

H1 2019



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Railway**  
EST.1872

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**GR Today**



**Georgian  
Railway**  
EST. 1872

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# Company Financial Highlights



## Revenue

Q2 2019

**125,975**

+23% from Q2 2018  
+21% from Q1 2019

6M 2019

**230,194**

+16% from 6M 2018

## EBITDA

Q2 2019

**55,088**

+35% from Q2 2018  
+15% from Q1 2019

6M 2019

**103,203**

+32% from 6M 2018

## EBITDA margin

Q2 2019

**43.7%**

+4 points from Q2 2018  
-2 points from Q1 2019

6M 2019

**44.8%**

+6 points from 6M 2018

## Adjusted EBITDA

Q2 2019

**50,052**

+37% from Q2 2018  
+6% from Q1 2019

6M 2019

**70,617**

+38% from 6M 2018

## Adjusted EBITDA margin

Q2 2019

**39.7%**

+4 points from Q2 2018  
-5 points from Q1 2019

6M 2019

**42.19%**

+7 points from 6M 2018

## Net Debt to EBITDA

31 Jun 2019

**6.80**

4.51 as at 30-Jun-2018  
6.20 as at 31-Mar-2018

# Key Operating Measures



## Total freight revenue per ton-km (in GEL)

Q2 2019  
**0.16**

+20% from Q2 2018  
+25% from Q1 2019

6M 2019  
**0.15**

+10% from 6M 2018

## Passenger revenue per passenger-km (in GEL)

Q2 2019  
**0.04**

+19% from Q2 2018  
-5% from Q1 2019

6M 2019  
**0.04**

+22% from 6M 2018

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

Q2 2019  
**10.0**

+24% from Q2 2018  
+13% from Q1 2019

6M 2019  
**18.23**

+17% from 6M 2018

## Operating expenses per ton-km (in GEL)

Q2 2019  
**0.13**

-11% from Q2 2018  
-2% from Q1 2019

6M 2019  
**0.13**

-11% from 6M 2018

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

Q2 2019  
**124.60**

+4% from Q2 2018  
-2% from Q1 2019

6M 2019  
**250.38**

+7% from 6M 2018

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

Q2 2019  
**127.64**

+7% from Q2 2018  
-27% from Q1 2019

6M 2019  
**215.01**

-1% from 6M 2018

# Fitch Ratings

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## **BB-, Outlook Stable**

In March 2019 Fitch Ratings has affirmed the Group's rating at 'BB-' with Stable Outlook.

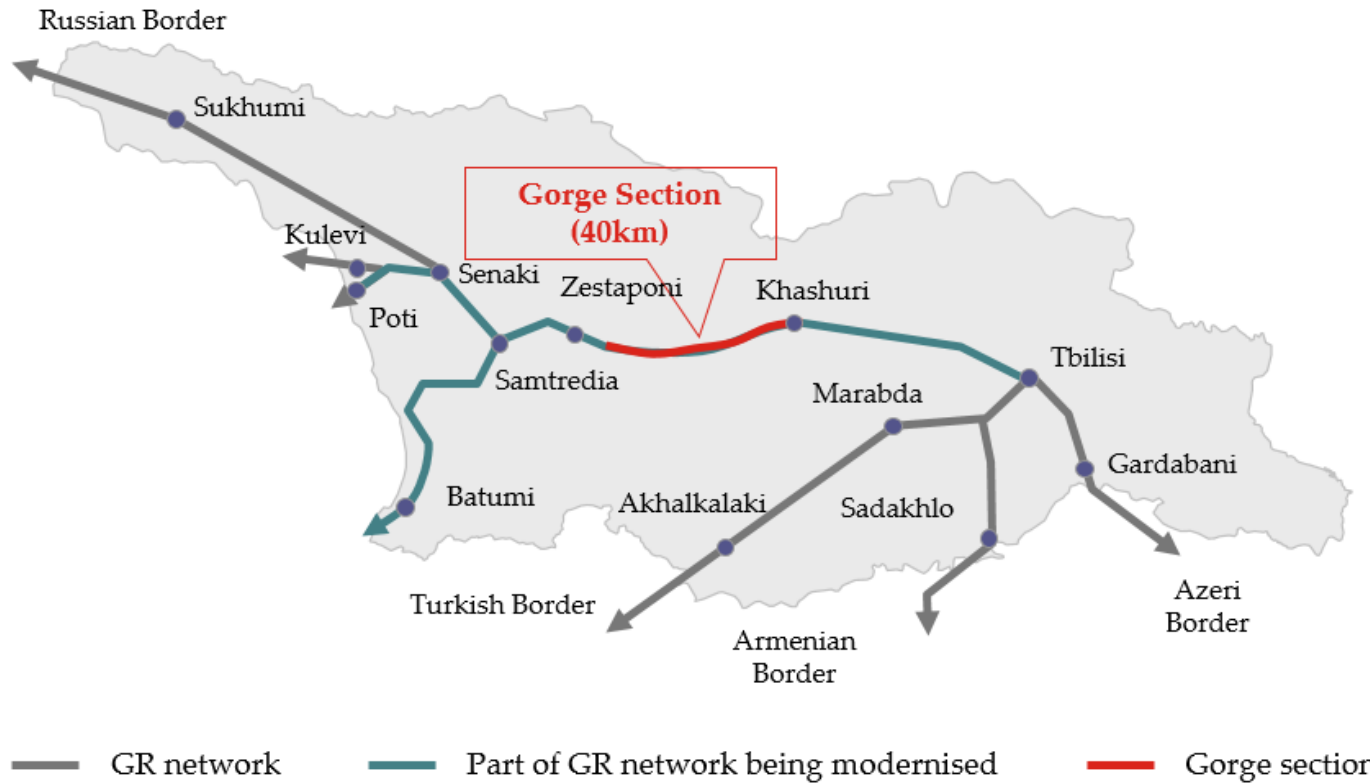
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# S&P Global

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## **B+, Outlook Positive**

In April 2019, S&P Global Ratings revised its outlook to positive from stable.



**1,443km** Operational network length

**97%** Electrified

**100** Freight stations

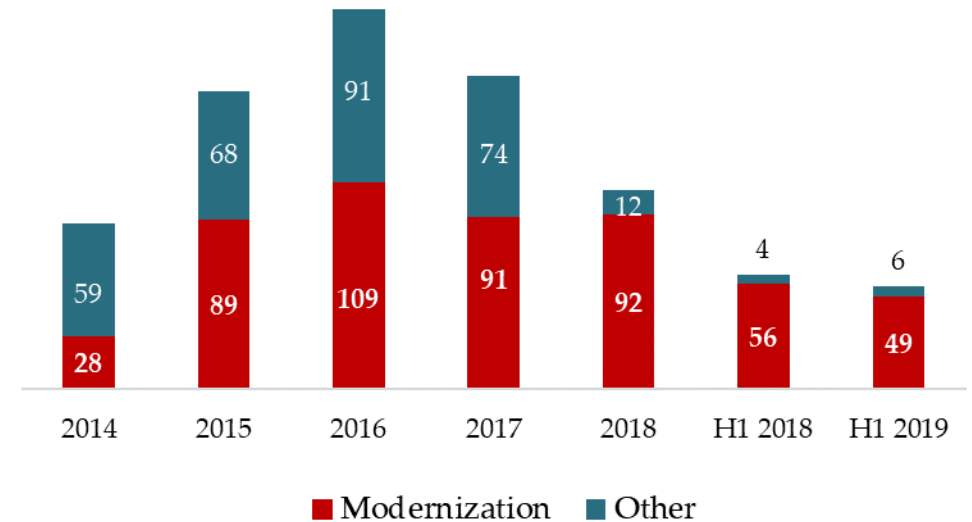
**40** Railroad tunnels

**1,334** Railroad bridges

## Modernization

- Expected to be completed by the beginning of 2020;
- 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 2019 the Company invested GEL 839m 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**

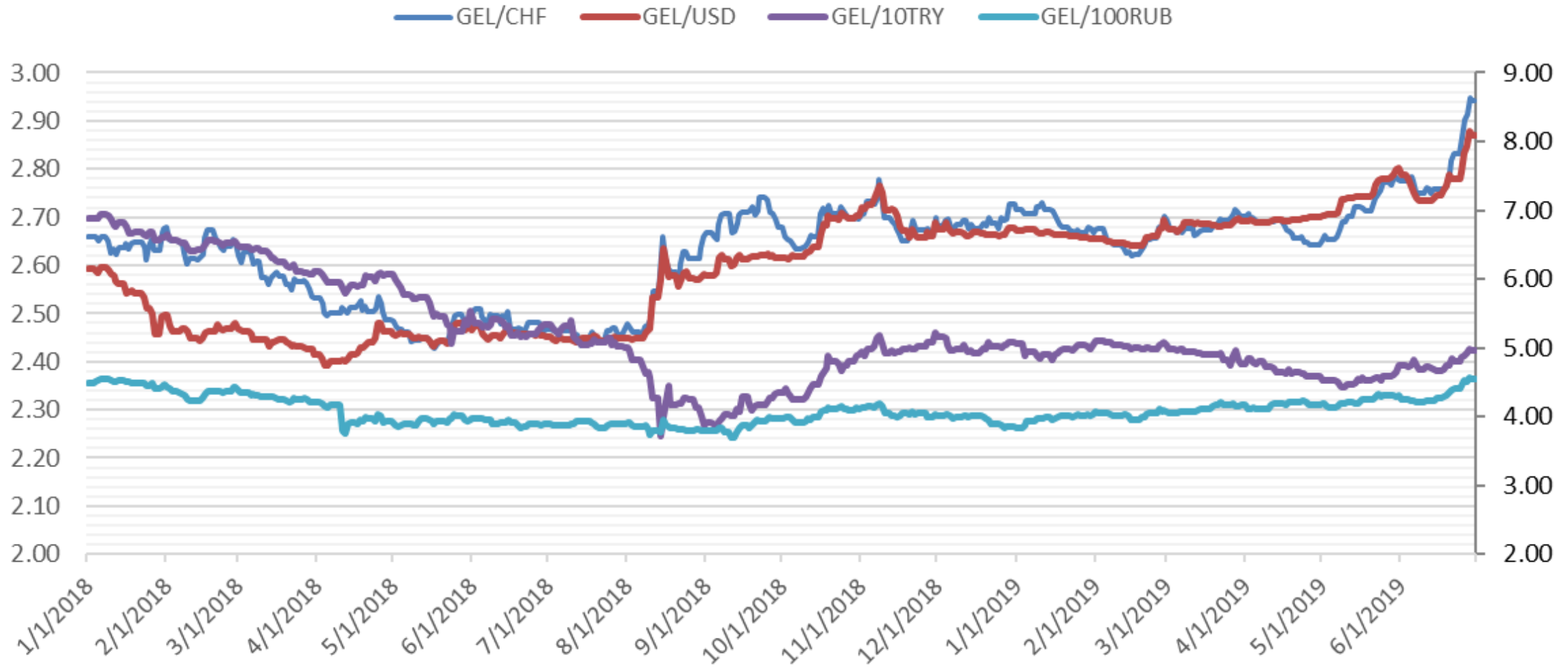
**GR Today**



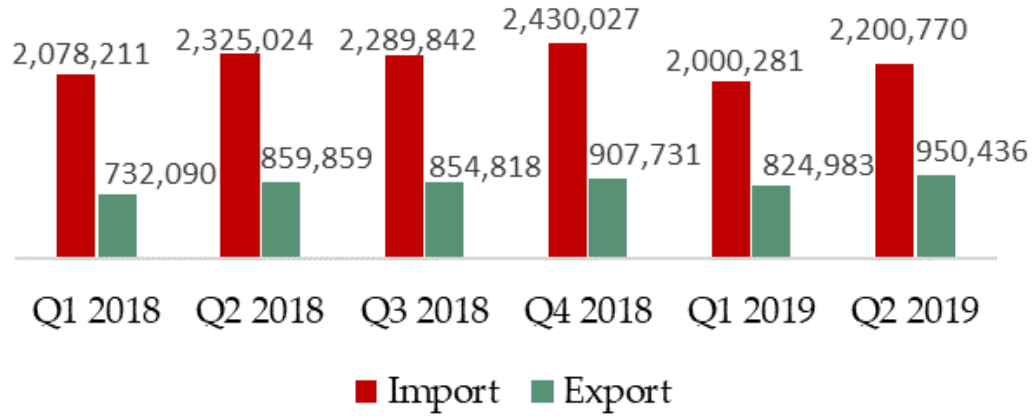
**Financial  
Results**

**Liquidity  
Position**

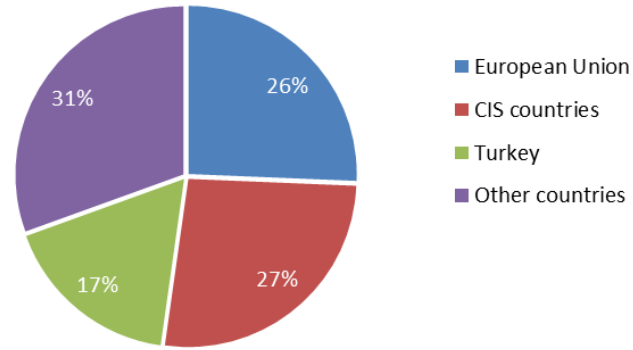
# GEL Exchange Rate



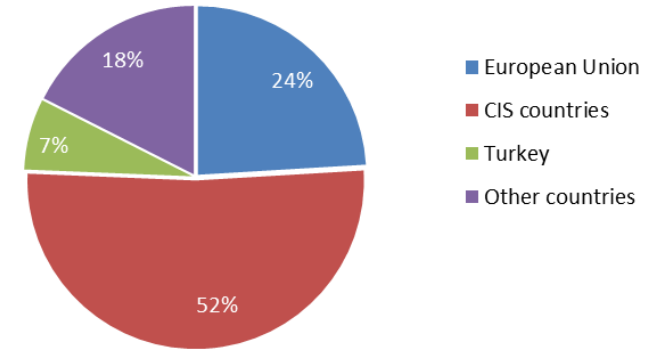
## Georgian Trade Dynamics



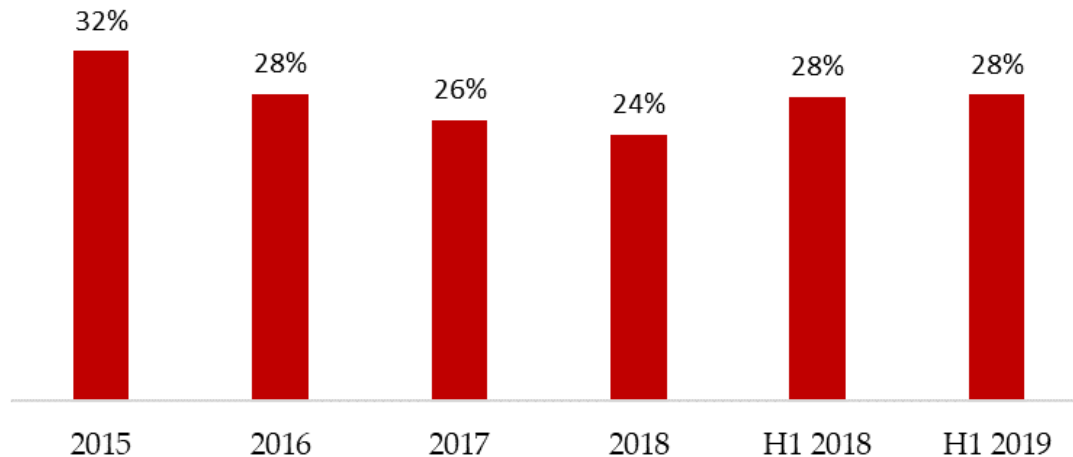
## Import by countries for H1 2019



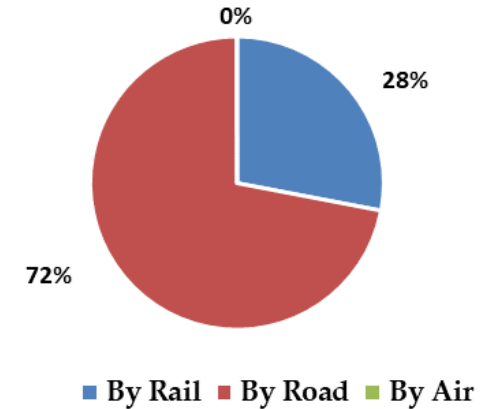
## Export by countries for H1 2019



## Share of GR in Total Freight Transportation in Georgia



## Freight transportation by types for H1 2019



Global Commodity Prices (BLOOMBERG) <b>Commodity</b>	Price	% change		
	Q2 2019	Q3 2019	Q4 2019	Q1 2020
ICE Brent (Crude oil)	62.59	-0.42%	-1.04%	-1.00%
ICE Gasoil	573.00	-0.58%	-0.81%	-0.55%
UK NBP Nat Gas	26.15	4.51%	-3.38%	-14.36%
Grain	502.25	0.63%	3.66%	2.22%
Aluminum	1,782.00	0.28%	0.07%	0.62%
Iron ores	62.50	-1.28%	-1.44%	-0.83%

## % Change from 2017

Macroeconomic Measures of Partnering Countries for 2018 (IMF)	<b>GDP</b>	<b>Inflation rate</b>	<b>Import</b>	<b>Export</b>
Azerbaijan	1.35%	2.30%	-9.26%	-5.95%
Turkey	2.57%	16.33%	-9.19%	9.21%
Kazakhstan	4.10%	6.03%	0.40%	6.46%
Turkmenistan	6.24%	13.56%	-22.3%	10.00%

Economic  
Overview

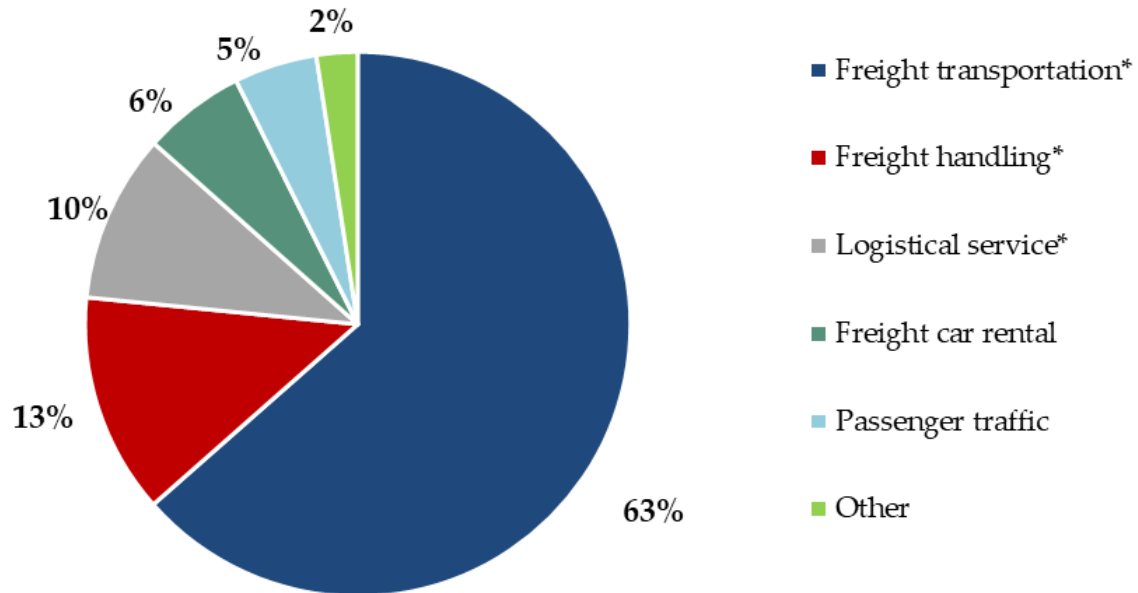
GR Today



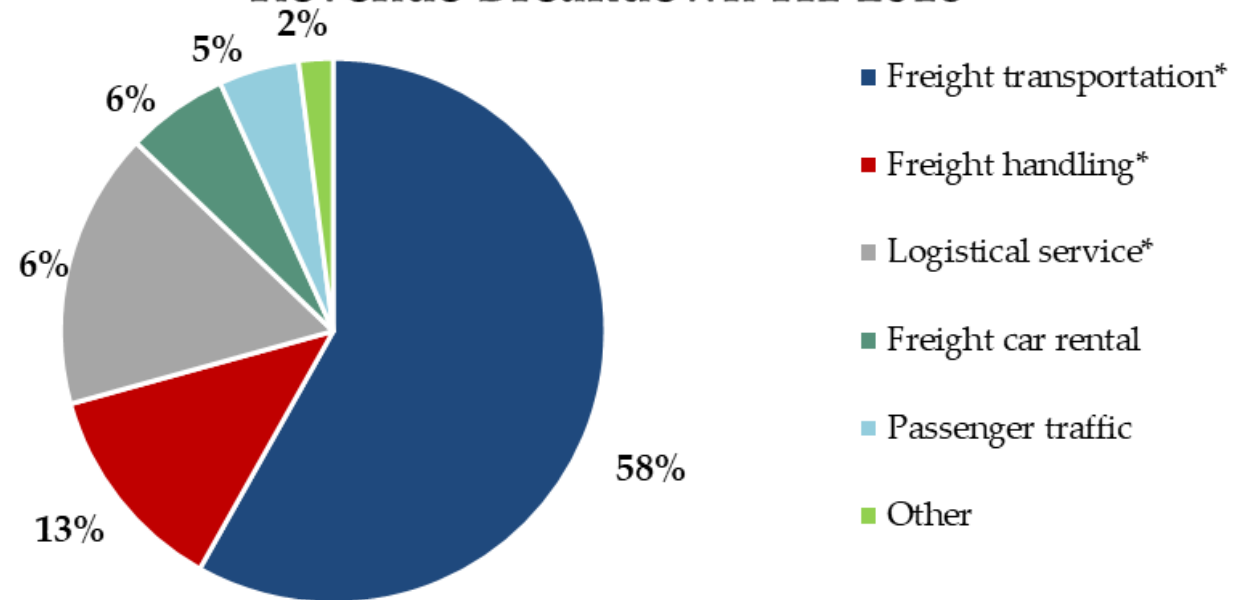
**Financial  
Results**

Liquidity  
Position

### Revenue Breakdown H1 2019



### Revenue Breakdown H1 2018



# Revenue Breakdown

6 month period ended 30 June	6M 2019	6M 2018	% Change	Abs. Change
Freight transportation	146,167	115,468	26.6%	30,699
Freight handling	30,119	24,944	20.7%	5,175
Logistical service	22,983	32,653	-29.6%	-9,670
Freight car rental	13,972	12,016	16.3%	1,956
Passenger traffic	11,342	9,467	19.8%	1,875
Other	5,611	4,046	38.7%	1,565
<b>Revenue</b>	<b>230,194</b>	<b>198,593</b>	<b>15.9%</b>	<b>31,601</b>
<b>Other income</b>	<b>7,856</b>	<b>8,777</b>	<b>-10.5%</b>	<b>-921</b>

## Significant Changes

- **Freight transportation:**
  - Tariffs denominated in USD;
  - The downturn in revenue caused by decreased volumes;
  - Average revenue per ton-kilometer increased by 20.5%.
- **Logistical service:**
  - Decreased logistical revenue from completion of two year contract of oil trade between one significant counterparty company and GR's subsidiary company.
- **Freight car rental:**
  - Increased usage of the Group's tank cars.
- **Passenger transportation:**
  - Increased number of passengers on the international transportation.
- **Other income:**
  - Continuing operations increased by about 26%.
  - Non-continuing operations decreased by about 16%.



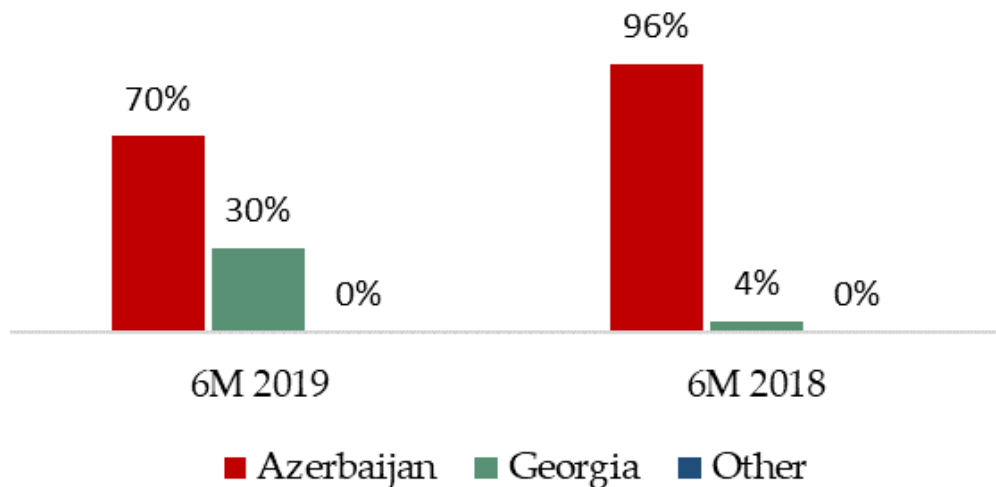
# Freight Revenue Breakdown

<i>6 month period ended 30 June</i>	6M 2019	6M 2018	% Change	% Change at constant currency	Abs. Change
<b>Freight transportation</b>	<b>146,167</b>	<b>115,468</b>	<b>26.6%</b>	<b>15.4%</b>	<b>30,699</b>
<b>Liquid cargoes</b>	<b>59,344</b>	<b>48,416</b>	<b>22.6%</b>	<b>11.8%</b>	<b>10,928</b>
Oil products	59,122	46,106	28.2%	16.9%	13,016
Crude oil	222	2,310	-90.4%	-91.2%	-2,088
<b>Dry cargoes</b>	<b>86,823</b>	<b>67,052</b>	<b>29.5%</b>	<b>18.1%</b>	<b>19,771</b>
Ores	17,766	14,162	25.4%	14.4%	3,604
Grain	2,300	4,821	-52.3%	-56.5%	-2,521
Ferrous metals and scrap	4,437	4,496	-1.3%	-10.0%	-60
Sugar	9,531	5,114	86.4%	70.0%	4,417
Chemicals and fertilizers	8,290	7,440	11.4%	1.6%	850
Construction freight	4,730	3,305	43.1%	30.5%	1,425
Industrial freight	3,424	2,714	26.2%	15.0%	710
Cement	1,078	845	27.6%	16.4%	233
Other	35,268	24,155	46.0%	33.1%	11,112
<b>Freight turnover (million ton-km)</b>	<b>1,364</b>	<b>1,298</b>	<b>5.0%</b>	<b>-4.2%</b>	<b>66</b>
<b>Revenue / ton-km (in Tetri)</b>	<b>10.72</b>	<b>8.90</b>	<b>20.5%</b>	<b>9.9%</b>	<b>1.82</b>

# Crude oil

6 Month period ended 30 June	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL '000)	222	2,310	-90.4%	-91.2%
Freight volume (ton '000)	6	103	-94.2%	NA
Freight turnover (million ton-km)	2	41	-95.4%	NA
Revenue / ton-km (in Tetri)	11.91	5.66	110.3%	91.7%

**Transportation volume by countries of origin**

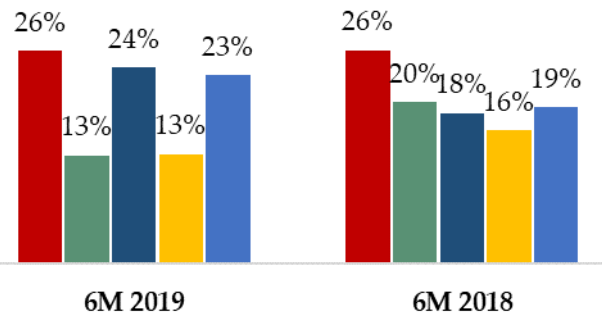


- Decrease (Down by 94, compared to 6M 2018) in crude oil transportation volume from Azerbaijan;
- Increase in average revenue per ton-kilometer due to the changes in transportation direction mix;

# Oil products

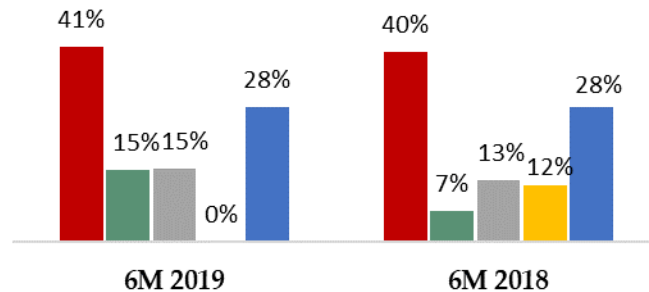
6 Month period ended 30 June	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL '000)	59,122	46,106	28.2%	16.9%
Freight volume (ton '000)	1,450	1,520	-4.6%	NA
Freight turnover (million ton-km)	416	449	-7.4%	NA
Revenue / ton-km (in Tetri)	14.22	10.27	38.5%	26.3%

Transportation volume by countries of origin



■ Azerbaijan    ■ Turkmenistan    ■ Russia  
■ Kazakhstan    ■ Other

Product Category Mix

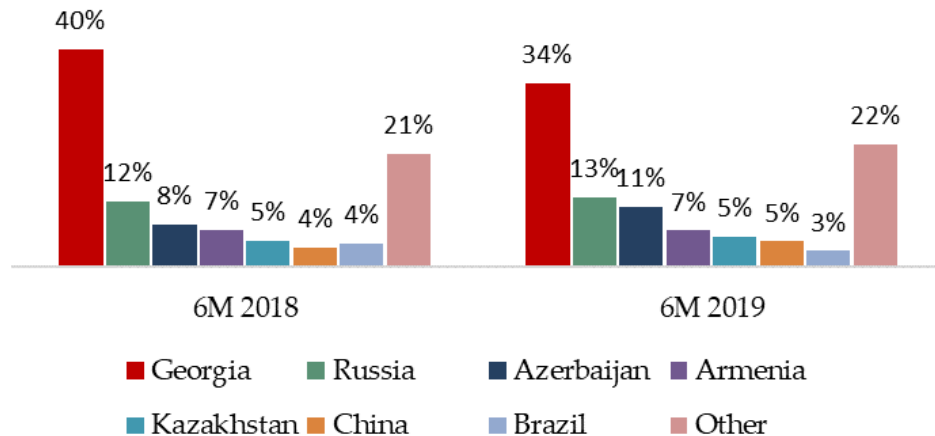


■ Fuel diesel    ■ Heavy fuel    ■ Special petrol  
■ Gasoil    ■ Other

- Decreased transportation of gasoil from Kazakhstan by 182,188 tons.
- Decreased share of volumes from Kazakhstan and Turkmenistan (which covers longer distances) reduced the average transportation distance.
- Increase in average revenue per ton-kilometer due to increased tariffs on heavy fuel and jet fuel. As well as, the share of other more profitable products has increased significantly.

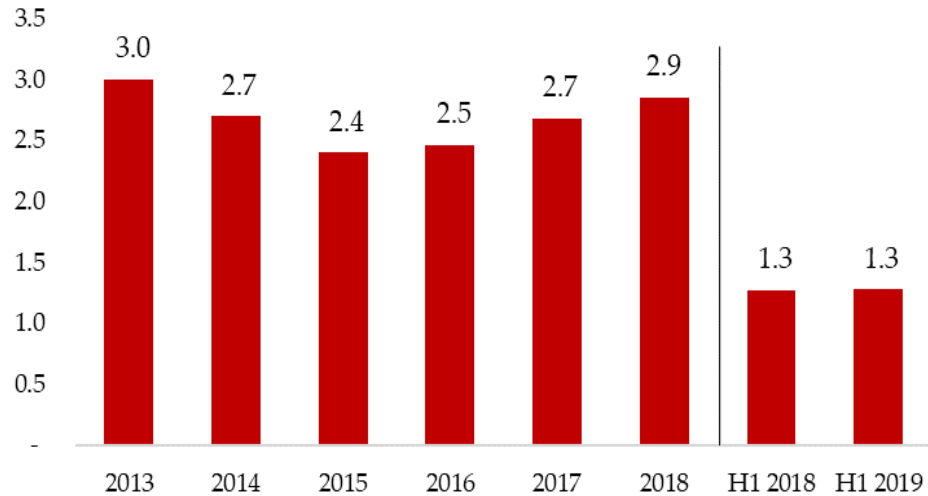
6 month period ended 30 June	6M 2019	6M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	86,823	67,052	29.5%	20.6%
Freight volume ( ton '000)	3,622	3,393	6.8%	NA
Freight turnover (million ton-km)	946	807	17.2%	NA
Revenue / ton-km (in Tetri)	9.18	8.31	10.5%	2.9%

Transportation volume by countries of origin

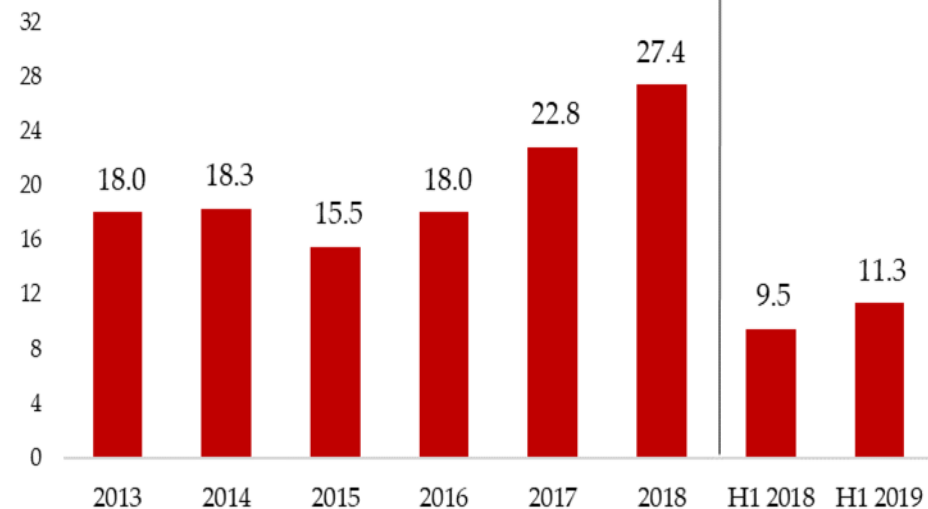


- Increased transportation of ores (by 67,000 tons), chemicals and fertilizers (by 39,000 tons) and sugar (by 28,000 tons), as well as there was a significant increase in other product category (by 293,000 tons).
- Decreased Transportation of grain (by 92,000 tons) and construction freight (by 74,000 tons).
- Increased revenue per ton-km was mainly caused by changes 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

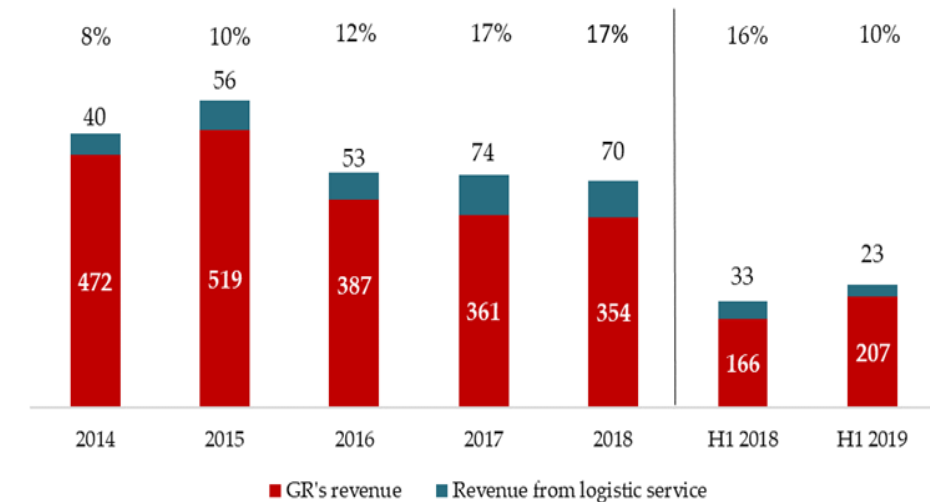
- Medium-term strategic objective to achieve break even :
  - Increasing revenue per passenger by attracting new higher paying customers willing to switch from car and minibus to rail;
  - Adjusting schedules to optimise utilisation.
- GR is increasing its service quality with higher speed and comfort:
  - 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

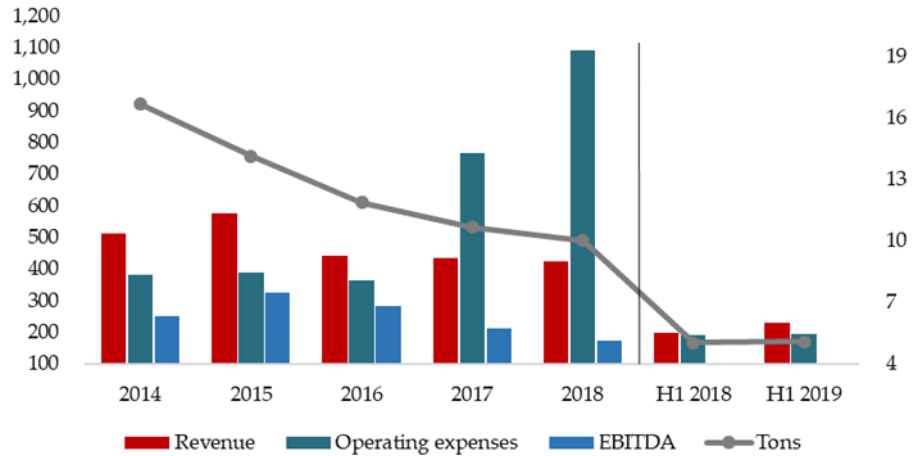


## Comment

- Subsidiaries' margin added to GR revenue is increasing since entering in freight forwarding business;
- To reach subsidiaries margin (GEL 23 million) GR's subsidiaries transported about 1.5 million tons in the first six months of 2019.

# Adding logistics elements to the Company

## Key performance indicators



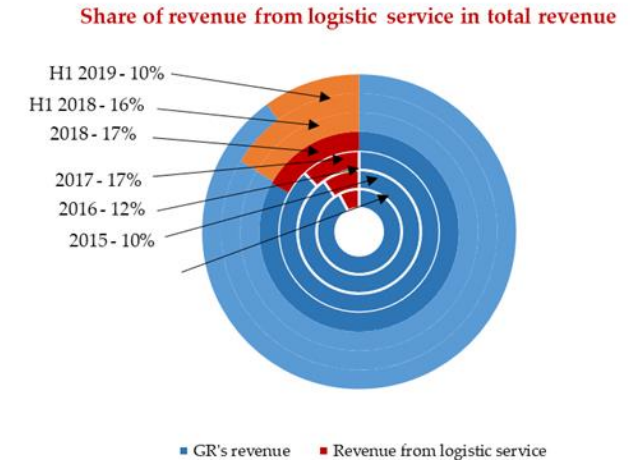
## GR as a logistic company

As a logistic company Georgian Railway expects to:

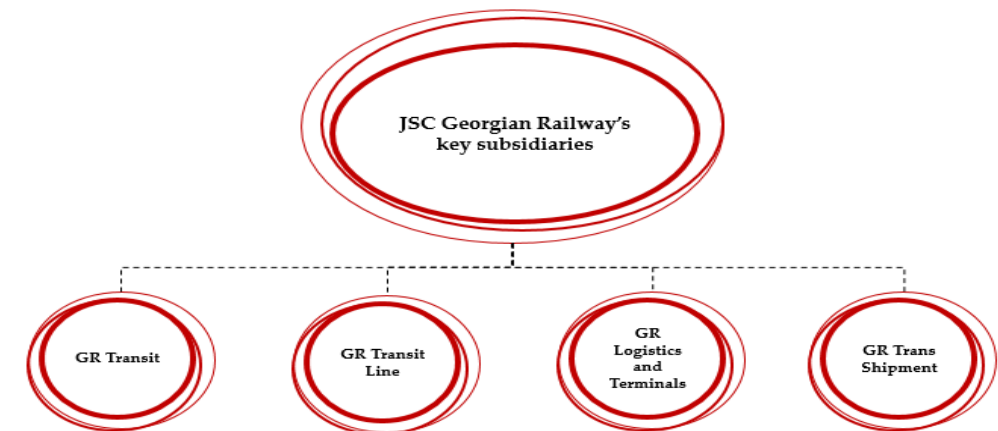
- Have deeper understanding of customers' industries and business processes and be able to provide better service to its customers;
- Increase its competitiveness;
- Increase its financial flexibility, growth and profitability.

## Comments

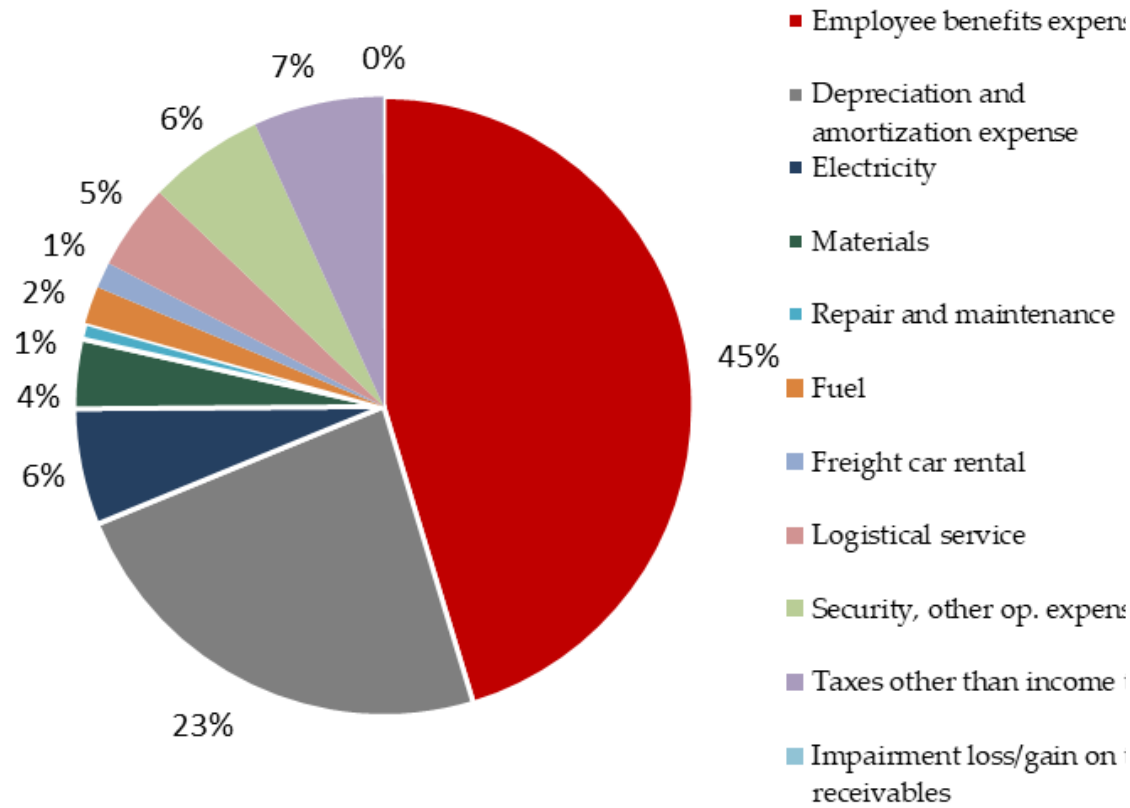
Georgian Railway entered in freight forwarding business from April 2013 and since than was increasing its significance. GR aims to increase revenues from logistics up to 25% within 5 years.



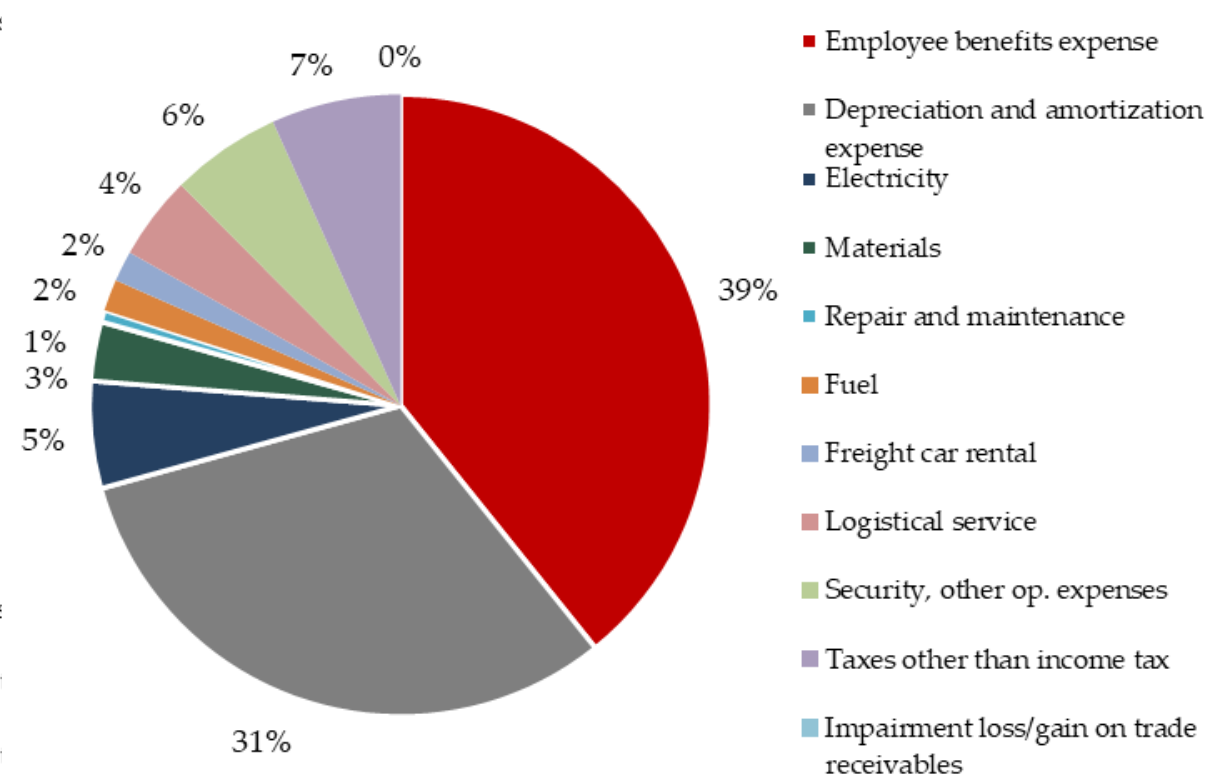
## GR's freight forwarders



### 6M 2019



### 6M 2018





# Operating Expenses

## Operating expenses

6 month period ended 30 June

In GEL '000

	6M 2019	6M 2018	% Change	Abs. change
Employee benefits expense	79,879	73,988	7.96%	5,891
Depreciation and amortization expense	41,365	59,333	-30.28%	-17,968
Electricity	10,719	10,495	2.13%	224
Materials	6,401	5,796	10.44%	605
Repair and maintenance	1,480	1,172	26.31%	308
Fuel	3,414	3,082	10.80%	332
Freight car rental	2,384	2,996	-20.42%	-612
Logistical service	7,907	8,194	-3.51%	-287
Security, other op. expenses	10,685	10,821	-1.26%	-136
Taxes other than income tax	11,951	12,694	-5.85%	-743
Impairment loss/gain on trade receivables	43	0	100.00%	43
<b>Total</b>	<b>176,228</b>	<b>188,571</b>	<b>-6.55%</b>	<b>-12,343</b>

## Significant Changes

- **Employee benefits expense:**
  - N of employees – 12,631;
  - Increased employee benefits expenses, mainly due to employee bonuses and pension fund expenses.
- **Materials, repair and maintenance expenses:**
  - Increased expenditure on diagnostic and repair of rolling stock and increased expenses on purchase of materials.
- **Logistical service:**
  - Decreased expenses of GR's subsidiary that mainly serves crude oil and oil product transportation.
- **Taxes other than income tax:**
  - Decreased property tax due to impairment of PP&E.
- **Depreciation and amortization expense:**
  - Decrease due to impairment of property, plant and equipment in 2018.
- **Electricity:**
  - Increased turnover during first half of 2019.

## Non-current assets

*In GEL '000*

	30-Jun-19	31-Dec-18	% Change	Abs. change
Property, plant and equipment	1,839,300	1,826,591	0.7%	12,709
Other non-current assets	94,699	97,479	-2.9%	-2,780
Loan receivable	23,011	20,526	12.1%	2,485
<b>Total non-current assets</b>	<b>1,957,010</b>	<b>1,944,596</b>	<b>0.6%</b>	<b>12,414</b>

## Current assets

	30-Jun-19	31-Dec-18	% Change	Abs. change
Inventories	32,365	32,882	-1.6%	-517
Tax assets	2,109	3,899	-45.9%	-1,790
Trade and other receivables	59,316	40,912	45.0%	18,404
Prepayments and other current assets	2,677	415	544.4%	2,262
Cash and cash equivalents	246,188	241,308	2.0%	4,881
<b>Total current assets</b>	<b>342,655</b>	<b>319,416</b>	<b>7.3%</b>	<b>23,239</b>
<b>Total assets</b>	<b>2,299,665</b>	<b>2,264,012</b>	<b>1.6%</b>	<b>35,654</b>

## Significant Changes

- **Property, plant and equipment**
  - Increase in property, plant and equipment mainly due to the Construction in Progress (mostly under the Modernization Project).
- **Trade and other receivables**
  - Increase in trade and other receivables due to depreciation of GEL against USD and increased receivables of GR's subsidiary company that serves container transportation.
- **Cash and cash equivalents**
  - Decrease in cash and cash equivalents, caused by proceeds from sale of property, plant and equipment as well as the effect of exchange rate fluctuations.

# Balance Sheet (continued)

## Equity In GEL '000

	30-Jun-19	31-Dec-18	% Change	Abs. change
Share capital	1,053,335	1,053,714	0.0%	-379
Non-cash owner contribution reserve	100,321	100,244	0.1%	77
Retained earnings	-666,159	-624,742	6.6%	-41,147
<b>Total equity</b>	<b>487,497</b>	<b>529,216</b>	<b>-7.9%</b>	<b>-41,718</b>

## Non-current liabilities

	30-Jun-19	31-Dec-18	% Change	Abs. change
Loans and borrowings	1,506,228	1,336,665	12.7%	169,562
Advances received from the Government	46,593	46,594	0.0%	-1
<b>Total non-current liabilities</b>	<b>1,552,821</b>	<b>1,383,259</b>	<b>12.3%</b>	<b>169,562</b>

## Current liabilities

	30-Jun-19	31-Dec-18	% Change	Abs. change
Loans and borrowings	64,630	134,194	-51.8%	-69,564
Trade and other payables	168,201	191,610	-12.2%	-23,409
Liabilities to the Government	5,729	5,317	7.7%	412
Provisions	12,042	11,356	6.0%	685
Other current liabilities	8,745	9,060	-3.5%	-315
<b>Total current liabilities</b>	<b>259,347</b>	<b>351,537</b>	<b>-26.2%</b>	<b>-92,190</b>
<b>Total liabilities</b>	<b>1,812,168</b>	<b>1,734,796</b>	<b>4.5%</b>	<b>77,371</b>
<b>Total equity and liabilities</b>	<b>2,299,665</b>	<b>2,264,012</b>	<b>1.6%</b>	<b>35,653</b>

## Significant Changes

### Loans and borrowings (LT)

- 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. As at 31 March 2019, the Group has reclassified secured loan back to long-term borrowing. Another reason was debt revaluation, as GEL has depreciated against USD by about 1 percent and the Group's debts are denominated in USD.

### Trade and other payables

- Increase in trade and other payables was mainly due to exchange rate fluctuations and increased amount of fund received from clients.

Economic  
Overview

GR Today



Financial  
Results

Liquidity  
Position

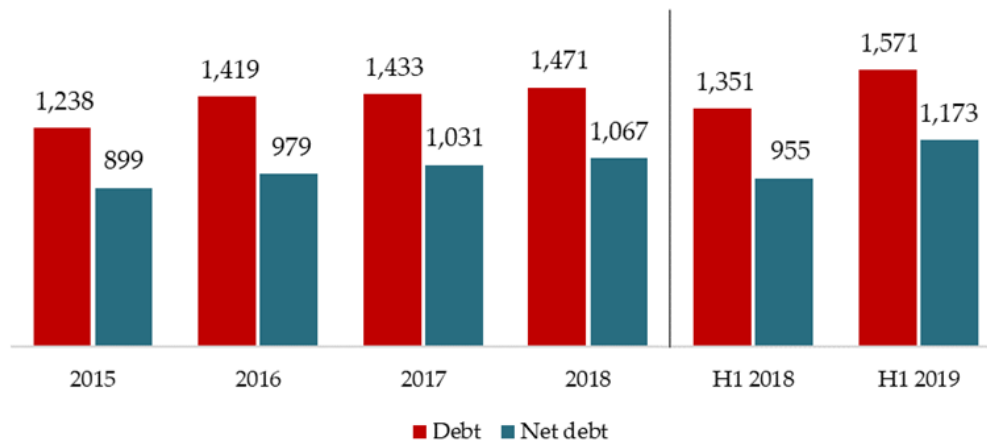
# Liquidity Position

(in GEL million)	30-June-19 Amount
<b>Cash and Bank Deposits</b>	
Cash and Cash Equivalents	246.2
Available credit lines	151.7
<b>Debt</b>	
Total Indebtedness	1,570.9
<b>Net Debt</b>	<b>1,172.9</b>

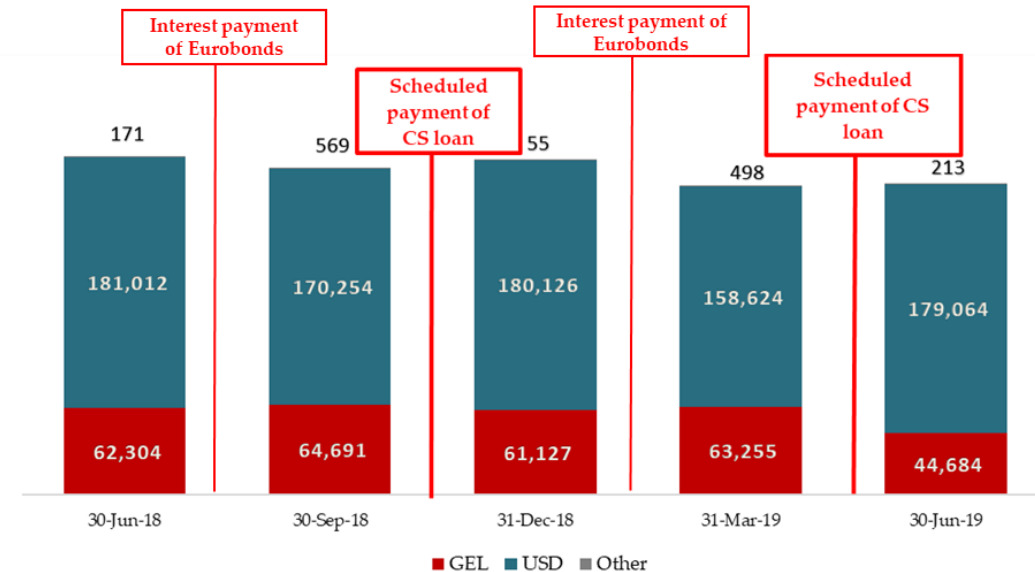
## Current Net Debt Position

- 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 2019 has increased by 7% compared to 31 December 2018, driven by the depreciation of GEL against USD by about 7%.
- Cash balances and undrawn credit facilities offset Gross debt.

## Debt ( in GEL million) as for 30 June 2019



## Cash and cash equivalents In GEL '000



## Liquidity & Solvency Ratios

### Liquidity

<u>Current Ratio</u>	<b>1.31</b>
<u>Quick Ratio</u>	<b>1.16</b>
<u>Cash Ratio</u>	<b>0.91</b>

### Solvency

<u>Net Debt to EBITDA</u>	<b>6.80</b>
<u>Debt to Equity</u>	<b>3.34</b>
<u>Debt to Assets</u>	<b>0.68</b>

## Undrawn Credit Lines in local banks (as at 30 June 2019)

GEL	USD	GEL eqv.
37,000	40,000	151,748

## Cash Position as at 30 June 2019

<i>in GEL '000</i>	<b>31-Mar-19</b>
<b>GEL</b>	59,094
<b>USD</b>	186,881
<b>CHF</b>	197
<b>EUR</b>	11
<b>GBP</b>	4
<b>RUB</b>	1
<b>Total</b>	<b>246,188</b>

