Georgian Railway
Est. 1872

# Management Discussion and Analysis for FY 2018 and Q4 2018

## Financial and non-financial highlights

### Revenue

| Q4 2018 | FY 2018 |
|---|---|
| **110,395** | **424,614** |
| -16% from Q4 2017<br>-5% from Q3 2018 | -2% from FY 2017 |

### Results from operating activities

| Q4 2018 | FY 2018 |
|---|---|
| **-692,512** | **-644,886** |
| 2x from Q4 2017<br>-24x from Q3 2018 | 2x from FY 2017 |

### EBITDA

| Q4 2018 | FY 2018 |
|---|---|
| **36,074** | **172,322** |
| -58% from Q4 2017<br>-38% from Q3 2018 | -19% from FY 2017 |

### EBITDA margin

| Q4 2018 | FY 2018 |
|---|---|
| **32.7%** | **40.6%** |
| -33 points from Q4 2017<br>-18 points from Q3 2018 | -8 points from FY 2017 |

### Adjusted EBITDA

| Q4 2018 | FY 2018 |
|---|---|
| **34,235** | **156,846** |
| -46% from Q4 2017<br>-34% from Q3 2018 | -14% from FY 2017 |

### Adjusted EBITDA margin

| Q4 2018 | FY 2018 |
|---|---|
| **31.0%** | **36.9%** |
| -17 points from Q4 2017<br>-14 points from Q3 2018 | -5 points from FY 2017 |

### Net Cash investment in PP&E

| Q4 2018 | FY 2018 |
|---|---|
| **10,370** | **87,337** |
| +22% from Q4 2017<br>-48% from Q3 2018 | -45% from FY 2017 |

### Net debt to EBITDA

| 31 Dec 2018 | 31 Dec 2017 |
|---|---|
| **6.19** | **4.87** |
| 4.82 as at 30 Sep 2018 | |

### Main developments in 2018

- Freight volume decreased by 6 percent;
- In 2018 Fitch revised Long-term outlook to “positive” from “stable” and affirmed “B+”, “S&P” also affirmed “B+” rating and revised outlook to “stable” from “negative”
- In 2018 GEL 691 million impairment loss of PPE was incurred.

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# 1. Profit or Loss Statement

| *GEL '000* | Q4 2018 | Q4 2017 | y-o-y | Q3 2018 | q-o-q | 2018 | 2017 | y-o-y % change | y-o-y Abs. change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 110,395 | 131,237 | -15.9% | 115,627 | -4.5% | 424,614 | 434,534 | -2.3% | -9,919 |
| Income from transferred property | 0 | 23,417 | -100.0% | 0 | NA | 0 | 23,417 | -100.0% | -23,417 |
| Other income | 2,062 | 2,082 | -0.9% | 8,672 | -76.2% | 19,512 | 15,560 | 25.4% | 3,952 |
| Impairment loss on property, plant and equipment | -691,387 | -382,616 | 80.7% | 0 | NA | -691,387 | -382,616 | 80.7% | -308,771 |
| Impairment loss on trade receivables | -12,017 | -12,115 | -0.8% | 0 | NA | -12,017 | -12,115 | -0.8% | 98 |
| Employee benefits expense | -44,058 | -38,908 | 13.2% | -36,292 | 21.4% | -154,338 | -148,302 | 4.1% | -6,036 |
| Depreciation and amortization | -25,182 | -27,430 | -8.2% | -29,289 | -14.0% | -113,804 | -109,703 | 3.7% | -4,101 |
| Electricity, consumables and maintenance costs | -10,805 | -9,808 | 10.2% | -12,358 | -12.6% | -43,708 | -41,490 | 5.3% | -2,218 |
| Other expenses | -21,522 | -22,007 | -2.2% | -17,532 | 22.8% | -73,758 | -71,868 | 2.6% | -1,890 |
| **Result from operating activities** | **-692,512** | **-336,148** | **106.0%** | **28,827** | **-2502.3%** | **-644,886** | **-292,583** | **120.4%** | **-352,304** |
| | | | | | | | | | |
| **Net finance income/loss** | **-42,650** | **-111,546** | **-61.8%** | **-84,694** | **-49.6%** | **-70,484** | **-60,869** | **15.8%** | **-9,615** |
| | | | | | | | | | |
| **Profit before income tax** | **-735,163** | **-447,694** | **64.2%** | **-55,866** | **1215.9%** | **-715,370** | **-353,452** | **102.4%** | **-361,919** |
| Income tax expense(benefit) | 377 | -106 | -456.6% | -332 | -213.5% | -1,169 | -648 | 80.4% | -521 |
| **Profit and total comprehensive income** | **-734,785** | **-447,800** | **64.1%** | **-56,198** | **1207.5%** | **-716,539** | **-354,100** | **102.4%** | **-362,439** |
| | | | | | | | | | |
| EBITDA | 36,074 | 86,013 | -58.1% | 58,117 | -37.9% | 172,322 | 211,851 | -18.7% | -39,529 |
| EBITDA margin | 32.68% | 65.54% | NA | 50.26% | NA | 40.58% | 48.75% | NA | -8.2% |
| Adjusted EBITDA | 34,235 | 63,377 | -46.0% | 51,994 | -34.2% | 156,846 | 181,425 | -13.5% | -24,579 |
| Adjusted EBITDA Margin | 31.01% | 48.29% | NA | 44.97% | NA | 36.94% | 41.75% | NA | -4.8% |

## 1.1 Revenue

Most of the Group's revenue (about 56 percent in 2018) is derived from freight transportation. Thus, the Group's results are particularly sensitive to cargo flows. These mainly comprise transit shipments, which accounted for about 59 percent of freight transportation revenue in 2018. The transit transportation volume mainly comes from trade between Europe and Central Asia.

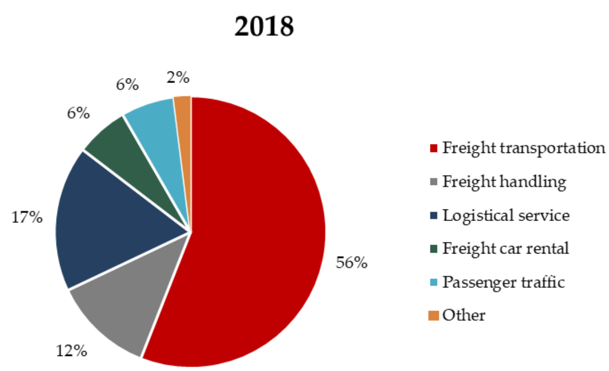
| *GEL '000* | Q4 2018 | Q4 2017 | y-o-y | Q3 2018 | q-o-q | 2018 | 2017 | % Change | % Change at constant currency | Abs. Change |
|---|---|---|---|---|---|---|---|---|---|---|
| Freight transportation* | 64,694 | 67,298 | -3.9% | 61,152 | 5.8% | 241,313 | 262,772 | -8.2% | -9.1% | -21,458 |
| Freight handling* | 13,855 | 12,015 | 15.3% | 12,851 | 7.8% | 51,650 | 50,189 | 2.9% | 1.9% | 1,462 |
| Logistical service* | 17,334 | 40,571 | -57.3% | 20,331 | -14.7% | 70,318 | 73,774 | -4.7% | -5.7% | -3,456 |
| Freight car rental | 6,839 | 6,870 | -0.5% | 6,506 | 5.1% | 25,362 | 16,780 | 51.1% | 49.6% | 8,581 |
| Passenger traffic | 4,941 | 4,056 | 21.8% | 12,997 | -62.0% | 27,404 | 22,843 | 20.0% | 18.7% | 4,561 |
| Other | 2,732 | 427 | 540.2% | 1,790 | 52.7% | 8,567 | 8,176 | 4.8% | 3.7% | 391 |
| **Revenue** | **110,395** | **131,237** | **-15.9%** | **115,627** | **-4.5%** | **424,614** | **434,534** | **-2.3%** | **-3.3%** | **-9,920** |
| **Income from transferred property** | **0** | **23,417** | **-100.0%** | **0** | **NA** | **0** | **23,417** | **-100.0%** | **-100.0%** | **-23,417** |
| **Other income** | **1,971** | **2,082** | **-5.3%** | **8,672** | **-77.3%** | **19,512** | **15,560** | **25.4%** | **24.1%** | **3,952** |
| | | | | | | | | | | |
| **Freight transportation** | **64,693** | **67,299** | **-3.9%** | **61,152** | **5.8%** | **241,313** | **262,772** | **-8.2%** | **-9.1%** | **-21,459** |
| **Liquid cargoes** | **24,009** | **30,766** | **-22.0%** | **27,082** | **-11.3%** | **100,146** | **115,626** | **-13.4%** | **-14.3%** | **-15,481** |
| Oil products | 22,940 | 28,985 | -20.9% | 26,553 | -13.6% | 96,226 | 107,521 | -10.5% | -11.4% | -11,295 |
| Crude oil | 1,068 | 1,781 | -40.0% | 529 | 102.0% | 3,920 | 8,105 | -51.6% | -52.1% | -4,185 |
| **Dry cargoes** | **40,685** | **36,533** | **11.4%** | **34,070** | **19.4%** | **141,168** | **147,146** | **-4.1%** | **-5.0%** | **-5,978** |
| Ores | 7,161 | 5,909 | 21.2% | 6,746 | 6.2% | 28,229 | 25,294 | 11.6% | 10.5% | 2,935 |
| Grain | 1,937 | 2,158 | -10.2% | 911 | 112.7% | 7,692 | 7,998 | -3.8% | -4.8% | -306 |
| Ferrous metals and scrap | 3,486 | 2,383 | 46.3% | 2,533 | 37.6% | 9,802 | 10,508 | -6.7% | -7.7% | -706 |
| Sugar | 4,153 | 3,850 | 7.9% | 1,995 | 108.2% | 11,309 | 18,364 | -38.4% | -39.0% | -7,054 |
| Chemicals and fertilizers | 3,143 | 3,959 | -20.6% | 3,056 | 2.8% | 13,711 | 12,682 | 8.1% | 7.0% | 1,030 |
| Construction freight | 1,877 | 457 | 311.2% | 1,476 | 27.2% | 6,693 | 5,663 | 18.2% | 17.0% | 1,030 |
| Industrial freight | 1,432 | 1,586 | -9.7% | 1,274 | 12.4% | 5,450 | 5,246 | 3.9% | 2.8% | 204 |
| Cement | 229 | 153 | 49.3% | 437 | -47.6% | 1,520 | 1,182 | 28.6% | 27.3% | 338 |
| Other | 17,266 | 16,078 | 7.4% | 15,643 | 10.4% | 56,761 | 60,209 | -5.7% | -6.7% | -3,449 |
| | | | | | | | | | | |
| Freight turnover (million ton-km) | 636 | 737 | -13.7% | 651 | -2.3% | 2,571 | 2,930 | -12.2% | -13.1% | -359 |
| Revenue / ton-km (in Tetri) | 10.17 | 9.13 | 11.3% | 9.39 | 8.3% | 9.39 | 8.97 | 4.6% | 3.6% | 0.42 |

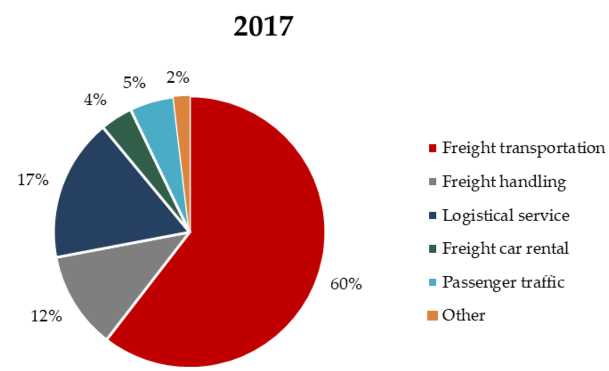
** For better presentation, we have separated "logistic services" from "freight transportation" and "freight handling". "Logistic services" represents revenue generated by freight forwarding subsidiaries.*

The majority of GR's freight volumes were transported from or to Azerbaijan (about 18 percent and 11 percent of transportation revenue in 2018, respectively). Besides, the share of freight traffic from Russia and to Armenia is significant (about 15 percent and 17 percent of transportation revenue in 2018, respectively). Other significant trade partners for the Company in 2018 were Turkmenistan, Ukraine and Brazil (together generating 17 percent of transportation revenue in 2018). Only about 9 percent of total transportation revenue in 2018 was generated by domestic transportation.

## Revenue breakdown

The following charts represent revenue breakdown for full year of 2018 and 2017:




### Freight transportation

The Group's freight transportation revenue consists of liquid and dry cargoes. The split between liquid and dry cargo revenue in 2018 was about 42 and 58 percent, respectively.

Transportation revenue depends on multiple factors, some of which are stated here:

Transportation volume – measured in tons transported.

Transportation turnover – measured in ton-kilometers, which is the product of tons transported and the distance covered.

Revenue per ton-kilometer – the term refers to the average revenue that the Group receives per ton-kilometer. This parameter varies for different types of cargo and largely depends on the cargo type mix and transportation direction mix.

- Cargo type mix – the Group transports different cargo categories (such as grain, ore, sugar etc.). These categories themselves are comprised of many sub-categories, each of which has different tariffs. Therefore, while the actual tariffs for cargo sub-categories may remain the same, the average revenue per ton-kilometer of a main cargo category may still change due to changes in the sub-category mix.
- Transportation direction mix – tariffs differ according to freight origins and directions, as stated in the Group's tariff policy. Thus, when the tariffs for different cargo sub-categories and

the sub-category mix remain the same, the average revenue per ton-kilometer may still change because of the change in the transportation direction mix.

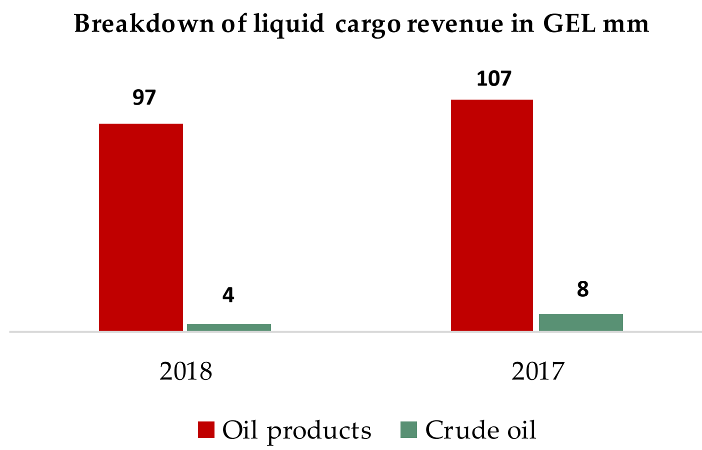
GEL/USD exchange rate – one important issue in analyzing the performance of the Group is the fact that most of its tariffs are denominated in USD. As the Group reports its revenue in GEL, the changes in the GEL/USD exchange rate can have a significant impact on the Group's profitability, as most of its expenses are denominated in Georgian Lari.

| | *Average rate* | | | *Reporting date spot rates* | | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **% Change** | **31-Dec-18** | **31-Dec-17** | **% Change** |
| USD | 2.53 | 2.51 | 1.0% | 2.68 | 2.59 | 3.3% |
| CHF | 2.59 | 2.55 | 1.7% | 2.73 | 2.66 | 2.3% |

## Liquid cargo

One of the key drivers of liquid freight traffic is the production of oil and related products in the Caspian region, which has large oil reserves. In 2018, about 59 percent of crude oil and oil products were transported from three Caspian region countries (Kazakhstan, Turkmenistan and Azerbaijan) mostly to European countries and Georgia.

Most of the Group's liquid cargo revenue comes from oil products.

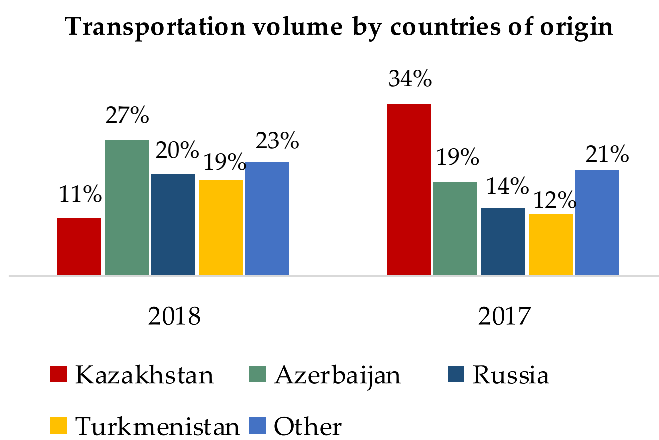



Oil products

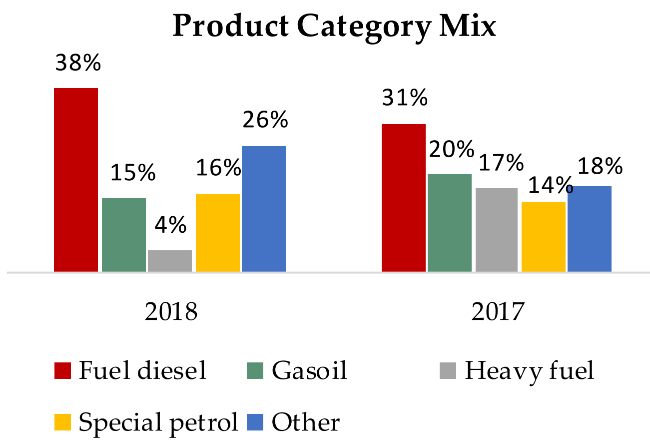
Revenue from the transportation of oil products for Q4 2018 decreased by 21 percent, compared to Q4 2017 and decreased by 14 percent, compared to Q3 2018.

### Main directions of cargo

Oil products are currently the main component of liquid cargo (96 percent of the transportation volume of liquid cargo in 2018). They are mainly transported by rail, as there is practically no competition from pipelines.



Oil products transported by the Group during 2018 mainly originated from Azerbaijan, Turkmenistan, Russia and Kazakhstan, with significant changes in the transportation direction mix compared to the same period of 2017. The share of Kazakhstan was down to 11 percent from 34 percent, while the share of Azerbaijan, Turkmenistan and Russia increased by about 8 percent, 6 percent and 7 percent, respectively in total oil products transported by the Group.




## Oil Products

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 96.23 | 107.52 | -10.5% | -11.4% |
| Freight volume (million ton) | 2.97 | 3.95 | -24.7% | NA |
| Freight turnover (million ton-km) | 857.28 | 1,221.24 | -29.8% | NA |
| Revenue / ton-km (in Tetri) | 11.22 | 8.80 | 27.5% | 26.2% |

* *Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

### Factors influencing performance

Ton-kilometers – 30 percent decrease in transportation turnover was mainly driven by decreased transported volume by 25 percent, which was largely caused by decreased volumes from Kazakhstan and Bulgaria by 1.0 mln tons and 72,000 tons, respectively. Another reason was the decreased share of volumes from Kazakhstan (which covers longer distances), that reduced the average transportation distance.

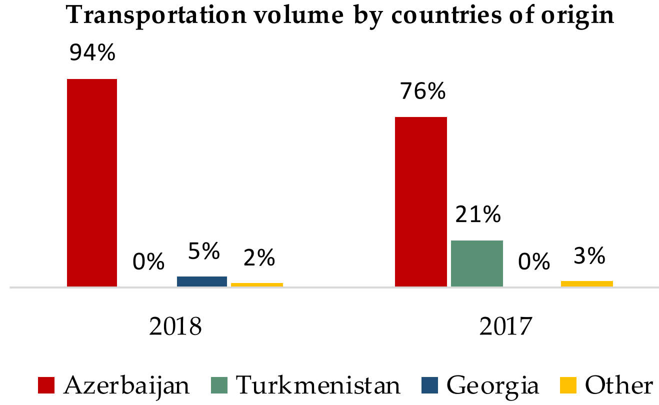
Revenue/ton-km (in Tetri) - an increase in average revenue per ton-kilometer during the period under review, compared to the same period of the previous year, was mainly due to changes in the product category mix. The shares of fuel diesel, special petrol and aviation light fuel (which are relatively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

Crude oil

Revenue from the transportation of crude oil for Q4 2018 decreased by 40 percent, compared to Q4 2017 but increased by 102 percent, compared to Q3 2018.

### Main directions of cargo

The crude oil transported by Georgian Railway during 2018 mostly originated from Azerbaijan (about 94 percent). The main points of destination in 2018 were Italy (up to 78 percent from 22 percent in 2017) and USA (down to 19 percent from 76 percent in 2017).




## Crude Oil

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 3.92 | 8.10 | -51.6% | -52.1% |
| Freight volume ( million ton) | 0.17 | 0.40 | -58.1% | NA |
| Freight turnover (million ton-km) | 65.69 | 157.60 | -58.3% | NA |
| Revenue / ton-km (in Tetri) | 5.97 | 5.14 | 16.0% | 14.8% |

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

### Factors influencing performance

Ton-kilometers – 58 percent decrease in transportation turnover was caused by decreased volumes from Azerbaijan and Turkmenistan, by 148,000 tons and 85,000 tons, respectively.

Revenue/ton-km (in Tetri) – 15 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 a change in the product direction mix. The share of freight volumes from Azerbaijan and to Italy (relatively more profitable directions) increased by 17 percent and 56 percent, respectively, in total transported volumes of crude oil.

## Dry cargo

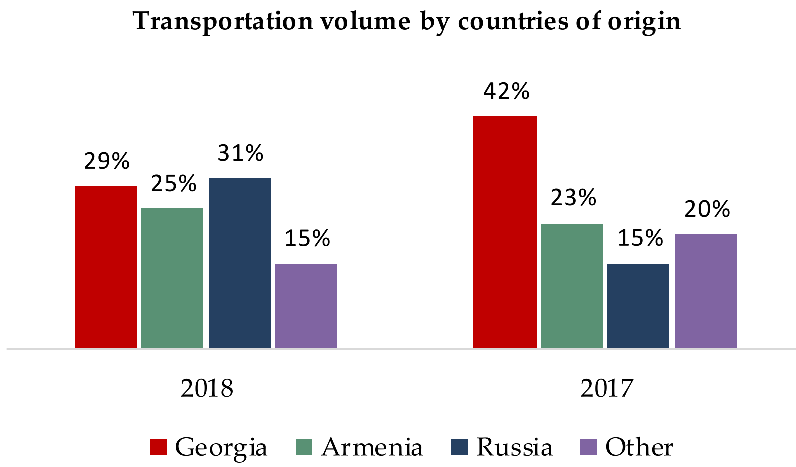
Dry cargo contributed about 59 percent to total transportation revenue in 2018. The major factors driving the transportation of dry cargo are general national economic conditions and economic developments in Georgia and in partnering countries such as Azerbaijan, Armenia, Turkmenistan, Kazakhstan and other CIS countries.

Ore products

Revenue from the transportation of ore products for Q4 2018 increased by 21 percent, compared to Q4 2017 and by 6 percent, compared to Q3 2018.

**Main directions of cargo**

The main origin countries for ore products during the period under review were Georgia, Armenia and Russia. The main destination points of ore products transported by the Group are Georgia and Bulgaria. Ore products transported by the Group in 2018 mostly comprise copper ores and concentrates (about 29 percent), manganese ores and concentrates (about 24 percent) and coal (about 21 percent).




## Ores

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 28.23 | 25.29 | 11.6% | 10.5% |
| Freight volume (million ton) | 1.58 | 1.42 | 10.8% | NA |
| Freight turnover (million ton-km) | 326.71 | 296.40 | 10.2% | NA |
| Revenue / ton-km (in Tetri) | 8.64 | 8.53 | 1.3% | 0.2% |

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

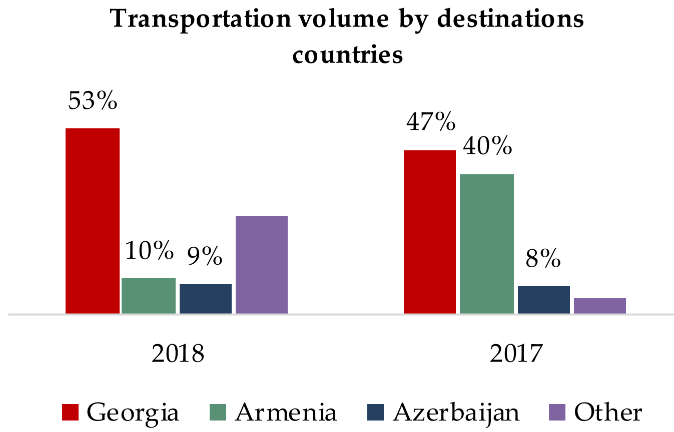
**Factors influencing performance**

Ton-kilometers – increase in freight transportation turnover was mainly due to increases in transported volumes from Russia and Armenia, by 264,000 tons and 75,000 tons, respectively. Another reason for increased transportation distance was the rise in transported volumes directed to Cyprus, Romania and Ukraine (which cover longer distances).

Revenue/ton-km (in Tetri) – average revenue per ton-kilometer in 2018 increased by 1 percent, compared to 2017. This increase was mainly due to the product direction mix and product category mix. The transported share of volumes from Russia and Armenia (more profitable directions) increased, while transportation of more profitable products, such as copper ores and bituminous coal increased significantly.

## Grain and grain products

Revenue from the transportation of grain and grain products for Q4 2018 decreased by 10 percent, compared to Q4 2017, but increased by 113 percent, compared to Q3 2018.




**Main directions of cargo**

Transportation volume of wheat represents about 83 percent of total grain and grain products transported in 2018. The main country of origin for grain and grain products during the period under review, were Kazakhstan and Russia, by 47 percent and 38 percent, respectively. The main destination countries were Georgia and Armenia.

## Grain and grain products

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 7.69 | 8.00 | -3.8% | -4.8% |
| Freight volume (million ton) | 0.47 | 0.30 | 57.1% | NA |
| Freight turnover (million ton-km) | 102.75 | 75.33 | 36.4% | NA |
| Revenue / ton-km (in Tetri) | 7.49 | 10.62 | -29.5% | -30.2% |

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

**Factors influencing performance**

Ton-kilometers – increase in freight turnover by 36 percent was mainly caused by the increased transported volumes from Kazakhstan by 207,000 tons and to Georgia by 110,000 tons.

Revenue/ton-km (in Tetri) – 30 percent decrease in average revenue per ton-kilometer was driven by a change in the product direction mix. The transportation share from Russia and Georgia, a relatively more profitable directions have seen a considerable decrease during 2018, compared to the same period of 2017, while the transportation volume from Kazakhstan, a relatively less profitable direction, has increased.

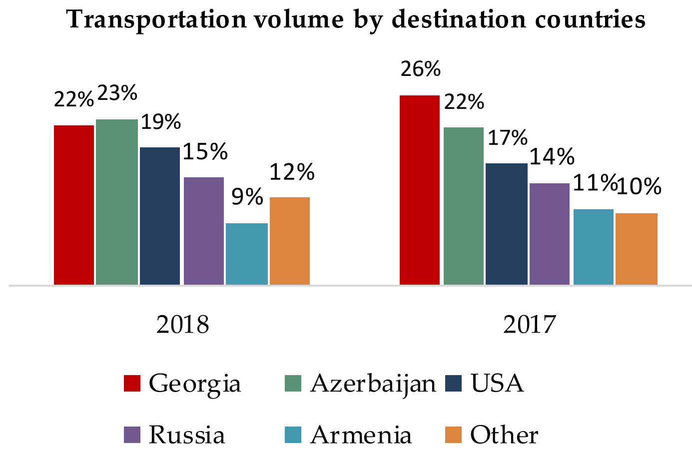
## Ferrous metals and scrap

Revenue from the transportation of ferrous metals and scrap for Q4 2018 increased by 46 percent, compared to Q4 2017 and by 38 percent, compared to Q3 2018.

## Main directions of cargo

The main destination countries for ferrous metals and scrap during the period under review were Georgia, Azerbaijan, USA and Russia, together representing 79 percent of the total volume transported in 2018.

Ferrous metals and scrap transported by the Group during 2018 mainly originated from Georgia, China and Ukraine.




# Ferrous metals and scrap

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 9.80 | 10.51 | -6.7% | -7.7% |
| Freight volume (million ton) | 0.55 | 0.53 | 3.9% | NA |
| Freight turnover (million ton-km) | 119.03 | 123.44 | -3.6% | NA |
| Revenue / ton-km (in Tetri) | 8.24 | 8.51 | -3.3% | -4.2% |

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

## Factors influencing performance

Ton-kilometers – 4 percent decrease in freight turnover was mainly caused by a reduction in average transportation distance, which was on its own driven by a reduced share of freight transported from Ukraine (which covers longer distances) from 14 percent to 9 percent in total volume transported, while the share of freight transported from Georgia (which covers shorter distances) has increased from 47 to 52 percent. Another reason for the decreased freight turnover was the ceased transportation of non-alloy steel rods from Ukraine.

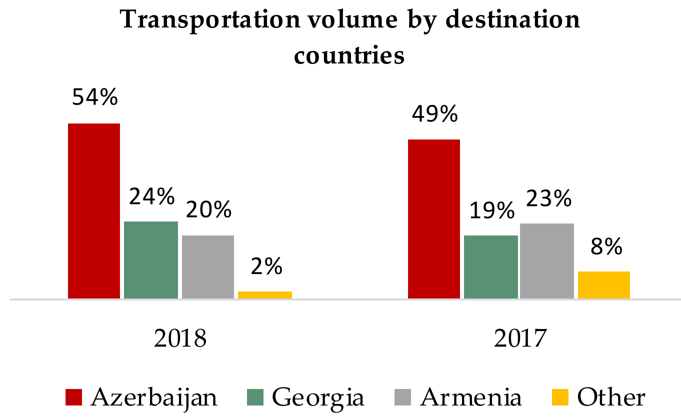
Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was mainly driven by changes in the product direction mix and product category mix. The share of freight transported from Ukraine (which is a relatively more profitable direction) has decreased and the share of iron rods and rails (which are relatively more profitable products) has decreased in total ferrous metals and scrap transported by the Group.

### Sugar

Revenue from the transportation of sugar for Q4 2018 increased by 8 percent, compared to Q4 2017 and by 108 percent, compared to Q3 2018.

### Main directions of cargo

Brazil was the main country of origin for transported volumes of sugar in 2018 and 2017, with a share of 87 percent and 93 percent, respectively. The main destination countries of sugar were Azerbaijan, Georgia and Armenia (consisting of 98 percent of total volume transported by the Group).




## Sugar

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 11.31 | 18.36 | -38.4% | -39.0% |
| Freight volume (million ton) | 0.36 | 0.38 | -6.0% | NA |
| Freight turnover (million ton-km) | 128.53 | 134.82 | -4.7% | NA |
| Revenue / ton-km (in Tetri) | 8.80 | 13.62 | -35.4% | -36.1% |

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

### Factors influencing performance

Ton-kilometers – 5 percent decrease in freight turnover during the period under review, compared to the same period of the previous year, was mainly driven by reduced transportation of sugar from Brazil by 40,000 tons.

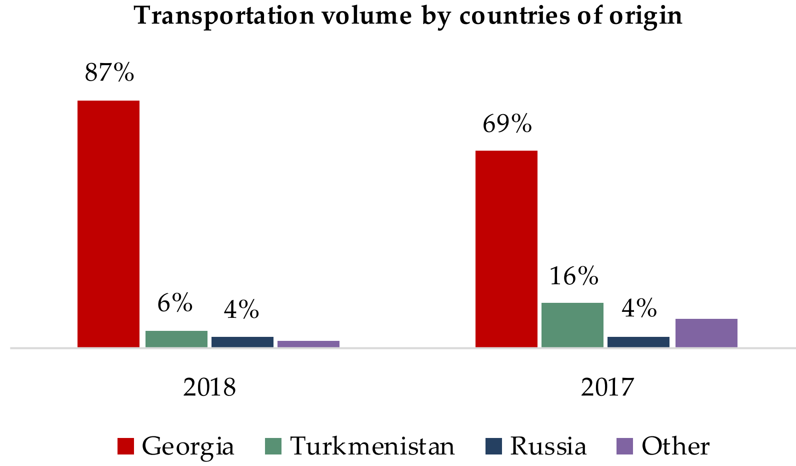
Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was mainly caused by decreased average tariffs to Azerbaijan, Armenia and Georgia (which are more profitable directions); Another reason was the change in product category mix. The share of cane sugar (a relatively more profitable product) has decreased significantly in total sugar transportation volume.

## Chemicals and fertilizers

Revenue from the transportation of chemicals and fertilizers for Q4 2018 decreased by 21 percent, compared to Q4 2017, but increased by about 3 percent, compared to Q3 2018.

**Main directions of cargo**

The main countries of origin for transported volumes for chemicals and fertilizers during the period under review were Georgia, Turkmenistan and Russia, together contributing 98 percent of total volume transported in 2018. Chemicals and fertilizers were mainly transported to Black Sea ports. In 2018, the Group mainly transported ammonium nitrate under the chemicals and fertilizers freight category, with 89 percent of total share.




## Chemicals and fertilizers

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 13.71 | 12.68 | 8.1% | 7.0% |
| Freight volume (million ton) | 0.55 | 0.57 | -2.5% | NA |
| Freight turnover (million ton-km) | 193.97 | 184.28 | 5.3% | NA |
| Revenue / ton-km (in Tetri) | 7.07 | 6.88 | 2.7% | 1.7% |

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

**Factors influencing performance**

Ton-kilometers – 3 percent decrease in transportation turnover during 2018, compared to 2017, was mainly driven by decreased transportation of urea from Turkmenistan by 54,000 tons.

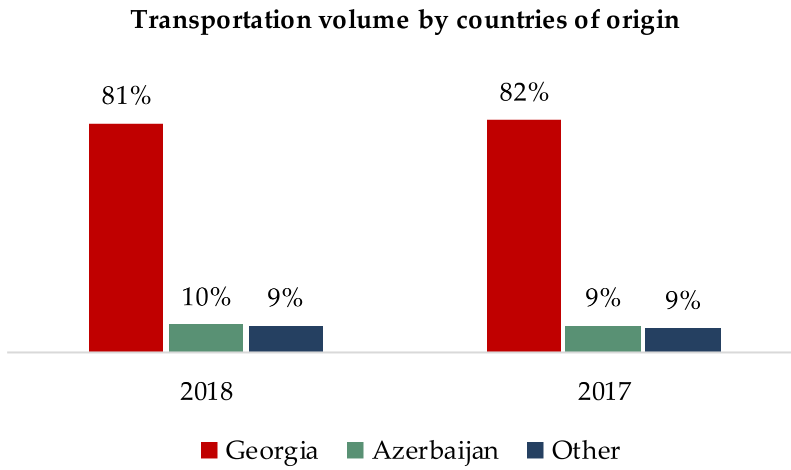
Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was mainly due to changes in the product category mix. Average revenue per ton-kilometer for ammonium nitrate (a more profitable product) has increased, while the share of relatively less profitable products, such as urea and ammonium hydrogen phosphate, has decreased.

### Construction freight

Revenue from the transportation of construction freight for Q4 2018 increased 4 times, compared to Q4 2017 and by 27 percent, compared to Q3 2018.

**Main directions of cargo**

Transportation of construction freight correlates with the activities of the construction sector in Georgia. The share of construction freight transported within Georgia was about 81 percent. The second largest country of origin after Georgia in 2018 and 2017 was Azerbaijan, with 10 percent and 9 percent of total transported volume of construction freight, respectively. The main product under the construction freight category was limestone with 61 percent of share of total volume in 2018, compared to 60 percent in 2017.




## Construction freight

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 6.69 | 5.66 | 18.2% | 17.0% |
| Freight volume (million ton) | 1.17 | 1.16 | 1.1% | NA |
| Freight turnover (million ton-km) | 163.62 | 159.67 | 2.5% | NA |
| Revenue / ton-km (in Tetri) | 4.09 | 3.55 | 15.3% | 14.2% |

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

**Factors influencing performance**

Ton-kilometers – 3 percent increase in transportation turnover was mainly driven by increased volumes of ceramic tiles (by 23,000 tons) and limestone (by 18,000 tons).

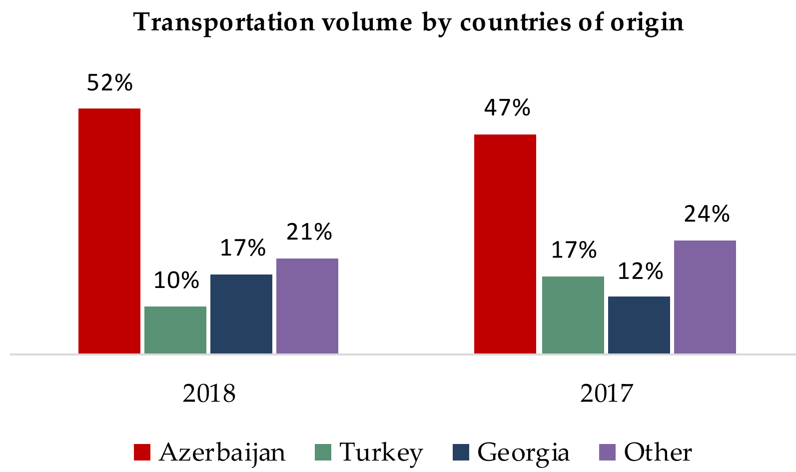
Revenue/ton-km (in Tetri) – Increased average revenue per ton-kilometer was mainly due to an increased share of more profitable products, such as gypsum, as well as an increased share of long-distance routes, such as Russia, Greece and Hong Kong.

Industrial freight

Revenue from the transportation of industrial freight for Q4 2018 decreased by 10 percent, compared to Q4 2017, but increased by 12 percent, compared to Q3 2018.

### Main directions of cargo

The main country of origin for total transported volume of industrial freight during 2018 was Azerbaijan, with 52 percent of the share. A significant part of the cargo (95 percent of the total volume transported) was directed to Georgia, Armenia and Azerbaijan. In 2018, the Group mainly transported cement clinker under the industrial freight category, with 61 percent of the total share.




## Industrial freight

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 5.45 | 5.25 | 3.9% | 5.9% |
| Freight volume (million ton) | 0.41 | 0.30 | 35.7% | NA |
| Freight turnover (million ton-km) | 65.84 | 52.51 | 25.4% | NA |
| Revenue / ton-km (in Tetri) | 8.28 | 9.99 | -17.1% | -15.5% |

* *Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

### Factors influencing performance

Ton-kilometers – 25 percent upturn in transportation turnover was driven by increased volume by 36 percent, caused by a significant rise in volume amount transported from Azerbaijan, by 72,000 tons and from Georgia, by 33,000 tons.

Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was mainly due to changes in the product category mix and transportation direction mix. The share of transported volume from relatively more profitable directions (Turkey, Bulgaria and Romania), in total transported volume has decreased, while the share of relatively less profitable directions has increased. The share of relatively more profitable products, such as barite, in total transported volume was down from 16 percent in 2017 to 9 percent in 2018, while the share of silica sand (a less profitable product) has increased.

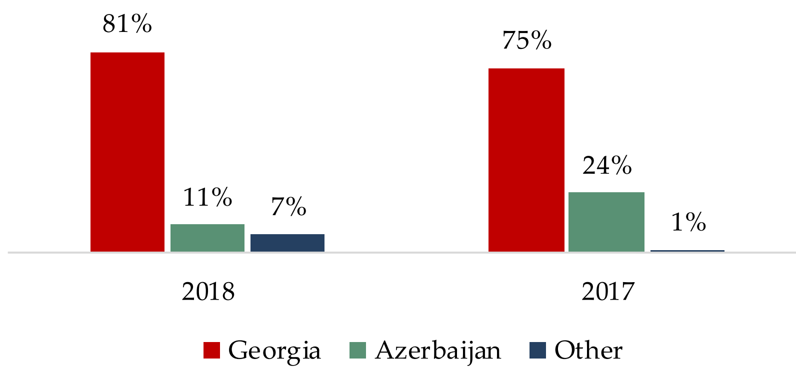
## Cement

Revenue from the transportation of cement for Q4 2018 increased by 49 percent, compared to Q4 2017, but decreased by 48 percent, compared to Q3 2018.

**Main directions of cargo**

Cement is mainly transported within Georgia, the share of which rose from 75 percent in 2017 to 81 percent in 2018. This increase in the proportion was caused by increased volume transportation from Georgia, by 26,000 tons, which was partly offset by the decreased volume amount from Azerbaijan by 10,000 tons.

**Transportation volume by countries of origin**




## Cement

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 1.52 | 1.18 | 28.6% | 27.3% |
| Freight volume (million ton) | 0.12 | 0.09 | 25.5% | NA |
| Freight turnover (million ton-km) | 25.41 | 22.35 | 13.7% | NA |
| Revenue / ton-km (in Tetri) | 5.98 | 5.29 | 13.1% | 12.0% |

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

**Factors influencing performance**

Ton-kilometers – transportation turnover has increased by 14 percent. Transported volume has increased by 26 percent (caused by increased transportation within Georgia, by 26,000 tons). This disproportional change was mainly due to decreased average transportation distance in 2018.

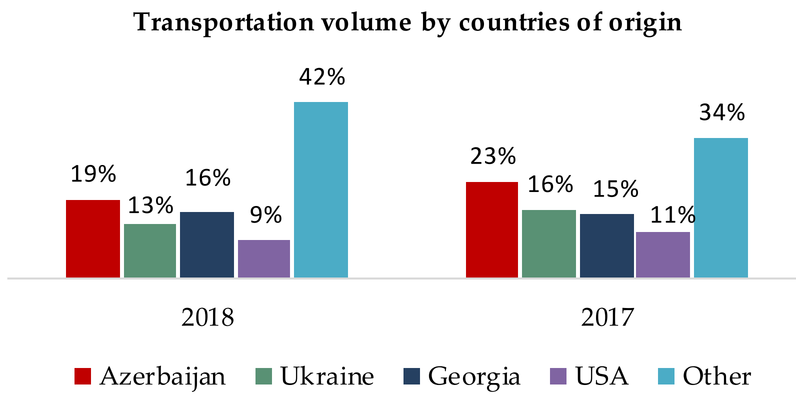
Revenue/ton-km (in Tetri) – 13 percent increase in average revenue per ton-kilometer was caused by an increased share of cement originated from Iran and Armenia (which are more profitable directions) in total transportation volume during 2018.

## Other product categories

Revenue from the transportation of other product category for Q4 2018 increased by 7 percent, compared to Q4 2017 and by 10 percent, compared to Q3 2018.

### Main directions of cargo

The main origin countries for other product categories in 2018 were Azerbaijan, Ukraine, Georgia and USA. The cargo was mainly directed to Kazakhstan, Georgia, Azerbaijan and Turkey. The main products transported in 2018 were methanol (about 12 percent of total volume), meat (about 8 percent of total volume) and mineral waters (about 7 percent of total volume).




## Other products

*For the year ended 31 December*

| | 2018 | 2017 | % Change | % Change at constant currency |
|---|---|---|---|---|
| Revenue (GEL million) | 56.76 | 60.21 | -5.7% | -4.4% |
| Freight volume (million ton) | 1.65 | 1.57 | 5.3% | NA |
| Freight turnover (million ton-km) | 522.29 | 502.15 | 4.0% | NA |
| Revenue / ton-km (in Tetri) | 10.87 | 11.99 | -9.4% | -8.1% |

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

### Factors influencing performance

Ton-kilometers – 4 percent increase in transportation turnover was mainly driven by increased volumes transported to Azerbaijan and Turkey by 67,000 tons and 43,000 tons, respectively. Another reason was an increase in total transportation distance caused by changes in the transportation direction mix.

Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was driven by changes in the product direction mix and product category mix. The share of Kazakhstan (a relatively more profitable direction) has decreased, while the share of Turkey (a relatively less profitable direction) has increased in total volumes transported. The share of certain types of meat (a relatively more profitable product) decreased from 8 percent in 2017 to 0 percent in total other products category transported.

## Freight handling

### General description

Revenue from freight comprises several components:

- Revenue from station services, derived from railcar marshaling, freight pick-up, delivery at customer facilities and other related services;
- Revenue from 24-hour railcar delays, which is represented by a fee paid by customers for failing to load or unload a railcar within 24 hours from delivery of railcar at an agreed destination;
- Revenue from certain other services, derived from cargo loading/unloading, storage, accelerated service fees and other sources.

### Currency and tariff setting

Most of the freight handling revenue, about 85 percent in 2018, was denominated in USD, while the rest was denominated in GEL (15 percent). The Group sets its tariffs independently.

### Driver

The revenue from this source largely fluctuated in line with transportation volumes in tons. The correlation, however, is not perfect as there are many influential factors.

**Freight handling**

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Station services | 43,782 | 43,048 | 1.7% | 735 |
| 24-hour service | 4,319 | 3,223 | 34.0% | 1,096 |
| Other | 3,549 | 3,918 | -9.4% | -369 |
| **Total** | **51,650** | **50,189** | **2.9%** | **1,461** |

Revenue from freight handling for Q4 2018 increased by 15 percent, compared to Q4 2017 and by 8 percent, compared to Q3 2018.

### Factors influencing performance

3 percent increase in revenue from freight handling during the period under review, compared to the same period of the previous year, was mainly driven by a 34 percent increase in 24-hour service in stations.

## Logistical services

**General description**

Revenue from logistical service is generated by GR's subsidiaries.

**Currency and tariff setting**

Revenue from logistical service is denominated in USD and GEL, with 61 percent and 39 percent, respectively.

**Driver**

Revenue from this source mainly changes in line with transportation turnover and volumes in tons.

### Logistical services

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Revenue from logistical services | 70,318 | 73,774 | -4.7% | -3,456 |

Revenue from logistical services for Q4 2018 decreased by 57 percent, compared to Q4 2017 and by 15 percent, compared to Q3 2018.

5 percent decrease in logistical services (GEL 3.5 million) during 2018, compared to 2017, was mainly driven by decreased revenue from oil product transportation of GR's subsidiary company.

## Freight car rental

**General description**

Freight car rental revenue is derived, when the Group's railcars are used by other railways.

**Currency and tariff setting**

Revenue from freight car rental is denominated in CHF and tariffs are set by the Council for Rail Transport of CIS states (CRT CIS).

**Drivers**

Freight car rental revenue changes according to tariffs and the number of days the Group's railcars are used by other railways.

### Freight car rental

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Freight car rental | 25,362 | 16,780 | 51.1% | 8,581 |

Freight car rental revenue for Q4 2018 decreased by 1 percent, compared to Q4 2017, but increased by 5 percent, compared to Q3 2017.

The increase in revenue from freight car rental by 51 percent (GEL 8.6 million) during the period under review, compared to the same period of 2017, was mainly caused by an increased usage of the Group's open-wagons (by CHF 1.1 million), tank cars (by CHF 973,000) and grain carriers (by CHF 768,000), compared to the previous year.

In 2018, GR transferred grain carriers to one of its subsidiary company which used the majority of transferred railcars for freight car rental. Because transferred wagons are considered private, it allowed the subsidiary to adjust its tariffs on the market. The share of revenue of its daughter company in total freight car rental revenue is 11 percent.

## Passenger traffic

### General description

Passenger transportation comprises domestic and international services. Domestic transportation includes regional and long-distance transportation. Long-distance traffic accounts for the majority of the Group's passenger traffic, while the regional services, in particular suburban services, typically serve the low-income sections of society and fares for such services are low. Georgian rail lines are linked to Azerbaijan and Armenia, and international transportation services are provided to both countries.

### Currency and tariff setting

Tariffs for domestic transportation are set independently by the Group, in GEL. Tariffs are not determined by market forces and are kept relatively low, because the Group's affordable passenger transportation services have social importance. Accordingly, GR may be restricted from removing or reducing services on certain passenger routes, even in cases when such routes are not economically feasible.

Tariffs for international transportation are set through negotiations between countries and are denominated in CHF.

### Drivers

Passenger revenue fluctuations are in line with the tariffs and number of passengers transported.

**Passenger transportation**

*For the year ended 31 December*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Revenue in GEL '000 | 27,404 | 22,843 | 20.0% | 4,561 |
| Number of passengers '000 | 2,851 | 2,684 | 6.2% | 167 |

Revenue from passenger transportation for Q4 2018 increased by 22 percent, compared to Q4 2017, but decreased by 62 percent, compared to Q3 2018.

Revenue from passenger transportation increased by 20 percent (GEL 4.6 million) in 2018, compared to 2016, while the number of passengers increased by 6 percent The higher increase in revenue was driven by a significant rise in the number of passengers on the main line (which is a relatively more profitable direction). The average loading rate of the trains on the main line in 2018 was 72 percent, compared to 67 percent in 2017.

### Other revenue

**General description**

Other revenue is mostly denominated in GEL and comprises items such as revenue from renting out spaces in buildings owned by the Group, sale of scrap and repair services for third parties.

**Other revenue**

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Revenue from rent | 3,761 | 4,434 | -15.17% | -673 |
| Revenue from repair | 602 | 425 | 41.72% | 177 |
| Revenue from sale of materials (scrap) | 1,417 | 1,456 | -2.72% | -40 |
| Other | 2,787 | 1,860 | 49.82% | 927 |
| **Total** | **8,567** | **8,176** | **4.8%** | **392** |

Other revenue for Q4 2018 increased by about 6 times, compared to Q4 2017 and by about 2 times, compared to Q3 2018.

**Factors influencing performance**

Increase in other revenue by GEL 392,000 in 2018, compared to 2017 was mostly attributable to increased revenues from the realization of scrap metal and communication services, which was partly offset by reduced revenue from rent.

## 1.2 Other income

### Income from transferred property

**General description**

In April 2012, GR and the Government signed the Tbilisi Bypass Project Memorandum according to which the Government aims to purchase from the Group approximately 70 hectares of land plots which will be released as a result of the removal of railway infrastructure from Tbilisi city center. The company will be reimbursed for the amount of VAT paid for the sale. The Government agreed to pay the equivalent of CHF 138 million in the national currency to the Group by reducing the amount of dividends payable to the Government. In 2012, the Company declared dividends of which GEL 232 million (CHF 138 million) were classified as an advance received from the Government for the sale of the land for the Tbilisi Bypass Project Memorandum.

### Income from transferred property

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Income from transferred property | 0 | 23,417 | -100.0% | -23,417 |

**Factors influencing performance**

In 2017, GR transferred 44,672 square meters of land plots with attached constructions to the Government within the framework of the Tbilisi Bypass Project Memorandum.

The difference between the fair value and the carrying value of the transferred property (GEL 23,417,000 in 2017) was recognized as income in the consolidated profit or loss statement. There was no income from transferred property in 2018.

## Other income

**General description**

Other income mostly includes items such as penalties accrued on debtors or creditors, sale of fixed assets and provision reversals.

In order to better illustrate the operational profitability of the Group, other income is split into two categories: continuing operations (such as penalties on creditors and debtors) and non-continuing operations (such as provision reversals and sale of fixed assets, which are not expected to sustainably reoccur in the future).

### Other income

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Continuing operations | 2,786 | 7,748 | -64.0% | -4,962 |
| Non-continuing operations | 16,726 | 7,812 | 114.1% | 8,914 |
| **Total** | **19,512** | **15,560** | **25.4%** | **3,952** |

Other income for Q4 2018 decreased by 5 percent, compared to Q4 2017 and by 77 percent, compared to Q3 2018.

The decrease in other income from continuing operations in 2018, compared to 2017 was mainly due to lower accrued penalties on creditors and debtors. The increase in non-continuing operations was driven by a significant increase in revenue from sales of fixed assets, mainly from expired freight wagons.

## 1.3 Operating expenses

### General description

Most of the Group's operating expenses are fixed. Variable expenses that depend on the volume of transportation include: freight car rental; electricity of traction; fuel expenses; materials, repair and maintenance expenses.

### Operating expenses

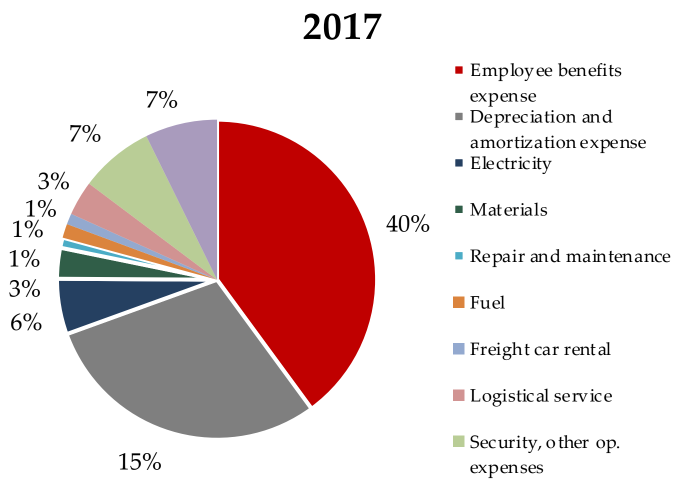
*For the year ended 31 December* *In GEL '000*

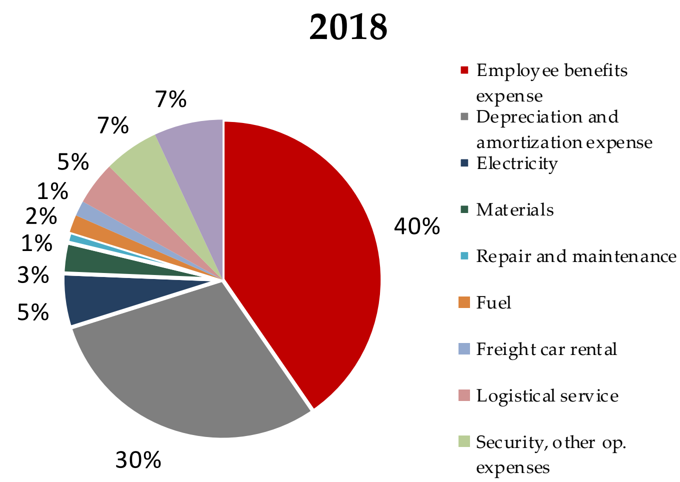
| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Employee benefits expense | 154,338 | 148,302 | 4.1% | 6,036 |
| Depreciation and amortization expense | 113,804 | 109,703 | 3.7% | 4,101 |
| Impairment loss on property, plant and equipment | 691,387 | 382,616 | 80.7% | 308,771 |
| Impairment loss on trade receivables | 12,017 | 12,115 | -0.8% | -98 |
| Electricity | 20,962 | 20,868 | 0.5% | 94 |
| Materials | 11,929 | 11,565 | 3.1% | 364 |
| Repair and maintenance | 4,113 | 3,820 | 7.7% | 293 |
| Fuel | 6,704 | 5,237 | 28.0% | 1,467 |
| Freight car rental | 4,177 | 4,095 | 2.0% | 82 |
| Logistical service | 17,636 | 12,996 | 35.7% | 4,640 |
| Security, other op. expenses | 25,133 | 27,734 | -9.4% | -2,602 |
| Taxes other than income tax | 26,813 | 27,043 | -0.9% | -230 |
| **Total** | **1,089,013** | **766,095** | **42.15%** | **322,919** |

Total operating expenses for Q4 2018 increased by 63 percent, compared to Q4 2017, and by 743 percent, compared to Q3 2018.

Increase in total operating expenses in 2018, compared to 2017, was mainly driven by impairment loss on property, plant and equipment incurred by impairment of the group's fixed assets in 2018. The increase incurred in fixed expenses such as employee benefits expenses (by GEL 6.0 million) and depreciation and amortization (by 4.0 million), which was partly offset by a decrease in security and other operating expenses (by GEL 6.5 million) and taxes other than income tax (by GEL 0.2 million).

The following charts represent the cost structure for 2018 and 2017:




## Employee benefits expense

### General description

The Group's salary expenses are not related to changes in the transportation volume as employees' salaries are fixed. The salaries are denominated in GEL, thus FX changes do not affect the cost.

**Employee benefits expenses**

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Salary | 116,793 | 125,632 | -7.04% | -8,839 |
| Bonus-reward | 8,315 | 6,882 | 20.82% | 1,433 |
| Other benefits | 29,230 | 15,788 | 85.14% | 13,442 |
| **Total** | **154,338** | **148,302** | **4.1%** | **6,036** |

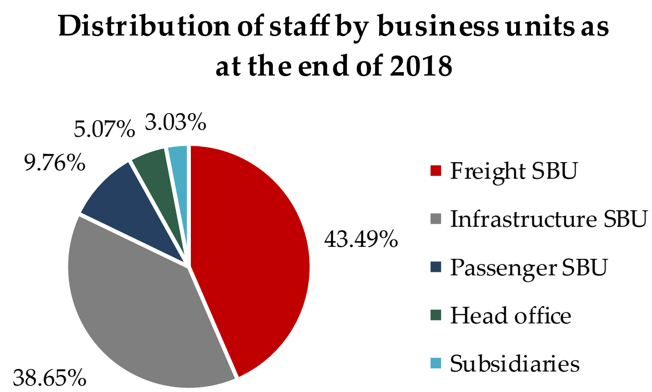
Employee benefits expenses for Q4 2018 increased by 13 percent, compared to Q4 2017 and by 21 percent compared to Q3 2018.

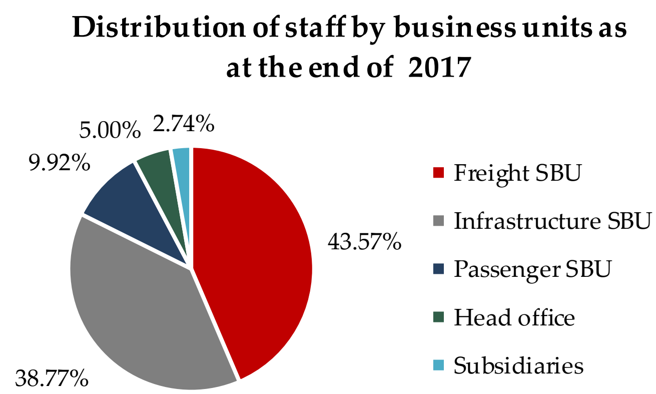
### Factors influencing changes

The Group is one of the largest corporate employers and taxpayers in Georgia. This fact underlines its importance for the Government of Georgia along with other important economic and social benefits for the country. Total employee benefit expense increased by GEL 6.0 million in 2018, compared to 2017, mainly driven by increased business trip expenses and by a changed methodology in the calculation of capitalized employee expenses.

The number of employees (excluding subsidiaries) by the end of 2018 was equal to 12,244 and by the end of 2017, this figure was 12,347.

The following charts show the headcount by strategic business units, head office and subsidiaries of the Company.




## Depreciation and amortization expenses

### General description

The Group's depreciation and amortization expenses are mainly affected by capital additions and property retirements from disposal, sale or abandonment. The expenses are denominated in GEL and thus are not affected by fluctuations in foreign exchange rates.

**Depreciation and amortization expenses**

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Depreciation and amortization | 113,804 | 109,703 | 3.7% | 4,101 |

Depreciation and amortization expenses for Q4 2018 decreased by 8 percent, compared to Q4 2017 and by 14 percent, compared to Q3 2018.

### Factors influencing changes

An increase in depreciation and amortization expenses in 2018, compared to 2017, was mainly driven by increase of PP&E as a result of the Group's investments in infrastructure.

## Electricity expenses

### General description

Approximately 97 percent of GR's railway network is electrified. Until September 2011, the company purchased most of its electricity on the open market in Georgia. In 2011, the Company signed a ten-year contract with the electricity provider, JSC Energo-pro Georgia, securing a fixed price for more than 90 percent of its electricity needs (subject to certain circumstances in which these tariffs can be increased). The tariffs are denominated in GEL.

Electricity expenses are split into two categories: electricity expenses of traction, which are driven by transportation turnover (the Group uses electric locomotives for freight transportation and diesel locomotives for shunting operations); and utility expenses which is not related to transportation volume and is normally considered to be fixed.

## Electricity expenses

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Electricity expenses of traction | 17,434 | 17,537 | -0.6% | -103 |
| Utility expenses | 3,528 | 3,333 | 5.9% | 195 |
| **Total** | **20,962** | **20,868** | **0.5%** | **94** |

Electricity expenses for Q4 2018 decreased by 1 percent, compared to Q4 2017, but increased by 3 percent, compared to Q3 2018.

### Factors influencing changes

The decrease in electricity expenses in 2018, compared to 2017, was caused by decreased turnover, which was partly offset by an increase in average electricity tariffs.

## Purchased electricity and weighted average tariff

*For the year ended 31 December*

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | GWh | Gross ton-km (million) | Weighted av. tariff (GEL) | GWh | Gross ton-km (million) | Weighted av. tariff (GEL) |
| January | 10.9 | 361.4 | 0.130 | 14.5 | 620.3 | 0.121 |
| February | 10.9 | 416.9 | 0.130 | 12.6 | 497.4 | 0.121 |
| March | 11.5 | 435.8 | 0.130 | 12.5 | 490.7 | 0.119 |
| April | 11.0 | 424 | 0.129 | 11.4 | 416.7 | 0.118 |
| May | 10.1 | 364.3 | 0.129 | 10.9 | 408.3 | 0.117 |
| June | 11.9 | 481.4 | 0.129 | 11.5 | 451.7 | 0.116 |
| July | 12.8 | 501.1 | 0.130 | 12.4 | 459.5 | 0.116 |
| August | 11.2 | 400.5 | 0.130 | 12.3 | 465.8 | 0.117 |
| September | 10.8 | 386.7 | 0.130 | 12.6 | 489.3 | 0.118 |
| October | 10.5 | 389.4 | 0.130 | 12.0 | 463.1 | 0.119 |
| November | 11.0 | 399.7 | 0.130 | 12.5 | 480.9 | 0.119 |
| December | 11.7 | 423.9 | 0.130 | 12.8 | 484.9 | 0.119 |
| **Total** | **134.4** | **4,985.0** | **0.130** | **148.1** | **5,728.6** | **0.118** |

*Note: The table above includes only electricity consumed of traction*

## Materials, repair and maintenance expenses

**General description**

The Group consumes materials for repair works performed internally by its own employees. This consumption is presented under "materials expenses". However, some repair works are outsourced and are presented under "repair and maintenance expenses".

The Group's materials, repair and maintenance expenses are all tied to its rolling stock equipment balance, their utilization level and transportation volume. When the transportation volume and transportation by the Group's own rolling stock increases, so too do the expenses for materials, repair and maintenance. However, this expense can also be affected by increased capital expenditures on the fleet and infrastructure, which reduces operating expenditures on repairs.

### Materials, repair and maintenance expenses

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Materials expenses | 11,929 | 11,565 | 3.1% | 364 |
| Repair and maintenance expenses | 4,113 | 3,820 | 7.7% | 293 |
| **Total** | **16,042** | **15,385** | **4.3%** | **657** |

Materials, repair and maintenance expenses for Q4 2018 increased by 24 percent, compared to Q4 2017, but decreased by 36 percent, compared to Q3 2018.

**Factors influencing changes**

4 percent increase in materials, repair and maintenance expenses during 2018, compared to 2017, was driven by more repair works and an increased usage of materials.

## Fuel expenses

**General description**

The Group's fuel consumption principally relates to diesel locomotives fulfilling shunting operations. It should be noted that the main driver for these operations is dry cargo. In everyday business processes, diesel-locomotives are used for railcar marshaling, freight pick-up and delivery at customer facilities.

Another factor affecting fuel expenses, is the nature of the cargo (whether it is import, export, local or transit). While transit cargo is mainly served at one of the Group's stations, most local, export and import cargoes are served in two stations (the origin and destination stations).

### Fuel expenses

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Fuel expenses | 6,704 | 5,237 | 28.0% | 1,467 |

Fuel expenses for Q4 2018 increased by 22 percent, compared to Q4 2017 and by 17 percent, compared to Q3 2018.

**Factors influencing changes**

Total fuel expenses increased by 28 percent (GEL 1.5 million) in 2018, compared to 2017. This change was mainly caused by an increase in fuel prices.

## Freight car rental expense

**General description**

Freight car rental expenses represent short-term rent expenses derived from the usage of other railways' railcars by the Group, for which it is charged a daily fee. This expense counters the freight car rental revenue. The expense is based on CHF tariffs and thus is tied to the GEL/CHF exchange rate and the amount of cargo GR transports using other railways' railcars.

### Freight car rental expenses

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Freight car rental expenses | 4,177 | 4,095 | 2.0% | 82 |

**Factors influencing changes**

2 percent increase in freight car rental expenses in 2018 compared to the same period of the previous year was caused by two main reasons. The first was due to an increased usage of open-wagons, grain carriers and tank cars by GR from partnering railways. Another reason was the appreciation of CHF against GEL by about 2 percent.

## Logistical service expenses

**General description**

Expenses for logistical services refer to operating expenses relating to transportation and other logistics-related services of GR's subsidiaries, which are operating in freight forwarding and logistics fields.

### Logistical service expenses

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Logistical services | 17,636 | 12,996 | 35.7% | 4,640 |

Expenses for logistical services for Q4 2018 increased by 27 percent, compared to Q4 2017, and by 20 percent compared to Q3 2018.

**Factors influencing changes**

Expenses for logistical services in 2018 increased by 36 percent (GEL 4.6 million), compared to 2017. The increase was mainly caused by increased expenses of GR's subsidiary, which serves container transportation.

## Security and other operating expenses

**General description**

Security expenses mainly comprise the Group's buildings, depots and station protection expenses. Other operating expenses mainly consist of items such as communication, legal costs, consulting services, membership fees, rent expenses and advertising expenses.

Security and other operating expenses are mostly denominated in GEL and are mainly fixed.

### Security and other operating expenses

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Security | 9,209 | 8,918 | 3.3% | 291 |
| Other operating expenses | 15,923 | 18,818 | -15.4% | -2,895 |
| **Total** | **25,132** | **27,736** | **-9.4%** | **-2,604** |

Security and other operating expenses for Q4 2018 decreased by 16 percent, compared to Q4 2017 and increased by 59 percent, compared Q3 2018.

**Factors influencing changes**

9 percent decrease in security and other operating expenses in 2018, compared to 2017, was caused by a decrease in other operating expenses, specifically in other tax expenses, which occurred due to a difference in accounting and tax cards by GEL 7.8 million in 2017. In addition, there was a slight increase in security expenses.

## Taxes other than income tax

**General description**

Land taxes are determined by the municipalities in which the land is located, while property taxes are calculated at 1 percent of the average book value of the asset. Railway infrastructure assets, such as rail lines are exempt from property tax.

### Taxes other than income tax

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Property tax | 14,128 | 14,122 | 0.0% | 6 |
| Land tax | 11,820 | 11,821 | 0.0% | -1 |
| Other taxes* | 865 | 1,100 | -21.4% | -235 |
| **Total** | **26,813** | **27,043** | **-0.8%** | **-230** |

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

Taxes other than income tax for Q4 2018 increased by 26 percent, compared to Q4 2017 and by 24 percent, compared to Q3 2018.

**Factors influencing changes**

In 2018, compared to 2017, property tax remained at about the same level.

Land tax remained at about the same level during 2018, compared to 2017.

About GEL 0.2 million decrease in other taxes category, was mainly due to decreased expenses of unpaid VAT, which was partly offset by increased custom penalties.

## Impairment loss on property, plant and equipment

**Impairment loss on property, plant and equipment**

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Impairment loss on property, plant and equipment | -691,387 | -382,616 | 80.7% | -308,771 |

**Factors influencing changes**

In June 2013, the Group announced a decision to redesign the Tbilisi Bypass Project. The Group held negotiations with the Government of Georgia and with the main third party construction companies to agree a plan for the conservation of the Project for the period of redesigning. All construction works in progress were substantially completed by the end of October 2013 and further construction was suspended. No borrowing costs are capitalized since October 2013.

In March 2014, the Government of Georgia decided that the suspension of the construction of the Tbilisi Bypass Project will last for 18 months until the final modified project is presented.

During 2016 and 2015, the Group was in discussion with Tbilisi City Hall and the Government of Georgia about various scenarios of completing the Project. One of the scenarios under discussion included an option envisaging a change of the original bypass location, due to which the existing bypass infrastructure may become redundant. Alternative scenarios included the determination of the future use of the existing infrastructure, should it become redundant. Other options of future use of the infrastructure included a bypass automobile road, light rail/extension of the Tbilisi Metro System, freight depot, etc., however, as at 31 December 2017 and 2018, no decision was made by the Government of Georgia about the redesign of the Tbilisi Bypass Project.

Due to significant uncertainties associated with either the continuation of the existing project or the implementation of any other scenarios, envisaging the change in the existing use of the Project, and also considering the fact that the Management does not expect that the Project will generate any future economic benefit to the Group either individually, or in combination with other non-current assets, the carrying value of the Project was written-down to its recoverable amount.

As a result, the carrying amount of the Project of GEL 397,305,000 was determined to be higher than its recoverable amount of GEL 14,689,000 and the respective impairment loss of GEL 382,616,000 was recognized in the impairment loss during 2017.

The impairment testing was carried out by the Group in 2018 due to the significant decline in the volumes transported (from 5,899 million metric-ton per kilometer of cargo in 2012 to 2,747 million metric-ton per kilometer of cargo in 2018) and revenue (from USD 212,413 thousand in 2012 to USD 95,312 thousand in 2018). Revenue from freight transportation services represents about 57% of the total revenue generated for the past two years, which was considered as the indicator of the impairment.

The recoverable amount of the CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU. Based on the analysis, the recoverable amount of the CGU was determined to be less than its carrying amount by GEL 691,387, therefore impairment loss was recorded in the profit or loss and other comprehensive income in 2018. The impairment loss was allocated to items of property, plant and equipment on a pro-rate basis.

The impairment loss on property, plant and equipment is a non-cash expense and thus, is not included in the calculation of EBITDA. On the contrary, it reduces the net book value of PP&E, thus, property tax (calculated as 1% of average net book value) is reduced.

## Impairment loss on trade receivables

**Impairment loss on trade receivables**

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Impairment loss on trade receivables | -12,017 | -12,115 | -0.8% | 98 |

**Factors influencing changes**

Impairment loss on trade receivables was caused by provision made against one significant counterparty company.

## 1.4 Finance income and cost

**General description**

The finance income of the Group mainly consists of interest income, which represents the interest accrued on the Group's cash balances and foreign exchange gains.

Finance cost mainly consists of interest expenses and foreign exchange losses. Some of the Group's interest expenses are capitalized, as the Group's main debt obligations were issued in order to finance capital projects, such as the Modernization Project. Thus, until this project is in the construction phase, part of the interest is capitalized in accordance with International Financial Reporting Standards (IFRS).

The main source of FX gain or loss is the Group's Eurobonds, which are denominated in USD. This is, however, partly countered by the Group's USD cash balances and receivables in foreign hard currencies. It must be noted that such FX gain or loss on Eurobonds is not monetary in nature and will not be realized until maturity. The Group's revenues are mostly denominated in hard currencies (USD and CHF). As most of the tariffs are set in USD, the Group's revenue creates a natural economic hedge against foreign exchange fluctuations.

## Finance income and cost

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Interest income | 14,534 | 17,793 | -18.3% | -3,259 |
| Impairment loss on trade receivables | 0 | -27,215 | -100.0% | 27,215 |
| Impairment loss on issued loans | -10 | -23,502 | -100.0% | 23,492 |
| Impairment loss on cash in bank | -139 | 0 | 100.0% | -139 |
| Interest expense | -47,352 | -53,433 | -11.4% | 6,081 |
| FX gain/loss | -37,517 | 25,488 | -247.2% | -63,005 |
| **Net finance income/loss** | **-70,484** | **-60,869** | **15.8%** | **-9,615** |

**Factors influencing changes**

The net financial loss in 2018 increased by 16 percent (GEL 9.6 million), compared to the previous year. This was mainly caused by GEL/USD exchange rate fluctuation.

GEL/USD exchange rate fluctuation has a significant effect on net finance income/loss. Due to GEL depreciation against USD by 3 percent as at 31 December 2018 compared to 31 December 2017 (GEL/USD exchange rate 2.68 versus 2.59), the Group experienced net foreign exchange loss of GEL 37.5 million in 2018, however due to the appreciation of GEL against USD (about 2 percent) as at 31 December 2017 compared to 31 December 2016 (GEL/USD exchange rate 2.59 versus 2.65), the Group showed a net foreign exchange gain of GEL 25.5 million in 2017.

Lower interest income by GEL 3.3 million in 2018, compared to 2017, was mainly due to lower average cash balances and lower interest rates.

Impairment loss on other financial assets of GEL 27.2 million in 2017 was mainly caused by the provision made against the VAT receivable from the Government, created as a result of the land plots transfer transaction.

Impairment loss on loans of GEL 23.5 million in 2017 represents the provision made against the loan provided to the entity managed by the Group.

Lower interest expense during 2018, compared to 2017, was mainly due to reduced interest expense on long-term borrowings.

## 1.5 Income tax expense/benefit

### General description

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, the previously active profit tax regulation was changed to the so-called "tax on distributed profits" model.

**Income tax expense/benefit**

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Income tax expense/benefit | -1,169 | -648 | 80.4% | -521 |

### Factors influencing changes

During 2018, the income tax expense increased by GEL 0.5 million, compared to 2017.

# 2. Balance Sheet

## 2.1 Non-current assets

### Non-current assets

*As at 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Property, plant and equipment | 1,826,591 | 2,368,380 | -22.9% | -541,789 |
| Other non-current assets | 97,525 | 123,562 | -21.1% | -26,037 |
| Loan receivable | 20,480 | 18,113 | 13.1% | 2,367 |
| **Total** | **1,944,596** | **2,510,055** | **-22.5%** | **-565,459** |

**Factors influencing changes**

Property, plant and equipment – GEL 541.8 million decrease in property, plant and equipment in 2018, compared to 2017, was mainly due to the Impairment of property, plant & equipment.

Other non-current assets - GEL 26.1 million decrease in other non-current assets was mainly due to the decrease in prepayments for non-current assets, mostly attributable to the Modernization Project and reduction in construction materials that were reclassified from inventory as non-current assets.

## 2.2 Current assets

### Current assets

*As at 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Inventories | 32,882 | 32,807 | 0.2% | 75 |
| Tax assets | 3,899 | 2,360 | 65.2% | 1,539 |
| Trade and other receivables | 40,912 | 73,614 | -44.4% | -32,702 |
| Prepayments and other current assets | 415 | 383 | 8.5% | 32 |
| Cash and cash equivalents | 241,308 | 243,018 | -0.7% | -1,710 |
| **Total** | **319,416** | **352,182** | **-9.3%** | **-32,766** |

**Factors influencing changes**

Trade and other receivables – GEL 32.7 million decrease in trade and other receivables, was mainly due to provision made against one significant counterparty company.

Cash and cash equivalents - GEL 1.7 million decrease in 2018, compared to 2017, was mainly caused by the absence of inflows from proceeds from borrowings in 2018, compared to 2017 *(see heading 3 "Cash Flow Statement")*.

## 2.3 Equity

### Equity

*As at 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Share capital | 1,053,714 | 1,053,271 | 0.0% | 443 |
| Non-cash owner contribution reserve | 100,244 | 98,192 | 2.1% | 2,052 |
| Retained earnings | -624,742 | 93,385 | -769.0% | -718127 |
| **Total** | **529,216** | **1,244,848** | **-57. 5%** | **-715,632** |

There was a GEL 0.7 million decrease in total equity in 2018, compared to the previous year, due to decreased retained earnings.

## 2.4 Non-current liabilities

### Non-current liabilities

*As at 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Loans and borrowings | 1,336,665 | 1,374,363 | -2.7% | -37,698 |
| Advanced received from the Government | 46,594 | 46,594 | 0.0% | 0 |
| **Total** | **1,383,259** | **1,420,957** | **-2.7%** | **-37,698** |

**Factors influencing changes**

Loans and borrowings - The decrease of GEL 37.7 million in long-term borrowings, in 2018, compared to 2017. The Group has secured loan with long term repayment schedule, but due to waiver letter's arrival on 10 January 2019, the loan was classified as current liability as at 31 December 2018. The reduction was partly offset by depreciation of GEL against USD.

Secured loan represents raised funds through export credit to finance the acquisition of four new passenger trains in 2016, two of which were delivered in 2016, the other two in 2017, and are all currently in operation. The total credit facility was USD 43.6 million.

### Eurobonds and Export credit facility

*For the year ended 31 December*

| Type | Date of maturity | Amount (in mln) | Currency | Coupon/percent | Payments |
|---|---|---|---|---|---|
| Eurobonds | 11-Jul-22 | 500.0 | USD | 7.75% | Semi-annually |
| Export credit facility | 10-Nov-26 | 39.2 | USD | LIBOR+1.25% | Semi-annually |

## 2.5 Current liabilities

### Current liabilities

*As at 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Loans and borrowings | 134,194 | 58,809 | 128.2% | 75,385 |
| Trade and other payables | 191,610 | 112,221 | 70.7% | 79,389 |
| Liabilities to the Government | 5,317 | 7,592 | -30.0% | -2,275 |
| Provisions | 11,356 | 7,953 | 42.8% | 3,403 |
| Other current liabilities | 9,060 | 9,857 | -8.1% | -797 |
| **Total** | **351,537** | **196,432** | **79.0%** | **155,105** |

**Factors influencing changes**

Loans and borrowings – Currently, the Group has two debts: Eurobonds and a secured loan, obtained for the sole purpose of the acquisition of passenger trains. As at 31 December 2018, current loans and borrowings include interest payable of about GEL 48.6 million and the current portion of long-term borrowing, GEL 12.3 million.

Additionally, Group has classified the secured loan as short-term borrowings. *(See page 82 "loans and borrowings").*

Trade and other payables - GEL 79.4 million increase in trades and other payables in 2018 compared to the end of 2017, was mainly due to the new payment terms on Modernization Project, according to which part of the payables are deferred for years 2020 and 2021.

# 3. Cash Flow Statement

By the end of 2018, the Group held GEL 242.1 million of cash and cash equivalents. These cash resources are held to support existing and future capital expenditures. Capital expenditures mainly entail the Modernization Project and the Tbilisi Bypass Project. Works on the Modernization Project continued in 2018, while the Tbilisi Bypass Project remained suspended.

The Group can also rely on its available undrowned credit lines of about GEL 162.8 million as at the end of 2018.

The Group mainly relies on its operating activities in order to fund its future cash requirements.

## 3.1 Operating activities

### Operating activities

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Cash receipts from customers | 455,638 | 447,510 | 1.8% | 8,128 |
| Cash paid to suppliers and employees | -276,328 | -268,592 | 2.9% | -7,736 |
| Income tax paid | -270 | -2,685 | -89.9% | 2,415 |
| **Net cash from operating activities** | **179,040** | **176,233** | **1.6%** | **2,807** |

**Factors influencing changes**
Net cash from operating activities increased by GEL 2.8 million in 2018 compared to 2017. This change was mainly driven by the increase in cash receipts from customers which was partly offset by decrease in cash paid to suppliers.

## 3.2 Investing activities

### Investing activities

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Acquisition of property, plant and equipment | -104,694 | -165,265 | -36.7% | 60,571 |
| Proceeds from sale of property, plant and equipment | 17,357 | 5,133 | 238.2% | 12,224 |
| Interest received | 11,856 | 14,806 | -19.9% | -2,949 |
| **Net cash used in investing activities** | **-75,481** | **-145,327** | **-48.1%** | **69,845** |

**Factors influencing changes**

Cash used in investing activities decreased by GEL 69.8 million in 2018, compared to the previous year. In the first half of 2017, GR invested in two new double-decker trains, causing a significant reduction of investment in PPE in 2018.

The decrease in interest received was mainly caused by a lower average cash balance and lower interest rates during the period under review, compared to the same period of the previous year.

## 3.3 Financing activities

### Financing activities

*For the year ended 31 December* *In GEL '000*

| | 2018 | 2017 | % Change | Abs. change |
|---|---|---|---|---|
| Interest paid | -101,022 | -103,127 | -2.0% | 2,105 |
| Repayment of borrowings | -11,327 | -10,996 | 3.0% | -331 |
| Proceeds from borrowings | 0 | 50,248 | -100.0% | -50,248 |
| **Net cash used in financing activities** | **-112,349** | **-63,875** | **75.9%** | **-48,474** |

**Factors influencing changes**

Proceeds from borrowings in 2017 represent the loan for the new double-decker passenger trains purchased in the first half of the previous year.

Lower interest paid in 2018, compared to the previous year, was mainly due to reduced interest expense on secured borrowings.

# Appendix 1

## Breakdown of freight transportation in tons

*For the year ended 31 December* *In million tons*

| | 2018 | 2017 | % Change | Abs. Change |
|---|---|---|---|---|
| **Liquid cargoes** | **3.1** | **4.3** | **-27.8%** | **-1.2** |
| Oil products | 3.0 | 3.9 | -24.7% | -1.0 |
| Crude oil | 0.2 | 0.4 | -58.1% | -0.2 |
| | | | | |
| **Dry cargoes** | **6.9** | **6.3** | **8.5%** | **0.5** |
| Ores | 1.6 | 1.4 | 10.8% | 0.2 |
| Grain | 0.5 | 0.3 | 57.1% | 0.2 |
| Ferrous metals and scrap | 0.6 | 0.5 | 3.9% | 0.0 |
| Sugar | 0.4 | 0.4 | -6.0% | 0.0 |
| Chemicals and fertilizers | 0.6 | 0.6 | -2.5% | 0.0 |
| Construction freight | 1.2 | 1.2 | 1.1% | 0.0 |
| Industrial freight | 0.4 | 0.3 | 35.7% | 0.1 |
| Cement | 0.1 | 0.1 | 25.5% | 0.0 |
| Other | 1.7 | 1.6 | 5.3% | 0.1 |
| **Total** | **10.0** | **10.7** | **-6.3%** | **-0.7** |

# Appendix 2

## Breakdown of freight transportation in ton-kilometers

*For the year ended 31 December* *In million ton-kilometers*

| | 2018 | 2017 | % Change | Abs. Change |
|---|---|---|---|---|
| **Liquid cargoes** | **923** | **1,379** | **-33.1%** | **-456** |
| Oil products | 857 | 1,221 | -29.8% | -364 |
| Crude oil | 66 | 158 | -58.3% | -92 |
| | | | | 0 |
| **Dry cargoes** | **1,648** | **1,551** | **6.3%** | **97** |
| Ores | 327 | 296 | 10.2% | 30 |
| Grain | 103 | 75 | 36.4% | 27 |
| Ferrous metals and scrap | 119 | 123 | -3.6% | -4 |
| Sugar | 129 | 135 | -4.7% | -6 |
| Chemicals and fertilizers | 194 | 184 | 5.3% | 10 |
| Construction freight | 164 | 160 | 2.5% | 4 |
| Industrial freight | 66 | 53 | 25.2% | 13 |
| Cement | 25 | 22 | 13.7% | 3 |
| Other | 522 | 502 | 4.0% | 20 |
| **Total** | **2,571** | **2,930** | **-12.2%** | **-359** |

# Appendix 3

## Calculations of ratio of Net Financial Indebtedness to EBITDA:

| '000 GEL | Twelve-month period ended 31-Dec-18 | Twelve-month period ended 31-Dec-17 |
|---|---|---|
| Revenue | 424,614 | 434,534 |
| Income from the transferred property | 0 | 23,417 |
| Other income | 19,512 | 15,560 |
| Impairment loss on property, plant and equipment | -691,387 | -382,616 |
| Impairment loss on trade receivables | -12,017 | -12,115 |
| Employee benefits expenses | -154,338 | -148,300 |
| Depreciation and amortization expense | -113,804 | -109,703 |
| Electricity, consumables and maintenance costs | -43,708 | -41,490 |
| Other expenses | -73,758 | -71,869 |
| **Results from operating activities** | **-644,886** | **-292,583** |
| Finance income | 14,534 | 43,281 |
| Finance costs | -85,018 | -104,150 |
| **Net finance costs** | **-70,484** | **-60,869** |
| **Profit/(loss) before income tax** | **-715,370** | **-353,452** |
| Income tax benefit | -1,169 | -648 |
| **Profit/(loss)and total comprehensive income/(loss) for the year** | **-716,539** | **-354,099** |
| | | |
| **Results from operating activities** | **-644,886** | **-292,583** |
| 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 | -12,115 |
| **EBITDA** | **172,322** | **211,851** |
| | | |
| Net Financial Indebtedness: | | |
| Financial Indebtedness | 1,470,859 | 1,433,172 |
| less: | | |
| Available Credit Facilities | 162,800 | 158,833 |
| Cash | 241,308 | 243,018 |
| **Net Financial Indebtedness**: | **1,066,751** | **1,031,321** |
| | | |
| **Net Financial Indebtedness/EBITDA** | **6.19** | **4.87** |