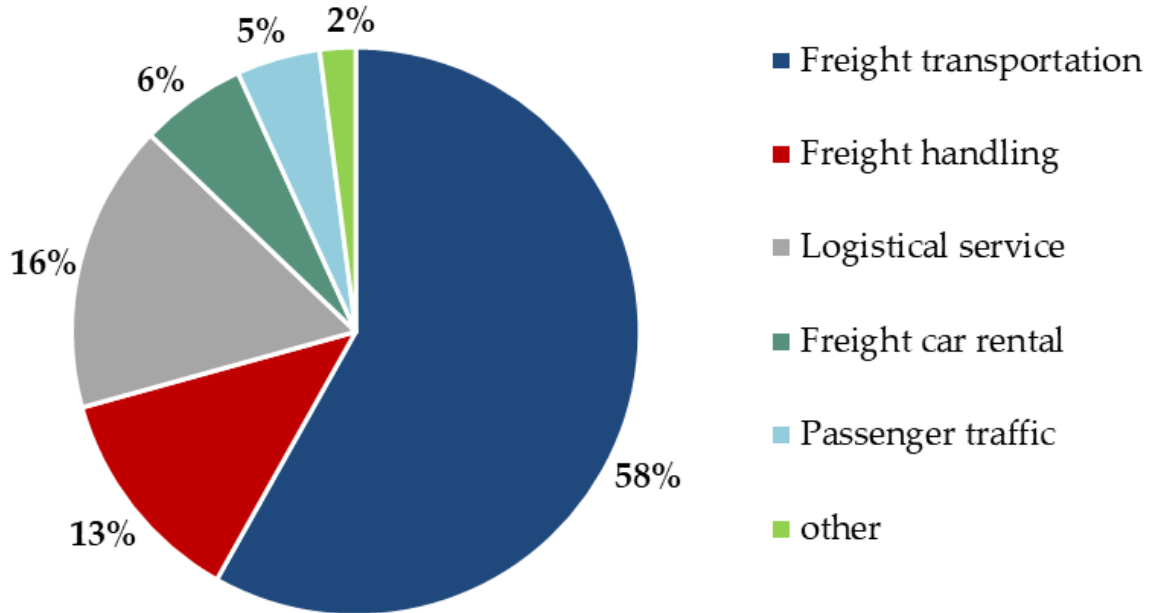
GR Today



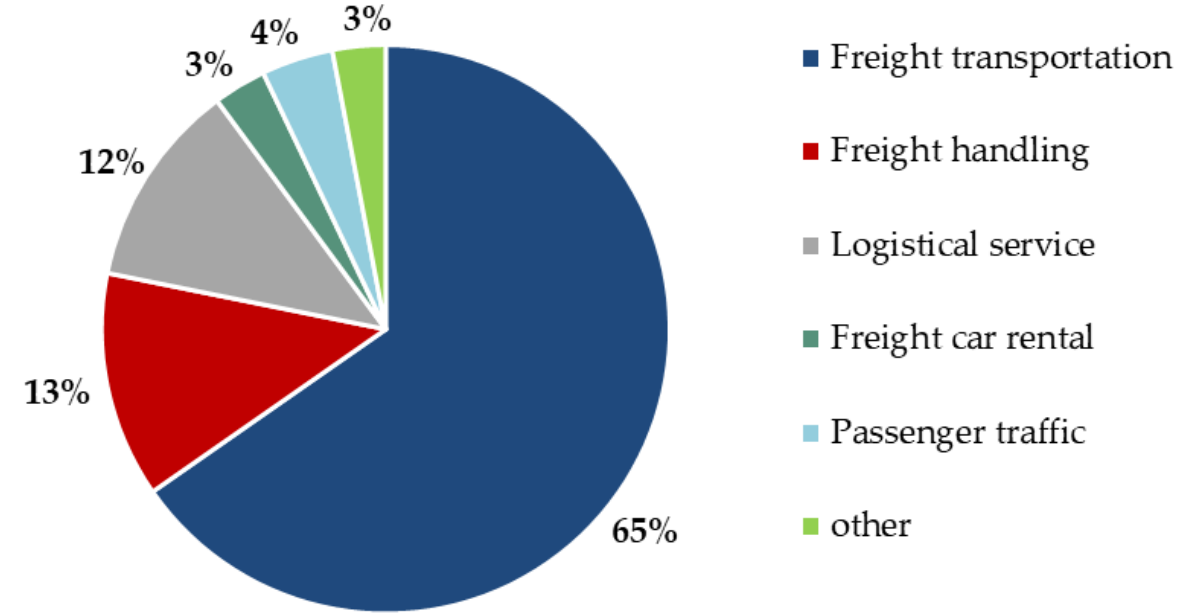
**Financial
Results**

Liquidity
Position

Revenue Breakdown 6M 2018



Revenue Breakdown 6M 2017



Revenue Breakdown

Significant Changes

- **Freight transportation:**
 - Tariffs denominated in USD;
 - The downturn in revenue caused by decreased volumes;
 - Average revenue per ton-kilometer increased by 4.0%.
- **Logistical service:**
 - Increased logistical revenue from oil products;
 - Increased volumes of container transportation.
- **Freight car rental:**
 - Increased usage of semi-wagons and grain carriers by Kazakhstan railway organization.
- **Passenger transportation:**
 - Increased number of passengers on the main line.
- **Other income:**
 - Continuing operations decreased by about 75%, due to the decrease of accrued penalties on debtors by GEL 3.2 million.
 - Increase in non-continuing operations by about 36% due to the revenue from sales of fixed assets.

<i>GEL '000 period ended 30 June</i>	6M 2018	6M 2017	% Change	Abs. Change
Freight transportation	115,468	126,936	-9.0%	-11,469
Freight handling	24,944	24,973	-0.1%	-29
Logistical service	32,653	22,741	43.6%	9,912
Freight car rental	12,016	5,866	104.8%	6,150
Passenger traffic	9,467	7,941	19.2%	1,526
Other	4,046	5,873	-31.1%	-1,827
Revenue	198,593	194,330	2.2%	4,263
Other income	8,777	9,883	-11.2%	-1,106

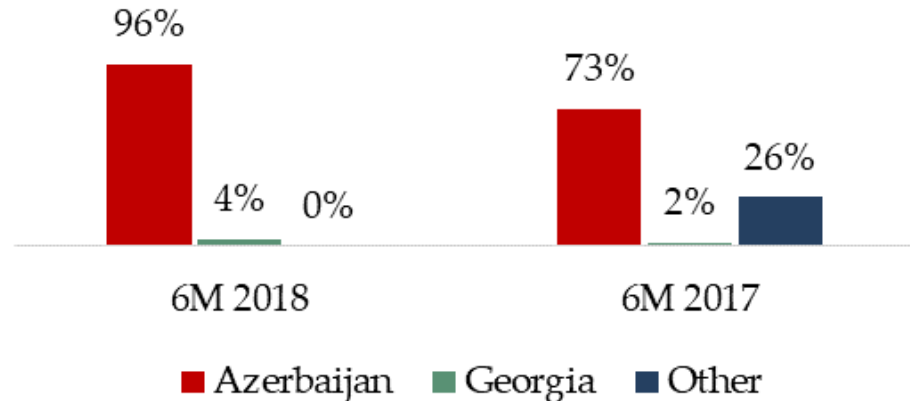
Freight Revenue Breakdown

<i>GEL '000 period ended 30 June</i>	6M 2018	6M 2017	% Change	% Change at constant currency	Abs. Change
Freight transportation	115,468	126,936	-9.0%	-7.4%	-11,469
Liquid cargoes	47,332	56,603	-16.4%	-14.9%	-9,271
Oil products	45,074	51,184	-11.9%	-10.3%	-6,110
Crude oil	2,258	5,419	-58.3%	-57.6%	-3,161
Dry cargoes	68,136	70,333	-3.1%	-1.4%	-2,198
Ores	13,845	12,422	11.5%	13.5%	1,423
Grain	4,713	3,976	18.5%	20.7%	737
Ferrous metals and scrap	4,395	5,121	-14.2%	-12.6%	-725
Sugar	5,000	8,334	-40.0%	-38.9%	-3,334
Chemicals and fertilizers	7,274	5,214	39.5%	42.0%	2,060
Construction freight	3,231	3,343	-3.3%	-1.6%	-111
Industrial freight	2,653	2,503	6.0%	7.9%	150
Cement	826	669	23.5%	25.7%	157
Other	26,199	28,752	-8.9%	-7.2%	-2,553
Freight turnover (million ton-km)	1,298	1,484	-12.5%	-11.0%	-186
Revenue / ton-km (in Tetri)	8.90	8.55	4.0%	5.9%	0.34

Crude oil

6 month period ended 30 June	6M 2018	6M 2017	% Change	% Change at constant currency
Revenue (GEL million)	2.26	5.42	-58.3%	-57.6%
Freight volume (million ton)	0.10	0.27	-62.5%	NA
Freight turnover (million ton-km)	40.79	107.40	-62.0%	NA
Revenue / ton-km (in Tetri)	5.54	5.05	9.7%	11.7%

Transportation volume by countries of origin

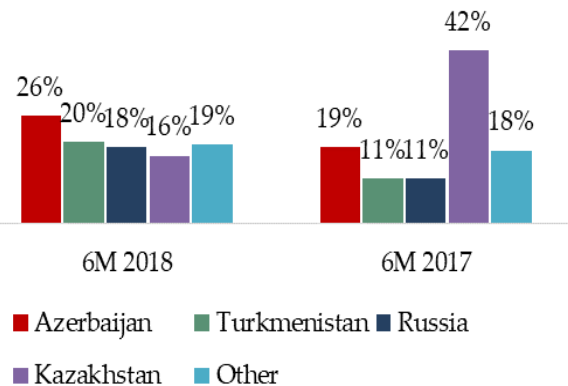


- Sharp fall (Down by about 63 percent, compared to first 6 months of 2017) mainly due to decreased transported volume of crude oil from Turkmenistan and Azerbaijan;
- Increase in average revenue per ton-kilometer due to the changes in transportation direction mix;

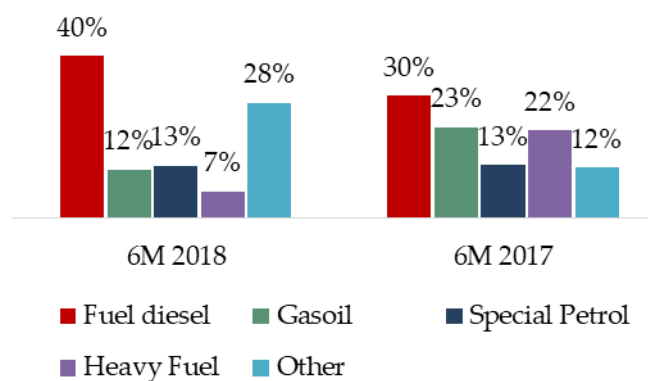
Oil products

6 month period ended 30 June	6M 2018	6M 2017	% Change	% Change at constant currency
Revenue (GEL million)	45.07	51.18	-11.9%	-10.3%
Freight volume (million ton)	1.52	2.03	-25.3%	NA
Freight turnover (million ton-km)	449	657	-31.7%	NA
Revenue / ton-km (in Tetri)	10.04	7.79	28.9%	31.3%

Transportation volume by countries of origin



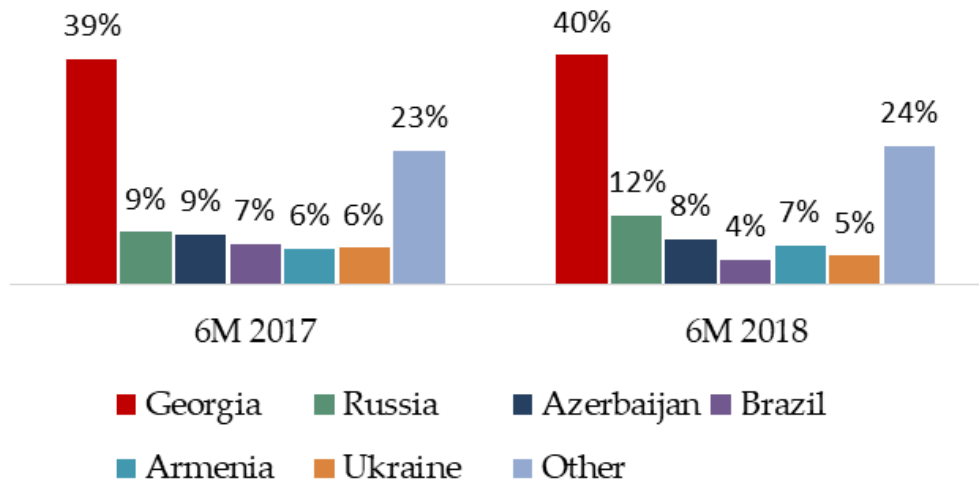
Product Category Mix



- Decreased transportation of heavy fuel and gasoil from Kazakhstan by 339,000 tons and 276,000 tons, respectively;
- Decreased average transportation distance caused by changes in transportation direction mix;
- Product category mix. The shares of fuel diesel and aviation light fuel (which are relatively more profitable products) have increased and shares of gasoil and heavy fuel (which are relatively less profitable products) have decreased in total oil products.

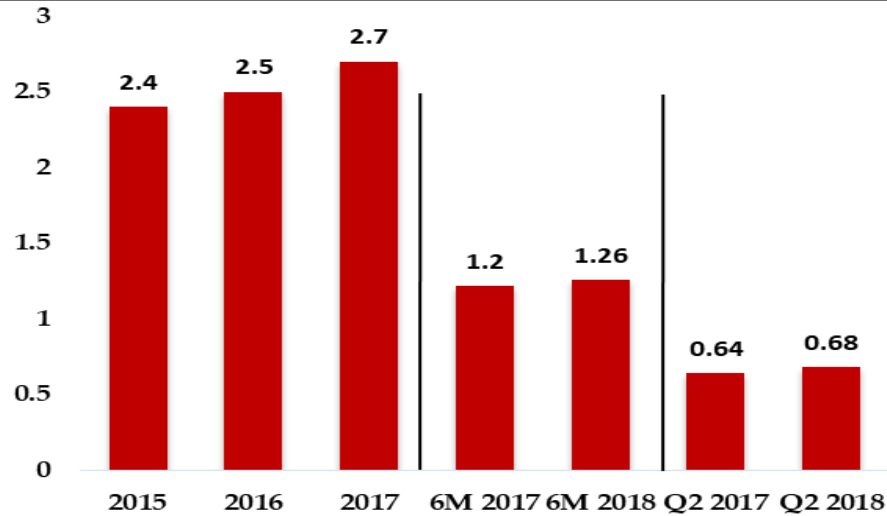
6 month period ended 30 June	6M 2018	6M 2017	% Change	% Change at constant currency
Revenue (GEL million)	68.14	70.33	-3.1%	-2.0%
Freight volume (million ton)	3.39	2.96	14.7%	3.0%
Freight turnover (million ton-km)	808	720	12.3%	14.3%
Revenue / ton-km (in) Tetri	8.43	9.78	-13.8%	-12.7%

Transportation volume by countries of origin

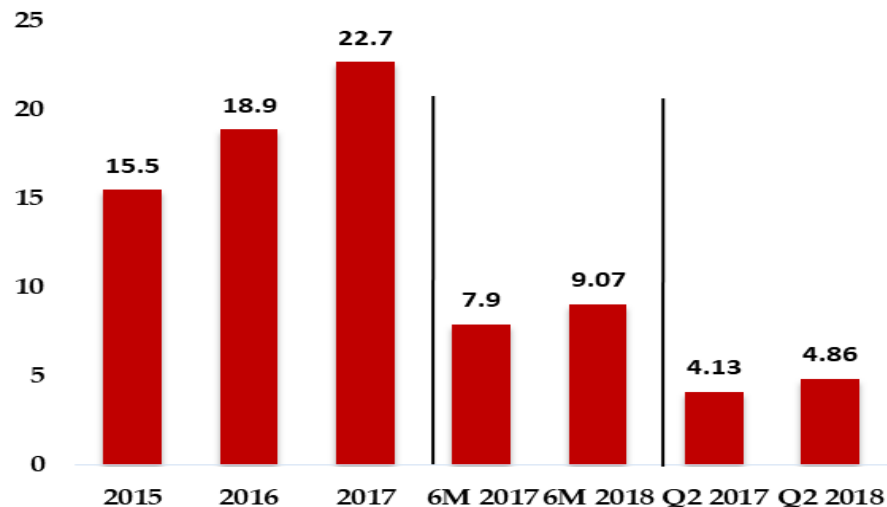


- Increased transportation of grain (by 104,000 tons), ores (by 141,000 tons), industrial freight (by 66,000 tons) and chemicals and fertilizers (by 62,000 tons);
- Decreased transportation of grain (by 67,000 tons);
- Reduced revenue per ton-km was mainly caused by change in product category mix and transportation direction mix.

Passenger Transported (in million)



Passenger Revenues (GEL million)



Overview

- The Passenger SBU is the only provider of passenger railway transportation of Georgia;
- The medium-term aim is to achieve break even for Passenger SBU;
- Supported by GR's railway infrastructure and rolling stock base;
- Expected subsidy of passenger SBU from the state budget as per Euro directive, effective from 2018.

Roadmap to Profitability

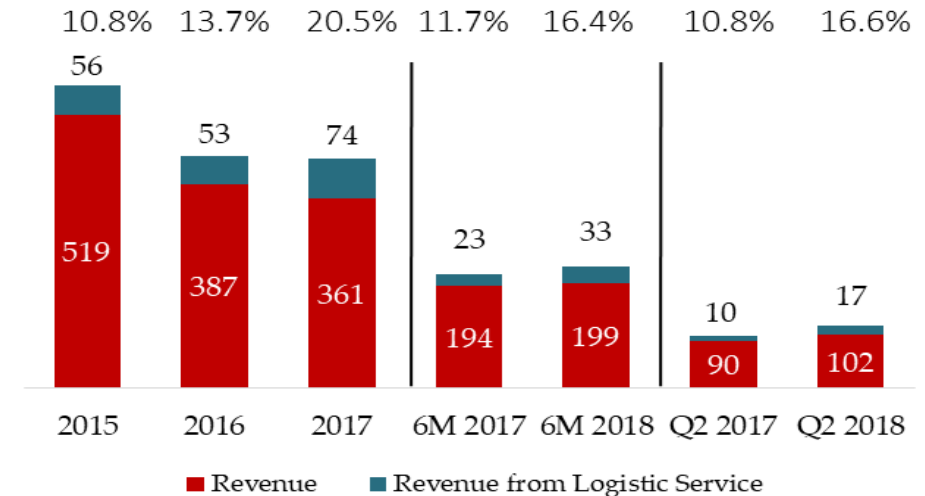
- Medium-term strategic objective to achieve break even :
 - Increasing revenue per passenger by attracting new higher paying customers willing to switch from car and minibus to rail;
 - Adjusting schedules to optimise utilisation.
- GR is increasing its service quality with higher speed and comfort:
 - In 2010, GR purchased 3 modern passenger trains for GEL 16m;
 - In 2011, the Group signed a purchase agreement for 5 modern Chinese passenger trains (with a combined capacity of 1,500 seats);
 - In 2016 GR purchased 2 modern trains from the Swiss company Stadler Bussnang AG and another 2 in the first 9 months of 2017;
 - Potential additional traffic from Baku-Tbilisi-Kars link.

Description of GR's freight forwarders

- **GR Transit LLC** purchased by JSC Georgian Railway in April 2013. The subsidiary transports cargo mainly from Azerbaijan, Kazakhstan and Turkmenistan to western countries;
- **GR Transit Line LLC** established by Georgian Railway and started its operation in April 2014. It is a liquid cargo forwarding company, mainly working on transportation of oil products to Armenian and Azerbaijan directions;
- **GR Logistics and Terminals LLC** established in October 2009 by the Company to promote containerization of the corridor. Recently, the subsidiary also became involved in cargo forwarding (mainly dry cargo) through the corridor;
- **GR Transshipment LLC** was established in Q2 2015. The company holds liquid cargo warehouses in Batumi port, utilized to store oil products and change transportation modes. Modern infrastructure used by the subsidiary was constructed in 2013 and 2014.

Freight forwarders margin added to GR's revenue (in GEL million)

As a percentage of total revenue

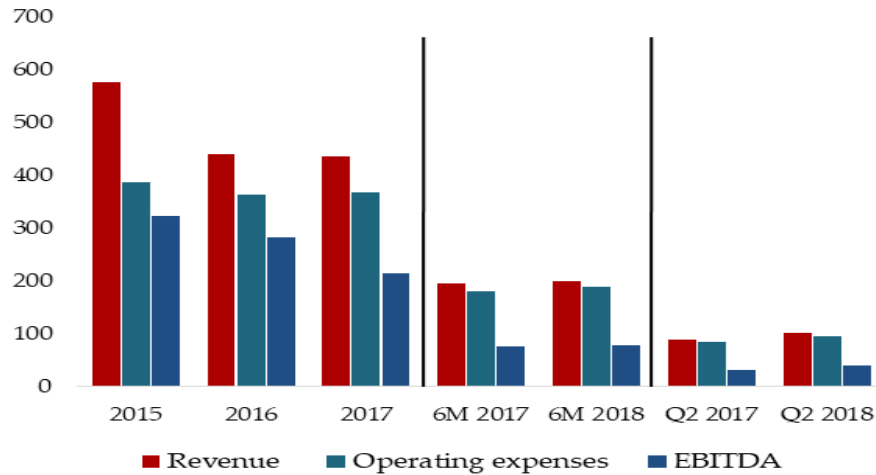


Comment

- Subsidiaries' margin added to GR revenue is increasing since entering in freight forwarding business;
- To reach subsidiaries margin (GEL 33 million) GR's subsidiaries transported about 1.4 million tons in six months ended in 30 June 2018.

Adding logistics elements to the Company

Key performance indicators



GR as a logistic company

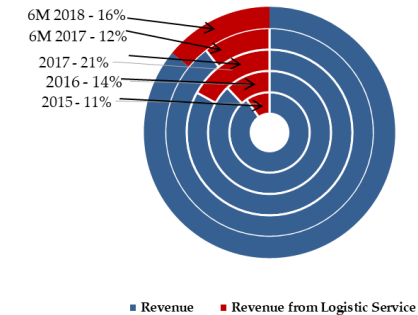
As a logistic company Georgian Railway expects to:

- Have deeper understanding of customers' industries and business processes and be able to provide better service to its customers;
- Increase its competitiveness;
- Increase its financial flexibility, growth and profitability.

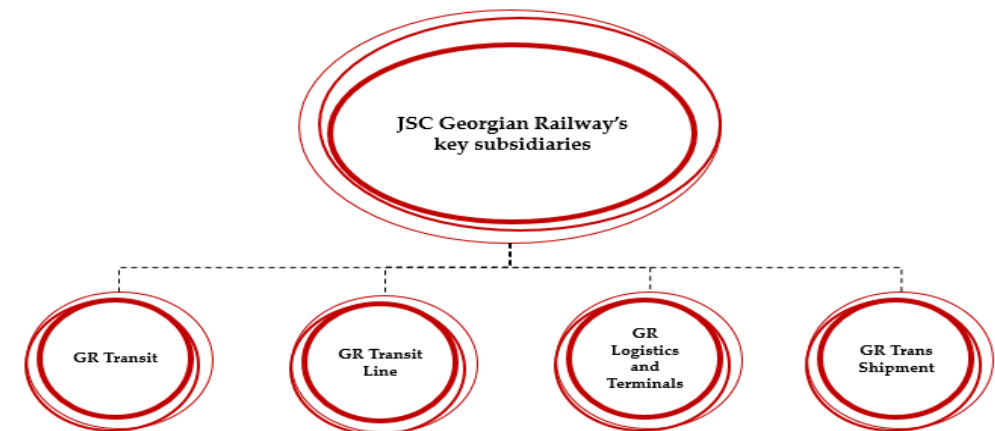
Comments

Georgian Railway entered in freight forwarding business from April 2013 and since then was increasing its significance. GR aims to increase revenues from logistics up to 25% within 5 years.

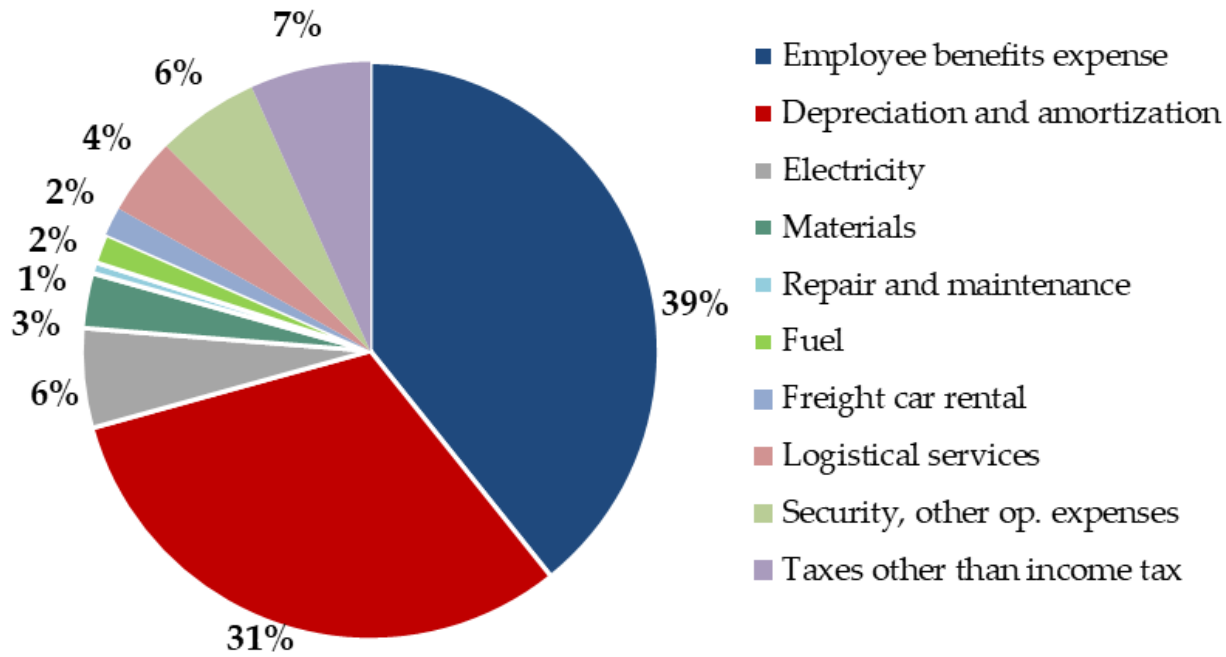
Share of revenue from logistic service in total revenue



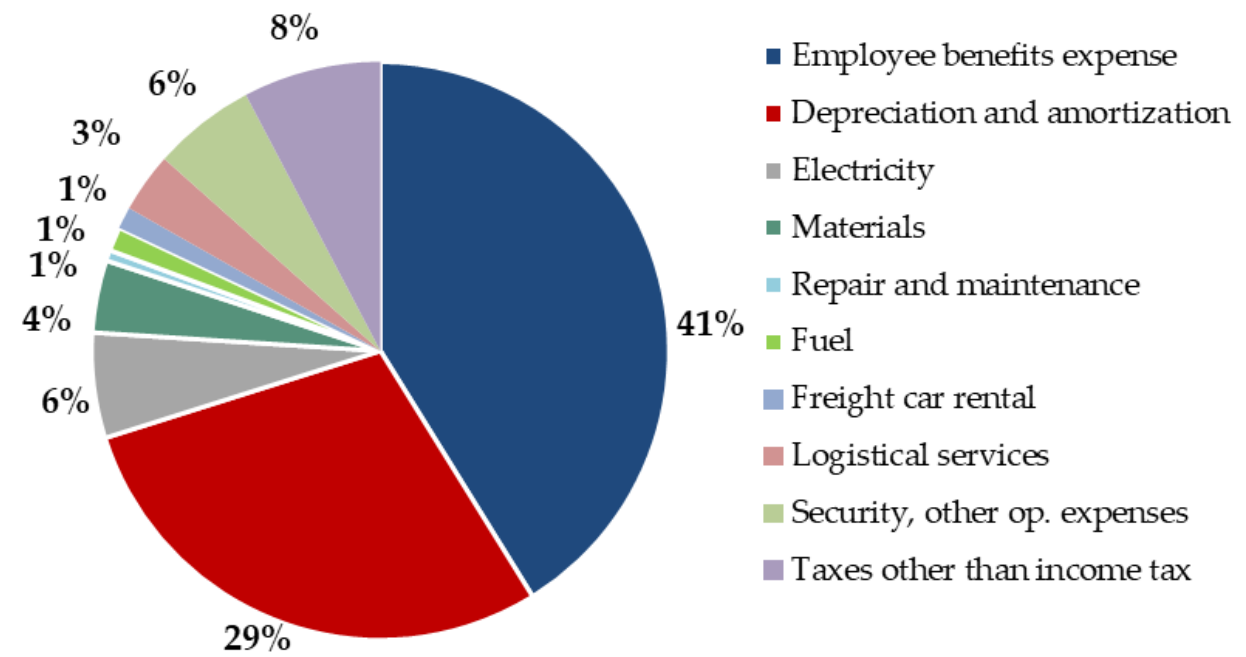
GR's freight forwarders



Cost Structure 6M 2018



Cost Structure 6M 2017



Operating Expenses

Operating expenses

6 month period ended 30 June

In GEL '000

	6M 2018	6M 2017	% Change	Abs. change
Employee benefits expense	73,988	73,835	0.2%	153
Depreciation and amortization	59,333	51,975	14.2%	7,358
Electricity	10,495	10,563	-0.6%	-68
Materials	5,796	7,252	-20.1%	-1,456
Repair and maintenance	1,172	1,081	8.4%	90
Fuel	3,082	2,403	28.3%	679
Freight car rental	2,996	2,170	38.1%	826
Logistical services	8,194	5,994	36.7%	2,201
Security, other op. expenses	10,821	10,290	5.2%	531
Taxes other than income tax	12,694	13,833	-8.2%	-1,139
Total	188,571	179,395	5.1%	9,176

Significant Changes

- **Employee benefits expense:**
 - N of employees – 12,705;
 - Higher cost of aids and other benefits.
- **Electricity:**
 - Decreased gross ton-kilometers by about 14 percent.
 - Higher weighted average tariff.
- **Materials, repair and maintenance expenses:**
 - Decrease in materials, repair and maintenance expenses by fewer repair works as a result of downturn in cargo volumes.
- **Freight car rental:**
 - Increased usage of semi-wagons by GR from partnering railways.
- **Logistical service:**
 - Increased expenses of GR's subsidiary that mainly serves container transportation, partly offset by reduced expenses of another subsidiary that mainly serves crude oil and oil products transported by the company.
- **Taxes other than income tax:**
 - The decrease in property tax by 15.5 percent, was largely driven by impairment of Tbilisi Bypass Project at the end of 2017.
 - Property tax will be reduced after the Modernization Project is put into operation, as railway-related assets are free from property tax, and assets under the project are taxed by property tax while under construction.

Balance Sheet

Non-current assets

In GEL '000

	30-Jun-18	31-Dec-17	% Change	Abs. change
Property, plant and equipment	2,426,963	2,368,380	2.5%	58,583
Other non-current assets	98,969	123,562	-19.9%	-24,593
Loan receivable	17,959	18,113	-0.9%	-154
Total non-current assets	2,543,891	2,510,055	1.4%	33,836

Current assets

	30-Jun-18	31-Dec-17	% Change	Abs. change
Inventories	34,524	32,807	5.2%	1,718
Tax assets	3,632	2,360	53.9%	1,272
Trade and other receivables	54,974	73,614	-25.3%	-18,640
Prepayments and other current assets	575	383	50.3%	192
Cash and cash equivalents	243,486	243,018	0.2%	468
Total current assets	337,192	352,182	-4.3%	-14,990
Total assets	2,881,083	2,862,237	0.7%	18,846

Significant Changes

- **PPE**
 - Mainly increased due to Construction In Progress (mostly under the Modernization Project).
- **Other non-current assets**
 - Decrease in other non-current assets mainly due to decrease in prepayments for non-current assets, mostly attributable to Modernization project and reduction in construction materials that were reclassified from inventory as non-current assets.
- **Trade and other receivables**
 - Decrease in trade and other receivables by GEL 18.6 million mainly due to appreciation of GEL against hard currencies;
 - Cash inflows from partnering railway who paid part of it's payables.
- **Cash and cash equivalents**
 - Increased net cash from operating activities by GEL 34.2 million.
 - Decreased cash used in investing activities. In the first half of 2017, GR invested in the two new double decker trains, causing the significant reduction of investment in PPE in the first half of 2018.
 - Decrease in interest received mainly caused by lower average cash balance and lower interest rates.

Balance Sheet (continued)

Equity

In GEL '000

	30-Jun-18	31-Dec-17	% Change	Abs. change
Share capital	1,053,489	1,053,271	0.0%	218
Non-cash owner contribution reserve	98,192	98,192	0.0%	0
Retained earnings	169,615	93,385	81.6%	76,230
Total equity	1,321,296	1,244,848	6.1%	76,448

Non-current liabilities

	30-Jun-18	31-Dec-17	% Change	Abs. change
Loans and borrowings	1,295,665	1,374,363	-5.7%	-78,698
Advances received from the Government	46,593	46,594	0.00%	-1
Total non-current liabilities	1,342,258	1,420,957	-5.5%	-78,699

Current liabilities

	30-Jun-18	31-Dec-17	% Change	Abs. change
Loans and borrowings	55,356	58,809	-5.9%	-3,453
Trade and other payables	140,118	112,221	24.9%	27,897
Liabilities to the Government	5,578	7,592	-26.5%	-2014
Provisions	7,926	7,953	-0.4%	-27
Other current liabilities	8,551	9,857	-13.3%	-1,306
Total current liabilities	217,529	196,432	10.7%	21,097
Total liabilities	1,559,787	1,617,389	-3.6%	-57,602
Total equity and liabilities	2,881,083	2,862,237	0.7%	18,846

Significant Changes

- **Loans and borrowings (LT)**
 - Decrease in long-term borrowings, mainly due to debt revaluation.
 - GEL 5.3 million principal payment of long-term debt issued for acquisition of four new passenger trains.

- **Trade and other payables**
 - Increase in payables mainly due to the new agreement on modernization project, according to which, GR renegotiated with Chinese partner on bulk payments before completion of project and rest of the payables will be paid within two years after project is finalized.

Economic
Overview

GR Today

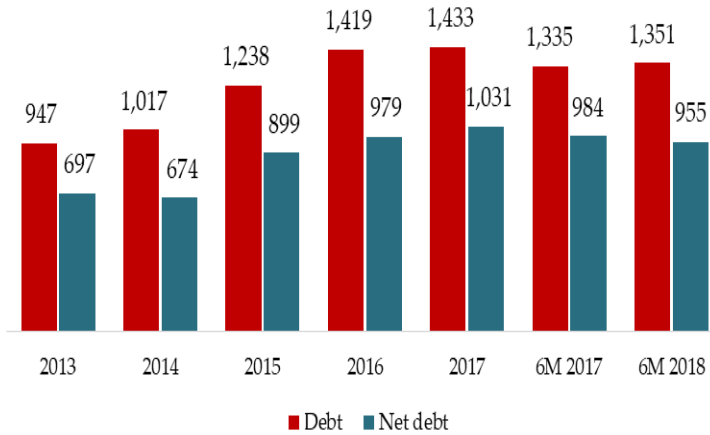


Financial
Results

Liquidity
Position

Liquidity Position

Debt (in GEL million) as for 30 June 2018



(in GEL million)

30-June-18
Amount

Cash and Bank Deposits

Cash and Cash Equivalents	243.5
Available credit lines	152.2

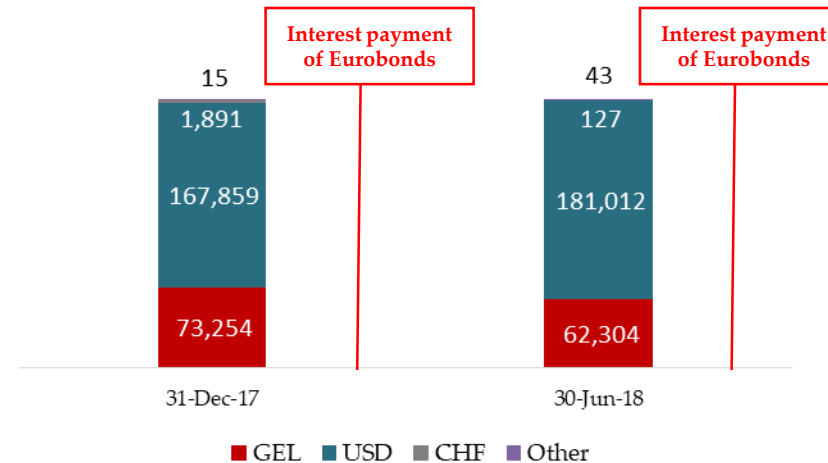
Debt

Total Indebtedness	1,351.0
Net Debt	955.3

Current Net Debt Position

- GR's debt balances include Eurobonds issued in 2012 and additional borrowing from Credit Suisse drawn in 2016 and 2017;
- Gross debt as at 30 June 2018 has increased by 1% compared to 30 June 2017.
- Cash balances and undrawn credit facilities offset Gross debt;

Cash and cash equivalents In GEL '000



Cash Position as at 30 June 2018

<i>in GEL '000</i>	30-Jun-18
GEL	62,304
USD	181,012
CHF	127
Other	42
Total	243,486

Undrawn Credit Lines as at 30 June 2018

GEL	USD	GEL eqv.
37,000	47,000	152,225

Liquidity & Solvency Ratios

Liquidity



<u>Current Ratio</u>	1.55
<u>Quick Ratio</u>	1.37
<u>Cash Ratio</u>	1.12

Solvency

<u>Net Debt to EBITDA</u>	4.51
<u>Debt to Equity</u>	1.02
<u>Debt to Assets</u>	0.47

Net Debt to EBITDA – Sensitivity Analysis

2018

		EBITDA '000				
		150,000	200,000	250,000	300,000	350,000
GEL / USD	2.40	6.45	4.58	3.46	2.71	2.17
	2.50	6.81	4.85	3.67	2.89	2.33
	2.60	7.18	5.12	3.89	3.07	2.48
	2.70	7.54	5.39	4.11	3.25	2.64
	2.80	7.9	5.66	4.32	3.43	2.79

