IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the "**Prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us, as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached Prospectus is confidential and intended only for you, and **you agree you will not forward, reproduce or publish this electronic transmission or the attached Prospectus to any other person.**

The Prospectus is directed solely at (A) persons outside the United Kingdom or (B) persons inside the United Kingdom who are (i) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), (ii) high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order or (iii) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended) in connection with the issue or sale of any securities of the Company may otherwise lawfully be communicated or caused to be communicated (all such persons in (A) and (B) above being "**Relevant Persons**"). Any investment activity to which this Prospectus relates will only be available to and will only be engaged with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Prospectus.

THIS PROSPECTUS AND THE SECURITIES REFERENCED HEREIN MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**"), AS DEFINED IN, AND IN ACCORDANCE WITH, RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES A PUBLIC OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES EXCEPT AS SET OUT ABOVE.

Confirmation of your representation: The attached Prospectus is delivered to you at your request and on the basis that you have confirmed to Citigroup Global Markets Limited and J.P. Morgan Securities plc (the "**Joint Lead Managers and Bookrunners**"), Renaissance Securities (Cyprus) Limited and TBC Capital LLC (the "**Joint Lead Managers**"), and JSC Galt & Taggart (the "**Co-Manager**", together with the Joint Lead Managers and Bookrunners and the Joint Lead Managers, the "**Managers**") and JSC Georgian Railway (the "**Company**") that (i) you are either (a) located outside of the United States, or (b) a QIB; (ii) if you are in the UK, you are a Relevant Person; or (iii) you are outside of the UK (and the electronic mail addresses that you gave us and to which this Prospectus has been delivered are not located in such jurisdictions), or (iv) you are a person into whose possession this Prospectus may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

Manufacturer target market (MiFID II product governance and UK MiFIR product governance) is eligible counterparties and professional clients only (all distribution channels).

This Prospectus has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and, consequently, neither the Company, the Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version. By accessing the linked Prospectus, you consent to receiving it in electronic form.

Restriction: Nothing in this electronic transmission constitutes an offer of securities for sale to persons in the United States other than the specified QIBs described above and to whom it is directed, and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

To the fullest extent permitted by law, none of the Managers, nor the Agents (as defined herein) nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by any of them or on its behalf in connection with the Company or the issue and offering of the securities described herein. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

The Managers are acting exclusively for the Company and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this Prospectus) as its client in relation to the offer and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for giving advice in relation to the offer or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of the electronic transmission is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

JSC Georgian Railway

(a joint stock company organised under the laws of Georgia)

U.S.$500,000,000 4.00% Notes due 2028

Issue Price: 100%

The U.S.$500,000,000 4.00% Notes due 2028 (the "**Notes**") will be issued by JSC Georgian Railway (the "**Issuer**" or the "**Company**"). The Notes will mature on 17 June 2028, subject to the earlier redemption of any Note either at the option of the relevant Noteholder following a Change of Control Event (each, as defined in "*Terms and Conditions of the Notes*") at its principal amount, together (if applicable) with accrued and unpaid interest thereon, or following the exercise by the Issuer of its optional make-whole call (pursuant to Condition 5(b) (*Redemption at the Option of the Issuer at Make Whole*)) or its optional redemption at par call (pursuant to Condition 5(c) (*Optional Redemption at Par*)). The Notes will be unsecured and unsubordinated obligations of the Company and will rank equally in right of payment with the Company's existing and future unsecured and unsubordinated obligations (subject as described in Condition 3(a) (*Negative Pledge*) of the Notes).

Interest will accrue on the outstanding principal amount of the Notes at the rate of 4.00% *per annum* from and including 17 June 2021 (the "**Issue Date**") and will be payable semi-annually in arrear on 17 June and 17 December in each year, commencing on 17 December 2021.

SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes will be offered and sold outside the United States in reliance on Regulation S under the Securities Act ("Regulation S") and within the United States only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act ("Rule 144A"), "QIBs" and, each, a "QIB"), in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. There will be no public offering of the Notes.

The Notes will be offered and sold in registered form in denominations of U.S.$200,000 or any amount in excess thereof, which is an integral multiple of U.S.$1,000. Notes, which are offered and sold in reliance on Regulation S (the "**Unrestricted Notes**"), will be represented, upon issuance, by beneficial interests in a global note (the "**Unrestricted Global Note**"), without interest coupons attached, which will be registered in the name of a nominee for, and will be deposited on or about the Issue Date with a common depositary for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Notes, which are offered and sold in reliance on Rule 144A (the "**Restricted Notes**"), will be represented, on issuance, by beneficial interests in a global Note (the "**Restricted Global Note**" and, together with the Unrestricted Global Note, the "**Global Notes**"), without interest coupons attached, which will be deposited on or about the Issue Date with a custodian (the "**Custodian**") for, and registered in the name of, Cede & Co., as nominee for The Depository Trust Company ("**DTC**"). Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "*Transfer Restrictions*". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Except in the limited circumstances set out in "*Summary of the Provisions Relating to the Notes whilst in Global Form*", certificates will not be issued in exchange for beneficial interests in the Global Notes.

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 for the Notes to be admitted to the official list of the Financial Conduct Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). The Notes are also expected to be admitted to the Sustainable Bond Market of the London Stock Exchange. References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a UK regulated market for the purposes of Article 2(1)(13A) of Regulation (EU) № 600/2014, as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**") (the "**UK MiFIR**"). This Prospectus will be valid until the date of admission of the Notes to trading on the Market. The obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when the Prospectus is no longer valid.

The Notes are expected to be rated BB- by Fitch Ratings Limited ("**Fitch**") and ("B+) by S&P Global Ratings Europe Limited ("**S&P**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Any change in the rating of the Notes could adversely affect the price that a purchaser would be willing to pay for the Notes. Fitch is established in the UK and is registered under Regulation (EU) № 1060/2009 as it forms part of domestic law by virtue of the EUWA (the "**UK CRA Regulation**"). S&P is not established in the UK, but the rating it has given to the Notes is endorsed by S&P Global Ratings UK Limited, which is established in the UK and registered under the UK CRA Regulation.

Joint Lead Managers and Bookrunners

Citigroup **J.P. Morgan**

Joint Lead Managers

Renaissance Capital **TBC Capital**

Co-Manager (no underwriting commitment)

Galt & Taggart

Green Structuring Adviser
Citigroup

Development Finance Structuring Agent
J.P. Morgan

Prospectus dated 15 June 2021

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus (the "**Prospectus**") comprises a prospectus for the purposes of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**") and for the purpose of giving information with regard to the Company, the Company and its consolidated subsidiaries taken as a whole (the "**Group**") and the Notes, which, according to the particular nature of the Company, the Group and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Company and the Group, the rights attaching to the Notes and of the reasons for the issuance and its impact on the Company and the Group. The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company, the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

This Prospectus has been approved by the Financial Conduct Authority, as competent authority under the UK Prospectus Regulation. The Financial Conduct Authority only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Company that is the subject of this Prospectus. Such approval should not be considered as an endorsement of the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT.

No person has been authorised to give any information or to make any representation, other than as contained in this Prospectus in connection with the offering of the Notes. If given or made, such information or representation must not be relied upon as having been authorised by the Company, any of the Fiscal Agent, the Paying and Transfer Agent and the Registrar (each, an "**Agent**" and collectively, the "**Agents**"), or the Managers (as defined in "*Subscription and Sale*"). Neither the delivery of this Prospectus nor any offer or sale of the Notes made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the business and affairs of the Company or the Group since the date hereof or that there has been no adverse change in the financial position of the Company or the Group since the date hereof or that the information contained in it is correct, as at any time subsequent to the date on which it is supplied. No representation or warranty, express or implied, is made by any Manager or any Agent as to the accuracy or completeness of such information. None of the Managers or the Agents accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Group or the Notes.

This Prospectus does not constitute an offer to sell or an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation, nor does this Prospectus constitute an offer of, or an invitation to subscribe for, or purchase, any Notes and it should not be considered as a recommendation by the Company or any Manager that any recipient of this Prospectus should subscribe for or purchase any Notes. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to an exemption from the registration requirements of the Securities Act. For a more complete description of restrictions on offers, sales and transfers, see "*Subscription and Sale*" and "*Transfer Restrictions*". The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Company and the Managers to inform themselves about and to observe any such restrictions. None of the Company and the Managers makes any representation to any recipient of this Prospectus regarding the legality of an investment in the Notes by such recipient under applicable laws. The contents of this Prospectus should not be construed as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal adviser, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Notes. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of its purchase of Notes. For a description of certain restrictions on offers, sales and deliveries of Notes, see "*Subscription and Sale*" and "*Summary of the Provisions Relating to the Notes whilst in Global Form—The Global Notes*".

No action has been or will be taken to permit a public offering of the Notes or the distribution of this Prospectus (in any form) in any jurisdiction where action is required for such purposes.

To the fullest extent permitted by law, the Managers and the Agents accept no responsibility whatsoever for the Notes or the Fiscal Agency Agreement (each as defined herein) (including the effectiveness thereof) or the contents of this Prospectus or for any other statement, made or purported to be made by a Manager or an Agent or on its behalf in connection with the Group or the issue and offering of the Notes. Each Manager and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) and status of the Group.

In connection with the offering of the Notes, the Managers and any of their affiliates, acting as investors for their own accounts, may purchase Notes and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Notes and other securities of the Company or related investments in connection with the Offering of the Notes or otherwise. Accordingly, references in this Prospectus to the Notes being issued, offered, acquired, placed or otherwise dealt in should be read as potentially including any issue or offer to, or acquisition, placing or dealing by, the Managers and any of their affiliates acting as investors for their own accounts. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Recipients of this Prospectus are authorised to use it solely for the purpose of considering an investment in the Notes. None of the Company, the Agents or the Managers or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Such investors should consult their legal advisers regarding such matters.

The Managers and their respective affiliates may have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Company and its affiliates (including its sole shareholder).

Pursuant to the recommendation in the voluntary process guidelines for issuing "green" bonds published by the International Capital Market Association (the "**Green Bond Principles**") that external assurance is obtained to confirm alignment with the key features of the Green Bond Principles, at the request of the Issuer, S&P Global Rating has issued a second party opinion dated 26 May 2021 (the "**Second Party Opinion**") in relation to the Issuer's published green bond framework (the "**Green Bond Framework**"). The Second Party Opinion is not incorporated into, and does not form part of, this Prospectus. None of the Joint Lead Managers or the Green Structuring Adviser makes any representation as to the suitability or content of the Green Bond Framework, and none of the Company, the Joint Lead Managers or the Green Structuring Adviser makes any representation as to the suitability of the Second Party Opinion. The Second Party Opinion is not a recommendation to buy, sell or hold securities and is only current as of the date it was issued. The Second Party Opinion is for information purposes only, and S&P Global Rating does not accept any form of liability for its content and/or any liability for loss arising from the use of the Second Party Opinion or the information provided therein. Furthermore, no representation or assurance is given by the Company, the Joint Lead Managers, the Green Structuring Adviser or any other person that the admission of the Notes to the Sustainable Bond Market of the London Stock Exchange satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, for example with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Projects (as defined below). See "*Risk Factors—Risk Factors Relating to the Notes—Green Bonds may not be a suitable investment for all investors*".

No assurance is given by the Issuer and J.P. Morgan Securities plc acting as the Company's development finance structuring agent (the "**Development Finance Structuring Agent**"), that investing in the Notes or the use of proceeds by the Issuer will satisfy, whether in whole or in part, any present or future investor expectations or requirements with respect to development impact financing, including related sustainability criteria or goals. See "*Development Impact*". No independent verification as to the accuracy or completeness or lack thereof of the "*Development Impact*" section of this Prospectus has been done by the Development Finance Structuring Agent. The information contained in the section "*Development Impact*" of this Prospectus: (a) is not a substitute for an investor's independent evaluation and analysis; and (b) should not be considered as a recommendation by the Development Finance Structuring Agent that any transactions or related projects described in the "*Development Impact*" section of this Prospectus achieve any particular development finance criteria or requirement to which it may be subject. The "*Development Impact*" section of this Prospectus has been prepared, in part, based on certain forward-looking statements and projections provided by the Issuer. Any such statements and projections reflect various estimates and assumptions by the Issuer concerning anticipated results. No representations or warranties are made by the Development Finance Structuring Agent as to the accuracy of any such statements or projections. Whether or not any such forward-looking statements or projections are in fact achieved will depend upon future events some of which may not be within the control of the Issuer. See "*Cautionary Statement Regarding Forward-Looking Statements*". Accordingly, actual results may vary from the projected results, and such variations may be material. No fiduciary duties are owed to any party by the Development Finance Structuring Agent.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes and, in particular, the information contained in this Prospectus;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, the merit and risks of an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic considerations, interest rate volatility and other factors that may affect its investment and its ability to bear the applicable risks.

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET

Solely for the purpose of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**Distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

UK MiFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in the UK MiFIR; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Distributors should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

NOTICE TO PROSPECTIVE INVESTORS IN SINGAPORE

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**"), and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA) that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in Monetary Authority of Singapore (the "**MAS**") Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

NOTICE TO PROSPECTIVE U.S. INVESTORS

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

THIS OFFERING IS BEING MADE IN THE UNITED STATES IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT FOR AN OFFER AND SALE OF THE SECURITIES WHICH DOES NOT INVOLVE A PUBLIC OFFERING. IN MAKING YOUR PURCHASE, YOU WILL BE DEEMED TO HAVE MADE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS. SEE "*SUBSCRIPTION AND SALE*" AND "*TRANSFER RESTRICTIONS*".

THIS PROSPECTUS IS BEING PROVIDED ON A CONFIDENTIAL BASIS TO (1) A LIMITED NUMBER OF INVESTORS IN THE UNITED STATES THAT THE COMPANY REASONABLY BELIEVES TO BE QIBs AND (2) INVESTORS OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN ACCORDANCE WITH REGULATION S.

STABILISATION

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") or person(s) acting on behalf of the Stabilising Manager may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

ADDITIONAL INFORMATION

The Company has agreed that, so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) under the Exchange Act, provide to any holder or beneficial owner of any such "restricted security", or to any prospective purchaser of such restricted security designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) of the Securities Act upon the request of such holder or beneficial owner.

This Prospectus is being furnished by the Company in connection with an offering exempt from the registration requirements of the Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of Notes described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein.

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OVERVIEW OF THE GROUP

This section contains an overview of the detailed information and financial information included elsewhere in this Prospectus. This overview may not contain all of the information that may be material to prospective investors and, therefore, should be read in conjunction with the entire Prospectus, including the more detailed information regarding the Group's business and financial information and related notes included elsewhere in this Prospectus. Prospective investors should also carefully consider the information set forth under the heading "Risk Factors".

Overview

JSC Georgian Railway is, by statute, Georgia's only vertically-integrated railway company. It principally provides freight services, transhipping a variety of cargo, including oil, oil products, ores, grains and other cargo, which principally originate in the east, from the Caspian Sea and Central Asia across Georgia to the Black Sea. The Group also provides passenger services and freight forwarding services. It has a vertically-integrated business model, owning and operating the tracks, stations, other infrastructure and rolling stock comprising Georgia's entire national railway system, as well as the land adjoining the tracks. Currently, the Group sets its own tariffs without the need to obtain approval from the Georgian government (the "**Government**").

The Group's mainline rail network, together with that of CFSC Azerbaijan Railway ("**Azerbaijan Railway**"), forms the Caucasus railway corridor, a key segment of the Transport Corridor Europe Caucasus Asia ("**TRACECA**") corridor. The Group's mainline rail network is thus a key link in the shortest route from the Caspian Sea and Central Asia to the Black Sea and the Mediterranean basin. As a key link in the transportation chain between Europe and Central Asia, the Group believes that it is uniquely positioned to capitalise on trade between Europe and the Caspian Region and Central Asia. Three of the Group's lines terminate at the Black Sea, at the Georgian port cities of Batumi, Kulevi and Poti. Access to these ports allows easy on-shipment of transit cargo to the Mediterranean basin and Europe.

The Group operates the national railway system through three strategic business units, or "**SBUs**": the Freight SBU, which consists of freight traffic (transportation and handling) and freight car rental services; the Passenger SBU, which primarily transports passengers within Georgia; and the Infrastructure SBU, which operates, maintains and manages the Group's principal infrastructure assets. The Infrastructure SBU provides services only to the Freight SBU, and the Passenger SBU and does not conduct business with third-party customers. For the year ended 31 December 2020, the Group transported 11.1 million tonnes of freight and carried 0.9 million passengers. For the three months ended 31 March 2021, the Group transported 3.0 million tonnes of freight and carried 53,000 passengers. The three SBUs are supported by the Company's subsidiaries, which are principally engaged in freight forwarding and handling and property management. For IFRS reporting purposes, however, the Group has two reportable segments, the freight transportation segment and the passenger transportation segment. The freight transportation segment accounted for 94.7%, 91.6% and 91.5%, of the Group's total revenue for the years ended 31 December 2020, 2019 and 2018, respectively. In the three months ended 31 March 2021, the freight transportation segment accounted for 98.3% of the Group's consolidated revenue, as compared to 94.6% in the corresponding period in 2020.

The freight transportation segment accounted for 94.7% of the Group's total revenue in 2020 and 98.3% of the Group's total revenue in the three months ended 31 March 2021. The Group transports both dry cargoes and liquid cargoes (primarily oil products), with dry cargoes accounting for 72.5% of the Group's total freight transportation volumes in the year ended 31 December 2020, as compared to 71.7% and 68.6% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, dry cargoes accounted for 62.7% of freight transportation volumes, as compared to 72.4% in the corresponding period in 2020. Liquid cargoes accounted for 27.5% of the Group's total freight transportation volumes in the year ended 31 December 2020, as compared to 28.3% and 31.4% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, liquid cargoes accounted for 37.3% of the Group's total freight transportation volumes, as compared to 27.6% in the corresponding period in 2020. A significant percentage of oil products transported by the Group (approximately 76% in the year ended 31 December 2020) originates in Azerbaijan.

For the year ended 31 December 2020, the Group had consolidated revenue of GEL 489.4 million, loss and total comprehensive loss of GEL 164.6 million and Adjusted EBITDA (as defined below) of GEL 219.0 million, as compared to consolidated revenue of GEL 491.0 million, loss and total comprehensive loss of GEL 5.6 million and Adjusted EBITDA of GEL 223.2 million for the year ended 31 December 2019, and consolidated revenue of GEL 424.6 million, loss and total comprehensive loss of GEL 716.5 million and Adjusted EBITDA of GEL 172.3 million for the year ended 31 December 2018. For the three months ended 31 March 2021, the Group had consolidated revenue of GEL 127.9 million, loss and total comprehensive loss of GEL 54.4 million and Adjusted EBITDA of GEL 57.6 million, as compared to consolidated revenue of GEL 122.0 million, loss and total comprehensive loss of GEL 182.6 million and Adjusted EBITDA of GEL 58.1 million for the corresponding period in 2020.

Credit Ratings

As at the date of this Prospectus, the Company is rated by two rating agencies: Fitch and S&P. The Company has been assigned a long-term issuer default rating of BB- by Fitch and a long-term corporate credit rating of B+ by S&P, in each case with a negative outlook. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Competitive Strengths

The Group believes that it has a number of key competitive strengths that will enable it to capitalise on its leading position in the Georgian and Caucasus transportation markets in the future. These include:

- The Group is a strategic asset for the Georgian economy with strong support from the Republic of Georgia (the "**State**");
- The Group has a unique strategic location and strong customer relations;
- The Group is an integrated freight and transportation company;
- The Group has strong margins and a solid cash flow generation profile backed by foreign currency-denominated revenue; and
- The Group's continuous focus on sustainable development.

Strategy

The Group's strategic objective is to consistently achieve profitability levels above the industry average. The key elements of its strategy are to:

- Continue to grow its freight service business, while increasing geographic diversification;
- Maintain strong customer relations through a flexible tariff policy;
- Develop and modernise existing infrastructure;
- Increase containerisation of freight transportation; and
- Increase the share of premium passenger services.

Strategic Projects

The Group is involved in a number of large-scale projects, certain of which are commercial projects and certain of which are socio-commercial projects. In particular, the Group is undertaking its large scale infrastructure project to modernise and increase the capacity of its mainline, as well as to rehabilitate the Group's existing infrastructure (the "**Modernisation Project**"). The key objectives of the Modernisation Project include: optimising traffic, rolling stock and infrastructure; reducing operational expenses; improving safety; improving social and environmental safety, increasing train speeds and setting up a clear maintenance programme. The Group expects to complete the Modernisation Project by the end of 2022.

OVERVIEW OF THE OFFERING

The following is an overview of the terms of the Notes. This overview is derived from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. See "Terms and Conditions of the Notes".

Company	JSC Georgian Railway.
Issue	U.S.$500,000,000 4.00% Notes due 2028.
Issue Price	100% of the principal amount of the Notes.
Interest	The Notes will bear interest at the rate of 4.00% *per annum* from, and including, 17 June 2021 (the Issue Date) to, but excluding, 17 June 2028 (subject to early redemption). Interest on the Notes will be payable semi-annually in arrear on 17 June and 17 December in each year, commencing on 17 December 2021.
Maturity Date	17 June 2028.
Use of Proceeds	An amount equal to the net proceeds of the Notes will be used to finance or refinance one or more Eligible Projects (as defined below) and as further described in the Company's Green Bond Framework. In particular, the Company intends to use the proceeds of the issue of the Notes: (i) in the amount of approximately U.S.$494.5 million to refinance existing indebtedness of the Company, including, but not limited to (A) the purchase of any or all of the U.S.$500 million 7.75% Notes due 2022 issued by the Company (the "**2012 Notes**") tendered and accepted for purchase in the Tender Offer, (B) the early redemption of the 2012 Notes remaining (if any) on completion of the Tender Offer, as well as (C) the payment of any consent fees and accrued interest in connection therewith, all pursuant to the Tender Offer and Consent Solicitation Memorandum (as defined below); and (ii) in the amount of approximately U.S.$4.0 million to finance the Company's infrastructure projects (including, without limitation, the Modernisation Project). The Company intends to fund any additional amounts required in respect of the Tender Offer and redemption of the 2012 Notes from its internal cash flows. See "*Use of Proceeds*".
Joint Lead Managers and Bookrunners	Citigroup Global Markets Limited and J.P. Morgan Securities plc.
Joint Lead Managers	Renaissance Securities (Cyprus) Limited and TBC Capital LLC.
Co-Manager (no underwriting commitment)	JSC Galt & Taggart.
Fiscal Agent, Paying and Transfer Agent	Citibank, N.A., London Branch.
Registrar	Citigroup Global Markets Europe AG.
Negative Pledge; Restriction on Certain Corporate Reorganisations; Financial Reporting Obligations; Environmental Compliance; Limitation on Incurrence of Financial Indebtedness; Limitation on Restricted Payments	The Terms and Conditions of the Notes contain a negative pledge, a restriction on certain corporate reorganisations, financial reporting obligations, environmental compliance obligations, a covenant restricting the incurrence of Financial Indebtedness (as defined in Condition 3 (*Covenants*)) by reference to a Net Financial Indebtedness (as defined in Condition 3 (*Covenants*)) to EBITDA ratio and a covenant limiting

Restricted Payments (as defined in Condition 3 (*Covenants*)). See "*Terms and Conditions of the Notes—Covenants*".

Tender Offer and Consent Solicitation .... On 26 May 2021, pursuant to a tender offer and consent solicitation memorandum dated 26 May 2021 (the "**Tender Offer and Consent Solicitation Memorandum**"), the Company invited holders of the 2012 Notes to: (i) tender any or all of the 2012 Notes for purchase by the Company for cash (the "**Tender Offer**"); and (ii) concurrently consent to amend by extraordinary resolution the terms and conditions of the 2012 Notes to provide for mandatory early redemption of all of the 2012 Notes remaining (if any) on completion of the Tender Offer (the "**Mandatory Early Redemption**"), all on the terms and subject to the conditions set forth in the Tender Offer and Consent Solicitation Memorandum (the "**Tender Offer and Consent Solicitation**").

Redemption by Company at Make Whole .... The Notes may be redeemed at any time prior to the date falling three months prior to the Final Maturity Date at the option of the Company in whole, but not in part, on the Company giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall specify the date fixed for prepayment) at a price equal to 100% of their principal amount, plus the Make Whole Premium (as defined in Condition 5 (*Redemption and Purchase*)), plus accrued and unpaid interest, if any, to (but excluding) the Make Whole Optional Prepayment Date (as defined in Condition 5 (*Redemption and Purchase*)), as further described in "*Terms and Conditions of the Notes—Redemption and Purchase*".

Redemption by Company at Par .... The Issuer may, at any time on or after the date three months prior to the Final Maturity Date, having given not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (which notice may be given prior to the date that is three months prior to the Final Maturity Date and shall specify the date fixed for redemption, redeem the Notes in whole, but not in part, at the principal amount thereof, together with interest accrued and unpaid (if any) to but excluding the Par Optional Redemption Date (as defined in Condition 5 (*Redemption and Purchase*)), as further described in "*Terms and Conditions of the Notes—Redemption and Purchase*".

Redemption by Noteholder .... If, at any time, Georgia ceases to own, directly or indirectly, 100% of the Company's issued share capital or otherwise ceases to control, directly or indirectly, the Company, the Company shall, at the option of any Noteholder, upon such Noteholder giving notice at any time during the relevant period, redeem the Notes held by such Noteholder on the relevant date at the principal amount thereof, together (if applicable) with accrued and unpaid interest thereon to but excluding the date fixed for redemption, as further described in "*Terms and Conditions of the Notes—Redemption and Purchase*".

Cross-acceleration... The Terms and Conditions of the Notes will contain a cross acceleration provision. See "*Terms and Conditions of the Notes—Events of Default*".

Form and Denomination .... The Notes will be offered and sold in registered form, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000, in excess thereof.

The Notes will initially be issued in the form of an Unrestricted Global Note and a Restricted Global Note, without interest coupons. The Unrestricted Global Note will be deposited with, and registered in the name of, a nominee for a common depositary for Euroclear and Clearstream, Luxembourg.

The Restricted Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee for DTC. Ownership interests in the Unrestricted Global Note and the Restricted Global Note

will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. A Note in definitive form will be issued only in very limited circumstances.

Taxation	All payments of principal and interest by, or on behalf of, the Company in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by, or within, Georgia or any political subdivision thereof or any authority therein or thereof having power to tax, in accordance with "*Terms and Conditions of the Notes—Taxation*", unless such withholding is required by law, in which event, the Company shall, save in certain circumstances provided in "*Terms and Conditions of the Notes—Taxation*", pay such additional amounts, as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required.
Listing and Trading	Application has been made to the Financial Conduct Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Market. The Market is a regulated market for the purposes of UK MiFIR. The Notes are also expected to be admitted to the Sustainable Bond Market of the London Stock Exchange.
Selling Restrictions...	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Georgia, Singapore, Hong Kong, Canada, Russia and other jurisdictions. See "*Subscription and Sale*".
Governing Law..	The Notes will be governed by, and shall be construed in accordance with, English law.
Ratings	The Notes are expected to be rated BB- by Fitch and B+ by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Any change in the rating of the Notes could adversely affect the price that a purchaser would be willing to pay for the Notes. Fitch is established in the UK and is registered under UK CRA Regulation. S&P is not established in the UK, but the rating it has given to the Notes is endorsed by S&P Global Ratings UK Limited, which is established in the UK and registered under the UK CRA Regulation.
Risk Factors..	Prospective purchasers of the Notes should consider carefully all of the information set forth in this Prospectus and, in particular, the information set forth under "*Risk Factors"* below before making an investment in the Notes.
Security Codes..	**Unrestricted Notes:**

ISIN:	XS2340149439
Common Code:..............................	234014943

Restricted Notes:

ISIN:	US37363BAB45
Common Code:..............................	234806831
CUSIP:...	37363B AB4

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should carefully consider the risks described below and the other information contained in this Prospectus before making a decision to invest in the Notes. Any of the following risks, individually or together, could adversely affect the Group's business, results of operations, financial condition and prospects, in which case: (i) the trading price of the Notes could decline; and (ii) investors could lose all or part of their investment.

The Company has described the risks and uncertainties that the Company believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties of which the Company is currently not aware or which the Company currently deems immaterial may also have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Prospective investors should be aware that the value of the Notes may go down as well as up and that investors may not be able to realise their initial investment.

FACTORS THAT MAY AFFECT THE GROUP'S AND/OR THE COMPANY'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER, OR IN CONNECTION WITH, THE NOTES

Operational Risks relating to the Group and its Business

The Group's results of operations and financial condition are affected by economic and political conditions globally, in the Caucasus region and in Georgia

The Group's railway network comprises a key segment of the TRACECA corridor. A significant portion of the Group's total revenue (98.3% of the Group's total revenue for the three months ended 31 March 2021, as compared to 94.6% for the corresponding period in 2020, and 94.7%, 91.6% and 91.5%, of the Group's total revenue for the years ended 31 December 2020, 2019 and 2018, respectively) are derived from its freight transportation segment, which involves the transport of goods through Georgia from or to neighbouring countries, whose rail networks, together with Georgia's, comprise the TRACECA corridor. The Group's financial condition and results of operations are, therefore, significantly influenced by the overall economic and political conditions affecting both Georgia and neighbouring countries. Most recently, the Group has been affected by the impact of the coronavirus ("**COVID-19**") on Georgia and its economy. See "—*The Group faces risks related to the adverse impact of the COVID-19 pandemic*". The Group is also affected by economic and political conditions in other countries to or from which goods that transit through the TRACECA corridor are ultimately shipped. See "—*Macroeconomic and Geopolitical Risks*".

The Group's results have been, and future results are likely to be, affected by global economic activity, in general, and regional and national economic activity, in particular. Because substantially all of the Group's revenues are derived from freight transportation, the Group's results are particularly sensitive to trade flows of commodities that the Group transports, such as oil products, ores, grain, construction materials and crude oil. Specifically, freight transit volumes are affected by trade between Europe and the member states of the TRACECA corridor. Freight volumes in relation to intra-territorial cargoes are affected by economic activity within Georgia.

In each of 2019 and 2020, the Group's freight volumes increased, primarily due to increased transportation of ores and other dry cargoes. However, the impact of COVID-19 has negatively impacted levels of trade and economic activity in Europe, in particular, and in several TRACECA members, including Georgia, and consequently trade undertaken among and between these countries declined and industrial activity slowed within Georgia. Despite the impact of COVID-19, the Group's revenue from freight traffic increased in 2020, primarily driven by strong results in the first quarter following the adjustment to certain freight tariffs to make them more attractive to customers, as well as the ability to continue operations throughout 2020 unhindered by pandemic-related restrictions imposed on road and air transportation. See "—*The Group faces risks related to the adverse impact of the COVID-19 pandemic*".

In recent years economic growth has been slow across the region, including Georgia, for several reasons. These include a number of geopolitical developments, such as: (i) low oil prices (a consequence of reduced import demand from Russia); (ii) Russia being subject to international sanctions; (iii) conflict situations in eastern Ukraine and Crimea; (iv) the armed conflict between Azerbaijan and Armenia in 2020; and (v) the recent depreciation of the Russian Rouble and other currencies in the region.

Moreover, a number of countries in the region have in the recent past experienced or are currently experiencing, political, social and economic instability, terrorist acts or war. Such economic, social and political unrest could reduce transportation volumes along the TRACECA corridor, in turn, potentially reducing demand for the Group's services. Reduced demand for

the Group's services could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Company is indirectly wholly-owned by the State, which could act inconsistently with the best interests of the Noteholders

The Company is wholly-owned by the Republic of Georgia (the "**State**") (indirectly through JSC Partnership Fund (the "**Partnership Fund**"), which is, in turn, 100% state-owned). As a result of its indirect ownership of the Company, the State, as shareholder, has the power to replace the members of the Supervisory Board and elect new members, to influence the Group's operational and financial decisions and to control the outcome of all matters to be decided by a vote of shareholders of the Company. As a consequence of its role as controlling shareholder, the State would be effectively able to overturn any decision of the Supervisory Board or its committees. The State may also influence the Group's operations in other ways. For example, the Company is required to get approval from the General Meeting of Shareholders (the "**GMS**") for matters such as approval of its annual accounts, borrowings in excess of 1.0% of the Company's authorised capital and capital-related matters (such as dividend payments). The interests of the State could conflict with those of the Noteholders.

As a state-owned entity, the Company is subject to a body of laws and legal requirements that do not usually pertain to private corporations. For example, procurement laws in Georgia are applicable to the State and, accordingly, the respective procedures and approvals are also applicable to the purchase of goods and services by the Group. Moreover, due to the Group's importance to Georgia's overall economy and, in particular, to the transportation sector in Georgia, when important actions are to be undertaken by the Group, the Group coordinates closely with the Government, even in areas of its business that do not formally require Government approval or consent, with the most important actions being discussed and vetted by senior Government officials. Even in circumstances where the Company may consider that its actions do not warrant prior discussion with the Government, the State (through the Partnership Fund) may overturn certain decisions of the Supervisory Board by passing a shareholder resolution.

The State may require the Group to engage in business practices that could materially affect the Group's ability to operate on a commercial basis or in a way that is inconsistent with the best interests of the holders of the Notes. See "*—The Government has the power to start establishing tariffs and could otherwise require the Group to operate on a non-commercial basis*".

Harmonisation with certain EU legislation and regulations could have an adverse impact on the way the Group conducts its business

In June 2014, the Government signed an association agreement with the EU, which entered into force on 1 July 2016 (the "**Association Agreement**"). In addition, Georgia announced in January 2021 its intention to apply for EU membership in 2024. As a result, the Government is in the process of harmonising certain business and other standards in Georgia with EU standards in order to begin the process of integrating Georgia into the EU. Georgia has also previously announced its intention to join the North Atlantic Treaty Organization ("**NATO**") and contributes to NATO-led operations and co-operates with NATO-led reform efforts to further its goal of Euro-Atlantic integration.

Georgia has undertaken a number of commitments as part of the objectives agreed in the Association Agreement. The directives and regulations defined in the Association Agreement provide, *inter alia*, the framework for the creation of the common rules of the internal market in the rail transportation sector, which are expected to have a significant impact on the Group and how it conducts its business.

In particular, Georgia has undertaken to implement certain provisions (not including articles 10 to 15 regarding open market access) of Directive 2012/34 of the European Parliament and of the Council of 21 November 2012 establishing a single European rail area (recast) ("**Directive 34**"). Directive 34 sets out: (i) the rules applicable to the management of railway infrastructure and rail transport activities of railway undertakings (such as, the Group); (ii) the criteria applicable to the issuing, renewal or amendment of licences intended for railway undertakings; and (iii) the principles and procedures applicable to the setting and collecting of railway infrastructure charges and the allocation of railway infrastructure capacity. According to the Association Agreement, the deadline for implementation of Directive 34 is August 2022. An initial roadmap has been prepared in connection with required "unbundling" of infrastructure and transport services pursuant to Directive 34 and the Group is participating in a "twinning project" with the Government and representatives of Poland to consider the options available for implementation of Directive 34. In the short- to medium-term, the Group expects the required "unbundling" to achieve compliance with Directive 34 to take the form of the preparation of independent financial reports for each of the Company's SBUs and, potentially at a later date, the creation of a new holding company and the splitting of the SBUs into separate wholly-owned subsidiaries (consisting of an infrastructure management company, a passenger company, a freight company and tariff establisher/path allocation company). No final decision has been taken with respect to the form of "unbundling" or other structural reorganisation that will be required under the Georgian law implementing Directive 34 or the timing of any such reorganisation or other requirements. If a different form of "unbundling" is ultimately required when Directive 34 is

implemented into Georgian law, this could negatively affect both how the Group operates its business and the scope of services that it offers, which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Directive 34 also requires that a licensing authority be established to issue licences to railway undertakings (such as, the Group). At present, the Group is not required to have a licence to operate its business and there is no licensing authority in Georgia.

Pursuant to Directive 34, Georgia is required to establish a single national regulatory body for the railway sector, which shall be a stand-alone authority and shall comply with a number of independence criteria. No such regulatory body has been established, and no final decision has been taken as to the scope of such authority's activities or powers. The Group does not currently expect that the new regulatory body will have tariff setting powers for its freight transportation services, although there can be no assurance that, in common with many EU countries, there will not be changes to how the Group's tariffs are determined in the future and, if so, how this could affect the Group. See "*—The Government has the power to start establishing tariffs and could otherwise require the Group to operate on a non-commercial basis*" and "*Description of the Group's Business—Regulation—Directive 34*".

If the Group becomes subject to increased regulation as a result of harmonisation efforts with the EU, whether through tariff setting, licensing, required restructurings or otherwise, it could hamper the Group's ability to operate its business in the same way as conducted presently, on a commercial basis or in a way that is consistent with the best interests of the holders of Notes. In particular, any regulation of the Group's tariff setting could prevent the Group from increasing tariffs in response to increases in its costs of operations or otherwise impact its ability to react to market forces. Increased regulation may also result in increased compliance costs for the Group. This, in turn, could have a material adverse impact on the Group's business, financial condition, results of operations and prospectus, as well as on the ability of the Group to pay amounts due in respect of the Notes. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Government has the power to start establishing tariffs and could otherwise require the Group to operate on a non-commercial basis

The Group is not currently subject to mandatory statutory or regulatory tariffs and, under the Railway Code of Georgia, № 1911, dated 28 December 2002 (as amended) (the "**Railway Code**"), the Group is able to set its own tariff policies. The Railway Code, however, also authorises the State to establish a Rail Transport Authority (the "**Rail Transport Authority**") that would have the power to set tariffs. Although the Group is not aware of any plans of the Government to create the Rail Transport Authority, there can be no assurance that the Government will not establish the Rail Transport Authority or otherwise take steps limiting the Group's ability to set its own tariffs, including through its influence as the Company's indirect sole shareholder. In particular, as in cases of other state-owned infrastructure assets, the Government could use passenger tariffs to support public policy initiatives without regard to the impact on the Group. For example, although the Government does not explicitly mandate pricing, the significant social importance to the Government of providing affordable passenger transportation services has constrained the Group from setting passenger transportation tariffs solely on the basis of market forces or cost to the Group. It has also constrained the Group from removing or reducing services on certain passenger routes. As a result, the Group has focused on decreasing passenger operating costs, while average passenger tariffs have remained relatively stable, with fares unchanged for travel in older railcars.

In 2020, Parliament adopted an amendment to the Railway Code recognising railway passenger transportation services as a public service obligation. Accordingly, the Company and the Government are expected to enter into a public service contract for compensation of the losses of the Passenger SBU with effect from 2022 or 2023. See "*—The Group's passenger services have historically generated net losses*", "*Description of the Group's Business—Business Operations—Passenger SBU—Passenger Tariffs*" and "*Description of the Group's Business—Regulation"*. There can be, however, no assurance as to the form this content will take or its intended or actual impact on the Group's finances.

Any limitations on the Group's ability to control its own tariffs, or any other action of the Government that requires the Group to operate on a non-commercial basis, could hamper the Group's ability to increase tariffs in response to increases in its costs of operations or otherwise impact its ability to react to market forces. This could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes. See "*—The Group is indirectly wholly-owned by the State which could act inconsistently with the best interests of the Noteholders*" and "*—Harmonisation with certain EU legislation and regulations could have an adverse impact on the way the Group conducts its business*".

The Group faces competition from alternative rail transit routes and providers of other methods of transportation

The Group faces substantial competition from alternative rail transit routes and providers of other methods of transportation, which has increased in recent years and may continue to increase in the future. The Group's competitors may have more resources and better access to customers than the Group does. In particular, the existence of alternative railway routes through Russia and Iran, including routes providing access or onward transportation to or from Aktau port in Kazakhstan, Turkmenbashi port in Turkmenistan, Makhachkala and Novorossiysk ports in Russia, Bandar Anzali port in Iran and the Sea of Azov ports, could pose competition to the Group's Freight SBU. In addition, Azerbaijan is considering establishing a direct rail connection with Turkey after regaining control over Nagorno-Karabakh, following its conflict with Armenia. Management does not expect this route to be finalised in the near future, but once finalised, the route would pose additional competition to the Group's freight transportation services. If, in the future, rail operators of these routes significantly increase operations or offer more competitive tariffs than the Group, the Group may be unable to successfully compete with them. In addition, any improvement in political relations between Iran and western jurisdictions could result in an increase of freight traffic using routes through Iran rather than Georgia. See "*Description of the Group's Business—Business Operations—Freight SBU—Freight Competition—Competition from alternative rail routes*".

The Freight SBU also faces competition from other methods of transport for its freight transportation services, including transport by oil pipelines, and in particular, by truck. In recent years, the Freight SBU has faced increased competition from trucking companies, as transportation by truck can, in certain situations, and particularly for smaller cargo loads transported domestically, be a more efficient option for the customer. The Group's Passenger SBU faces competition in passenger transportation services from other forms of domestic transport, such as buses, mini-buses, passenger automobiles and airplanes. Intense competition from alternative transit routes and other methods of transportation may have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes. See "*—The Group faces competition from oil pipelines*", "*Description of the Group's Business—Business Operations—Freight SBU—Freight Competition—Competition from other modes of transport*" and "*Description of the Group's Business—Business Operations—Freight SBU—Freight Competition—Competition from pipelines*", "*Description of the Group's Business—Business Operations—Passenger SBU—Passenger Competition*" and "*Description of the Group's Business—Strategy—Maintain strong customer relations through a flexible tariff policy*".

The Group faces risks related to the adverse impact of the COVID-19 pandemic

The outbreak of the COVID-19 pandemic, together with government measures aimed at mitigating the further spread of COVID-19, such as, the imposition of quarantines, business closures, travel restrictions and other measures, had, and continues to have, a significant adverse effect on the global economy and international financial markets, which have, in turn, adversely affected and may further affect the Group's business, financial condition, results of operations and prospects.

In particular, in response to travel restrictions imposed by the Government, the Group temporarily reduced its passenger transportation services in 2020. Passenger volumes, particularly in the more profitable market segment of international travel, are affected by the levels of disposable income of populations both in Georgia and in the countries neighbouring Georgia and, more recently, by the impact of domestic and international travel restrictions imposed by the Government and the governments of neighbouring countries, as a result of COVID-19. The revenue generated by, and passenger numbers transported by, the Passenger SBU were materially adversely impacted in 2020 and for the three months ended 31 March 2021. Revenue generated by the passenger transportation segment was GEL 0.8 million for the three months ended 31 March 2021, as compared to GEL 4.7 million in the corresponding period in 2020, while the Passenger SBU transported 53,000 passengers in the three months ended 31 March 2021, as compared to 0.6 million in the corresponding period in 2020. Revenue generated by the passenger transportation segment in 2020 was GEL 11.2 million, as compared to GEL 31.1 million in 2019, while passenger numbers were 0.9 million in 2020, as compared to 3.0 million in 2019. In line with Government regulations, passenger transportation was ceased from the second half of March 2020 until 15 June 2020 and, subject to certain limited exceptions, from 28 November 2020 until 27 February 2021. Accordingly, passenger transportation services accounted for 2.3% of the Group's total revenue for the year ended 31 December 2020, as compared to 6.3% for the year ended 31 December 2019.

While the temporary restrictions imposed by the Government in 2020 on air and land transportation positively impacted the freight volumes transported by the Group and its freight transportation segment, which accounted for 94.7% of total revenue for the year ended 31 December 2020, as compared to 91.6% for the year ended 31 December 2019, there can be no assurance that, if the pandemic continues, or worsens, the Group will not experience a decrease in demand for certain of its freight products or its revenue from freight transportation will not otherwise be adversely affected.

There can also be no assurance that the demand for the key commodities transported by the Group and their production volumes will not decrease in the future and that no further restrictive measures will be introduced in Georgia as a result of any continued spread or further outbreaks of COVID-19, which could, amongst other things, decrease the Group's revenue, increase its operating expenses such as staff costs, increase its foreign exchange loss and finance costs due to any depreciation

of the Lari against the U.S. Dollar, which, in turn, would impair the Group's ability to comply with covenants under its financing arrangements and to service its indebtedness generally (see "—*Financial Risks Relating to the Group and its Business—The Group's operations may be restricted by its loan covenants*").

Furthermore, certain of the Group's customers may be particularly vulnerable to the slowing macroeconomic conditions arising from COVID-19 and may not be in a position to continue or resume business as usual after a prolonged outbreak.

Any of these factors could have a material adverse impact on the Group's business, financial condition, results of operations and prospects.

The long-term impact of the COVID-19 pandemic on the Group's business will depend on a range of factors, which are not possible to predict, including the duration, severity, potential recurrence and scope of the pandemic and the extensiveness of measures adopted by the Government. Should the COVID-19 pandemic continue to adversely affect the Group's business and financial results, it may also have the effect of heightening or aggravating many of the other risks described in this "*Risk Factors*" section.

The Group provides its freight services to a limited number of customers

The Group has well-established ties with a number of large customers for its freight services, including Georgian Manganese, Alliance Logistics and subsidiaries of Heidelberg Cement. The Group has historically earned, and expects to continue to earn, a significant portion of its revenues from a small group of large customers. The largest customer of the freight transportation segment accounted for 11% of the Group's total revenue in the year ended 31 December 2019, and two customers of the freight transportation segment accounted for 23% of the Group's total revenue for the year ended 31 December 2020.

A number of factors, including pricing and market demand for the Group's services, could cause the loss of a customer. Some of these factors may be unforeseeable. Moreover, in its liquid cargo transportation services in particular, the Group largely works with freight forwarders, who aggregate volumes for the Group to transport. The Group does not have long-term contracts with the ultimate owners whose cargo the freight forwarders aggregate. As a result, there can be no assurance that cargo owners will continue to use the services of the freight forwarders with which the Group has relationships.

The Group may be unable to retain its customers in the future. If the Group loses customers, it may be unable to replace the lost business with that of other customers on comparable terms and at comparable volume levels or at all. Future decisions by these customers not to use the Group's services or to use them to a lesser degree could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as the trading price of the Notes.

The Group's infrastructure is ageing and requires continual maintenance and improvements and may require replacement in the future

A substantial portion of the infrastructure owned and operated by the Group, including its track network and the related engineering technology (including signalling and rolling stock maintenance depots), dates back to the Soviet era. Although the condition of this infrastructure is sufficient to carry out the Group's current and planned railway operations without significant disruptions, the Group continues to carry out extensive maintenance and improvement works on much of its network. The Group has already made, and intends to continue making, substantial investments to modernise its infrastructure, including through the Modernisation Project. See "*Description of the Group's Business—Projects—Modernisation Project*". The Group had cash flows used in the acquisition of property, plant and equipment ("**Capital Expenditures**") of GEL 55.9 million and GEL 112.2 million in the years ended 31 December 2020 and 2019, respectively. Notwithstanding the Group's historical and current levels of current expenditure, there can be no assurance that portions of the Group's network and other infrastructure assets are not now or will not become outdated or require significant further improvements or replacement, which would require additional Capital Expenditure. Any failure of the Group's infrastructure to operate properly, or accidents attributable to poor conditions of the rail infrastructure, could lead to material disruptions in the Group's business, increase the Group's operating expenses and liabilities or require significant additional Capital Expenditures, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as the trading price of the Notes.

The Group's rolling stock and related assets require continual maintenance and improvements and may require replacement in the future

The Group owns and operates various freight and passenger transportation assets, including locomotives, railcars, electric multiple units ("**EMUs**") and other equipment. Although the condition of the Group's rolling stock and related assets is sufficient to carry out the Group's current railway operations without significant disruptions, the Group continues to carry out

refurbishment works and, to the extent such rolling stock and related assets reach the end of their useful operating life (as extended by any capital repairs), they will require replacement.

In addition, it is likely that, in the future, the Group may become subject to regulations in certain of the jurisdictions in which it operates in relation to the age and condition of its rolling stock, including in respect of the principles set out in the EU Passenger Transportation Regulation (as defined below) and as may be set by the Ministry of Economy and Sustainable Development (the "**MOESD**") or other relevant public authorities of Georgia or of other jurisdictions in which the Group operates from time to time). Any such increased regulation could require the Group to increase its expenditures on maintenance and improvement of its rolling stock.

The Group has budgeted maintenance expenditures, principally for capital repairs to locomotives and acquisition of railcars, of GEL 12.7 million for 2021 and GEL 26.9 million for 2022. Any failure of the Group's rolling stock to operate properly, or to comply with relevant regulations in the jurisdictions in which it operates, could lead to material disruptions in the Group's business, increase the Group's operating expenses or require significant Capital Expenditures. Moreover, in the event that any of the Group's rolling stock or related assets needs to be replaced, there can be no assurance that the Group will continue to be able to source sufficient supplies of suitable new rolling stock or related assets on commercially acceptable terms or at all. Any requirement or inability to adequately replace or repair a significant portion of the Group's railway assets, such as rolling stock and related assets, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as the trading price of the Notes.

Insufficient supply of, or increases in the price of, rolling stock may limit the operations of the Group

There are a relatively limited number of quality rolling stock manufacturers in Georgia and the region, and their output is limited. In addition, the adaptability of these manufacturers' production facilities from one type of railcar to another is limited. A significant part of the rolling stock fleet operated by the Group is ageing and may require replacement. While the Group prepares an annual renovation and repair programme in respect of its rolling stock, with the aim of ensuring the availability of sufficient locomotives and rail cars to service its ongoing operations, the Group has historically, from time-to-time, experienced shortages of rolling stock. The Group currently uses private rolling stock for up to 50% of its transportation services. Whilst the Group has not, in recent years, experienced any shortage in the availability of private rolling stock, there can be no assurance that the Group will continue to be able to source sufficient supplies of new rolling stock for its fleet or private rolling stock for rent on commercially acceptable terms, or at all. Failure by the Group to maintain or procure the requisite amount of rolling stock at acceptable prices could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes. See "*Description of the Group's Business—Strategy—Develop and modernise existing infrastructure*".

The Group may not be able to offset the impact of a decline in freight volumes by increasing tariffs

The freight transportation segment accounted for 94.7%, 91.6% and 91.5%, of the Group's total revenue for the years ended 31 December 2020, 2019 and 2018, respectively and 98.3% and 94.6% of the Group's total revenue in the three months ended 31 March 2021 and 2020, respectively. While freight traffic volumes increased by 8.6% in 2019, as compared to 2018, and then increased by a further 1.9% in 2020, as compared to 2019, historically, volumes transported by the Freight SBU have fluctuated. In the three months ended 31 March 2021, total volumes transported by the Group increased by 7.5%, as compared to the corresponding period in 2020. The Group frequently increases and decreases its tariffs in order to reflect and benefit from market conditions. As the Group is not currently subject to any mandatory statutory or regulatory tariff restrictions, the Group may increase the tariffs it sets in respect of its freight operations in order to offset any declines in freight volumes, as it has done on occasions in the past. However, such tariff increases may not be sufficient to compensate fully for decreased freight volumes. In addition, the Group's ability to offset decreased volumes by increasing prices is limited by the Group's need to remain competitive with alternative transit routes, including oil pipelines. There can be no assurance the Group will be able to return to the growth in freight volumes that it saw in previous years or, if volumes decrease, that the Group will be able to increase its freight tariffs to offset any such decreased volumes. Any resulting declines in revenue could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

Disruption on the Group's mainline could affect its business

In operating its business, and particularly its freight transportation business, the Group depends on its ability to provide continuous service along the Group's rail track. The Group's main rail line is a 527 km fully-electrified mainline from the Azerbaijan and Armenian borders to the Black Sea (of which 296 km are double-track line). The electricity supply along this route runs in parallel with the Group's rail track. In addition, an important section of this line is a single-track line running through a gorge in mountainous terrain. The Group's ability to provide service along this mainline could be affected by various natural disasters or other unforeseen events such as flooding, disruption of the electricity supply, fires, terrorism,

sabotage and human error. The section of track running through the mountainous gorge area is also subject to the additional risk of rock falls and other geological shifts in the mountains surrounding the rail track, which could block the track, interrupt the electricity supply or otherwise prevent the Group from running its service along this line. Any disruption or lasting damage caused to the Group's rail track, particularly its mainline route, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes. See also "—*The Group is largely self-insured*".

The Group's passenger services have historically generated net losses

One of the Group's medium-term strategic objectives is to reduce the expenses and increase the revenue of the Passenger SBU by increasing the number of passengers and achieving increased revenue per passenger. Historically, however, the Group's passenger transportation services have generated net losses. The passenger transportation segment had a loss of GEL 24.8 million in 2020, as compared to losses of GEL 4.5 million and GEL 5.2 million in 2019 and 2018, respectively. See "*—The Group faces risks related to the adverse impact of the COVID-19 pandemic*". There can be no assurance that the Group's planned investment in new rolling stock to increase speed, decrease maintenance expenses and improve passenger comfort will enable it to increase passenger transportation tariffs or to generate profits from its passenger rail operations. Historically, passenger tariffs have remained relatively low due to the social importance to the Government of the Group's provision of affordable passenger transportation services. Moreover, given the social importance of its passenger services, the Group may be constrained in removing or reducing services on certain passenger routes, even where such routes are not economical. In accordance with the principles set out in Regulation (EC) № 1370/2007 (the "**EU Passenger Transportation Regulation**"), the Company and the Government are expected to enter into a public service contract for compensation of the losses of the Passenger SBU with effect from 2022 or 2023. This contract is expected to set out the conditions for the agreement of costs between the Company and the Government or relevant competent authority, as well as the compensation to be granted to the Company for operating non-profitable passenger routes. This is expected to have a positive impact on the Group's revenues, although the exact quantum will not be known until the terms and conditions of the contract have been agreed. There can be no assurance, however, as to the level and timing of such State compensation for passenger services provided by the Group. Failure by the Passenger SBU to achieve profitability could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

A major accident, derailment or other incident could result in fatalities, loss of the Group's rolling stock, disruption to services, environmental remediation costs and damage to the Group's reputation

The Group owns and operates the tracks, stations and other infrastructure and rolling stock comprising Georgia's entire national railway. As a result, the Group's infrastructure and transportation operations may be adversely affected by many factors, including accidents, derailments, the breakdown or failure of equipment or processes, natural disasters, terrorist attacks or sabotage. A major incident could result in fatalities, damage to, or loss of, the Group's infrastructure or rolling stock and disruption to the Group's services, which could give rise to potential claims against the Group by freight shippers, injured passengers and others. A major rail accident or derailment involving oil or oil products cargo could also result in substantial environmental remediation costs. The Group did not experience any freight train derailments in 2020. The Group experienced five employee fatalities in 2020.

In addition, railcars not owned by the Group may be used on the Group's rail network, as parties to the tariff agreement among the Group, the railway companies of a number of CIS member states and the railway companies of certain other countries (the "**Tariff Agreement**") have the right to utilise their own railcars on freight routes throughout the rail network of the signatory states. Such rolling stock may not be maintained to the same standard as the Group's rolling stock and could be more prone to accidents or breakdowns. Negative publicity concerning any accident or derailment, even if caused by rolling stock not owned by the Group, could also have a material adverse effect on the Group's reputation and the attractiveness of its services in the future.

Moreover, as set out below under "*—The Group is largely self-insured*", the Group does not carry external liability insurance or business interruption insurance in relation to these matters. A significant uninsured event would cause the Group to incur additional expenses, and the Group may not be able to rebuild or repair its infrastructure or rolling stock or restore operations in a timely fashion or at all. Accordingly, a major accident, derailment or other incident involving the Group's railway operations could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Group is largely self-insured

To the extent insurance may be available to the Group, the Group understands that such insurance would be prohibitively expensive, and, as such, the Group does not believe it would be cost effective to purchase insurance services for its infrastructure assets. Accordingly, in common with other state-owned enterprises in Georgia, the Group does not have any

insurance coverage for its infrastructure and other assets, business interruption or third-party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations, although, the Group's customers typically purchase insurance covering the cargo transported by the Group. The Group also does not maintain insurance for terrorism or war risk. There can be no assurance that losses will not increase in the future or that insurance coverage (if any) that the Group may carry in the future will be sufficient to cover its exposures. The Group's failure to carry business interruption insurance also means that, if the Group suffers an interruption in its ability to operate, the Group will have reduced income available to pay its obligations. Until and unless the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Group's operations may be affected by operational decisions and limitations in capacity of other regional rail operators

The Group's mainline rail network comprises a key segment of the TRACECA corridor and, together with Azerbaijan Railway, forms the Caucasus corridor. Because the rail networks of TRACECA members are interlinked, capacity or other limitations of other regional rail networks, particularly Azerbaijan Railway, can constrain the Group's operations. Transit shipments are a significant portion of the Group's transportation volumes, accounting for 50.1% and 48.5% of the Group's total transportation volumes in the years ended 31 December 2020 and 2019, respectively. Capacity or other transhipment limitations elsewhere along the TRACECA or Caucasus corridor, as a result of, for example, insufficient rolling stock or underinvestment in infrastructure that limits speed or otherwise reduces track capacity, could limit the volume of cargo reaching the Group's network and thus reduce the volume of cargo shipped by the Group.

Similarly, railcars not owned by the Group may be used on the Group's rail network, as parties to the Tariff Agreement have the right to use their own railcars on freight routes throughout the rail network of the member states. Third-party rolling stock may not be maintained to the same standard as the Group's rolling stock and could be more prone to accidents or breakdowns, which could result in damage or loss of the Group's infrastructure or rolling stock. Operational decisions of other regional rail networks that result in capacity or other limitations could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Group is subject to risks relating to operations at sea ports and terminals

Three of the Group's railway lines terminate at cargo or oil terminals at the Black Sea ports of Batumi, Poti and Kulevi, through or at which the majority of the freight the Group transports is received, stored or on-shipped. Accordingly, the Group's freight operations are exposed to the risk of interruption at the ports or terminals, which may prevent the Group from delivering or receiving cargo to be transported at the ports or stored at the terminals. Any sustained disruption at the port or terminal facilities, including with respect to the transportation of cargo to and from the Group's operations to the ships or terminal facilities, for example, due to strikes, inclement weather (particularly in the winter), accidents or infrastructure failures could impede the Group's ability to provide its freight services on time or at a reasonable cost, which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Group's energy costs could increase

Costs related to energy, and particularly electricity, constitute a significant portion of the Group's operating expenses, making its operating expenses sensitive to changes in energy prices. Electricity costs include principally the costs of the electricity used to move the Group's locomotives and vehicles and the electricity used in the Group's buildings. Approximately 97% of the Group's railway network is electrified. The Group also uses diesel-powered locomotives. Significant increases in the cost of electricity or diesel fuel, including as a consequence of increased regulation or taxation of greenhouse gases, could adversely affect the Group's operating expenses and results. In September 2011, the Company entered into an agreement for the purchase and sale of electricity with JSC EnergoPro Georgia ("**EnergoPro Georgia**"), which fixed tariffs for electricity for ten years (the "**Electricity Agreement**"), securing a price for more than 90% of the Group's electricity needs. The Electricity Agreement is due to expire in September 2021, however, as of July 2021, the Group will have to purchase electricity on the open market, pursuant to structural changes made to the Georgian electricity market under Resolution № 46 of 2020 of the Georgian National Energy and Water Supply Regulatory Commission on Approving Electricity Market Rules.

The exact pricing policy of the market is not yet established but, as a result of the expiration of the Electricity Agreement, the Group estimates that the electricity tariff and electricity costs for the Group could double in 2021, as compared to 2020 (based on the current maximum tariff electricity providers are allowed to charge clients). Electricity providers are expected to charge the maximum tariff allowable in 2021, primarily due to a decrease in the overall consumption of electricity in 2020. As a result, the Group expects a material increase in electricity tariffs charged to the Group in 2021. The Georgian energy regulator (the "**GNERC**") approved new tariffs for end-users of electricity beginning in January 2021, which has since resulted in an increase in electricity tariffs for commercial subscribers.

Any increase in electricity tariffs or other energy prices could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Group's Results of Operations—Cost of electricity and materials*".

Failure to comply with applicable environmental and health and safety laws and regulations may give rise to significant liabilities

The Group is subject to various environmental protection and occupational health and safety laws and regulations relating to protection of the environment and protection of human health and safety in Georgia. These laws and regulations set various standards regulating certain aspects of health, safety, security and environmental quality and they provide for civil and criminal penalties and other liabilities for the violation of such standards and may in certain circumstances impose obligations to remediate current and former facilities and locations where operations are or were carried out. The cost of environmental and health and safety compliance in the future and potential liability due to any environmental damage that may be caused by the Group or that may already exist on land owned by the Group or any health and safety violations committed by the Group could be material. Moreover, the Group could be adversely affected by future actions and fines imposed on the Group by environmental authorities. Any such costs and expenses could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Group cannot guarantee that it will be in compliance at all times with all applicable environmental and health and safety laws and regulations, which change from time to time. Any failure to comply with such environmental and health and safety requirements could subject the Group to, among other things, civil liabilities, administrative sanctions and penalty fees and possibly temporary or permanent shutdown of the Group's operations, all of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Group's business may be adversely affected by strikes, lockouts and labour legislation

The Group is the largest corporate employer in Georgia, with 12,373 employees as at 31 March 2021. The Group does not have any collective bargaining agreements with its employees or a trade union, although the Group has in the past been party to arrangements with the Railway Workers Trade Union of Georgia. As at 31 December 2020, approximately 61% of the Group's employees were a member of one or more trade unions.

In 2017, members of the NNLE "New Railway Trade Union" (the "**NNLE Union**") participated in a strike in response to the relocation of members of staff to a workplace in South-Eastern Georgia. The strike related to two employees who refused to give their consent to their relocation. The NNLE Union was not granted permission to hold a large-scale rally. The strike continued for several days but did not have any material impact on the Group's operations. In 2019, a collective labour dispute was initiated against the Group by the NNLE Union, which was resolved by a mediation agreement ("**Mediation Agreement**") entered into on 30 August 2019. Under the Mediation Agreement, the NNLE Union agreed to suspend the strike until June 2021, and the Group undertook the obligation to hold annual negotiations with the NNLE Union to reconsider employee remuneration from June 2021. If the parties are unable to reach an agreement, there can be no assurance that the Group's business will not be subject to the threat of future interruptions through further strikes or lockouts. In addition, there can be no assurance that the Group's business will not be subject to the threat of future interruptions as a result of other matters leading to strikes or lockouts.

Moreover, as the largest employer in Georgia and as a state-owned entity, the Company and its subsidiaries are subject to certain social and political constraints with respect to its workforce and, therefore, may be unable to make any rapid or significant reductions in the number of its employees, if required. Any such interruptions or restrictions (real or perceived) on its ability to restructure its workforce could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

See "*Description of the Group's Business—Employees and Pensions*".

The Group may be unable to attract and retain qualified and key personnel

The Group's success depends to a significant extent on the services of its senior management and skilled engineering team. There can be no assurance, however, that these individuals will continue to make their services available to the Group in the future. The Group's ability to achieve its business objectives depends, to a large degree, on the services of its senior management team. The loss or unavailability of these personnel for an extended period of time could have a material adverse effect on the Group's business, financial condition, results of operations, future prospects and the trading price of the Notes. The Group also does not have "key-man" insurance in place in respect of its senior managers.

Competition in Georgia for suitably qualified and experienced executives and other personnel is intense due to the relatively small number of qualified individuals available. The Group's ability to retain its existing senior management and engineering personnel or attract additional suitably qualified personnel in the future may be limited and may depend on its ability to meet demands for higher wages. As a result, the departure of members of the Group's senior management or other highly qualified personnel, or the Group's inability to attract, employ and retain the necessary skilled and experienced personnel, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Group relies heavily on information technology systems to operate its business, and any failure of these systems could have a material adverse effect on the Group's operations

The Group's business is dependent on the successful and uninterrupted functioning of its information technology systems. The Group relies on these systems for complex logistical, dispatching and tracking tasks critical for its customers' transportation needs and central to the Group's business. The Group's information management systems do not include off-site system redundancy. Hardware and software used by the Group may be damaged by human error, natural disasters, power loss, sabotage, cyber-security breaches and other activities that undermine cyber-security, computer viruses and other internal or external events. If any such events occur in the future, it could result in the loss of material data and the disruption of normal functionality of the Group's automated systems, which could have a material adverse effect on the Group's operations. The Group's operations may also be vulnerable to system failures of other companies with whom such operations are closely linked, such as utility providers, telecommunication service providers and automated payment systems. There can be no assurance that the Group will be able to avoid significant failures or interruptions of its information systems in the future.

System failures could also reduce the attractiveness of the Group's services and could cause its customers to choose alternative means of transportation or alternative transportation providers. If such a system failure were to occur, the Group's passenger and freight transportation services would be operated by a manual system. System-related problems could lead to increased expenses and decreased revenues, which, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Failures or interruptions in the Group's information technology systems may compromise the Group's ability to provide its value-added transportation, logistics and tracking services, as well as result in costly delays in the shipment of customer cargo, or otherwise lead to a significant loss of customer business, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Group's accounting systems and internal controls may not be as advanced as those of companies in more developed countries

The Group's management information system, financial reporting function and system of internal controls relating to the preparation of IFRS financial statements may be less developed in certain respects, and may not provide management with as detailed or as accurate information, as those of rail companies in more developed markets. However, management believes that they are sufficient for a company whose Notes are listed on the Official List and permit the Company to comply with its ongoing obligations as a listed company.

Although the Company has established an internal audit department, the internal audit department has a limited remit. There are also a number of additional areas where the introduction of automated and integrated processes could improve the Company's internal control systems, for example for the reconciliation of management accounts and in its treasury and budgeting processes, as well as in relation to its monthly cash flow budgets. Delays in preparing management accounts, or management being provided with insufficiently detailed information or inappropriate controls over monthly cash flow projections, could impact the decision-making process of senior management, as well as the management of the Group's liquidity. Moreover, the Group's ability to generate financial information in a timely manner is dependent on a small group of accounting personnel who currently fulfil both the accounting and reporting functions. There is a shortage of qualified personnel with IFRS accounting experience in Georgia. If, for any reason, the Group failed to maintain an adequate management information system, financial reporting function, system of internal controls or personnel, or experienced significant delays in preparing IFRS consolidated financial statements, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Company will be unable to comply with its obligations as a company with its securities admitted to the Official List. The Company is committed to taking appropriate action to ensure that it complies with its ongoing obligations as a listed company.

Financial Risks Relating to the Group and its Business

The Group's operations may be restricted by its loan covenants

The Group is obliged to comply with various covenants and restrictions contained in its financing arrangements, including the Notes and, to the extent any of the 2012 Notes remain outstanding following the Tender Offer, the 2012 Notes. Such covenants include the restriction on the incurrence of new indebtedness if a financial indebtedness to EBITDA (as defined in the terms and conditions of the 2012 Notes) ratio is not met, as well as restrictions on the creation of security interests. In addition, until the repayment of the Notes and, to the extent any of the 2012 Notes remain outstanding following the Tender Offer, the 2012 Notes, the Group may not incur any secured financial debt, except as permitted thereunder. The Export Credit Facility (as defined below) also includes certain financial covenants, including a requirement that the Group's net debt to EBITDA (as such term is defined in the Export Credit Facility) ratio not exceed 4.0. As at each of 31 December 2020, 2019 and 2018, this financial covenant was breached, and the Group obtained a waiver from the lenders to waive application of this covenant as at the relevant dates. There can be no assurance that the Group will not breach this financial covenant and be successful in negotiating any waivers for future periods, if required. Any non-compliance with the covenants and other terms of the Group's indebtedness, including any breach of the Group's payment or debt incurrence covenants, would likely trigger an event of default under such indebtedness, which could result in some or all of such indebtedness becoming due and payable prior to its stated maturity. Such an occurrence could, in turn, trigger cross defaults across the Group's other indebtedness, including the Notes. The Group would likely not have sufficient funds to repay its indebtedness in the event of a global or near-global acceleration. Furthermore, breaches of the covenants in the Group's financing arrangements could limit its access to certain undrawn facilities.

To the extent that the Group's existing credit facilities, including the Notes, and the Group's internal cash flow are not sufficient for the Group's planned operational or Capital Expenditure requirements, the Group may have to seek additional forms of financing, which may include further covenants and requirements. Over time, it may become impossible or difficult to comply with, or obtain consent for deviation from, the covenants set out in such financing arrangements, which could require the Group to restructure its indebtedness or refinance its then-existing debt. Any failure in these respects could be costly and could have a material adverse effect on the Group's ability to make payments on the Notes, the Group's business, financial condition, results of operations, and prospects, as well as on the trading price of the Notes. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Borrowings*".

The Group may be unable to obtain refinancing for its current loans and borrowings on commercially acceptable terms, if at all

As at 31 December 2020, the Group's outstanding current and non-current loans and borrowings, consisting primarily of the 2012 Notes and amounts drawdown under the Export Credit Facility (as defined below) was GEL 1,777.3 million. The Group evaluates its options in respect of such loans and borrowings, based on its actual performance in any given year, and is currently intending to repay the principal and interest amounts under such loans and borrowings from its operating cash flows, as and when they become due. If the Group's cash flows are insufficient to repay its loans and borrowings, the Group will need to renegotiate its loans or seek alternative financing. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Borrowings*".

The Group's ability to raise alternative financing or to renegotiate loans on commercially acceptable terms or at all may depend on, among other factors, the general condition of the international capital markets and the overall economic conditions in Georgia, as well as the financial condition of the Group. There can be no assurance that, if alternative financing becomes necessary, the Group will be able to obtain such financing on commercially acceptable terms or at all. See "*—The Group's operations may be restricted by its loan covenants*".

The ratings assigned to the Group, among other things, are linked to those assigned to Georgia (as the Government maintains a sufficient ownership interest in the Group), as well as on the overall economic and financial conditions in Georgia. In the event that the ratings agencies downgrade Georgia's ratings, decouple the Group's rating from Georgia's rating or downgrade the Group's ratings, the Group's ability to obtain debt financing may be materially adversely affected and any debt financing the Group were then able to obtain would likely bear higher interest than would have been the case had the rating not declined.

The Group is exposed to foreign currency exchange risk

The Group's reporting currency is the Lari. There is a mismatch between the denomination of the Group's revenues, which are predominantly denominated in foreign currencies, and expenses, which are largely denominated in Lari. For example and to a material extent, the Group enters into transactions denominated in U.S. Dollars and, to a lesser extent, Swiss Francs, and carries a portion of its liabilities and assets in such currencies and the remainder in Lari. Therefore, variations between the rate of exchange among the U.S. Dollar, the Swiss Franc and the Lari have had, and will continue to have, some effect on the

Group's results of operations. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Group's Results of Operations—Exchange Rates*".

The Group quotes its freight tariffs in U.S. Dollars. In addition, a significant part of the Group's Capital Expenditures and of its operating expenses, including the Group's rental charges for using the railcars of other national railway operators, have been and continue to be denominated in Swiss Francs. In addition, as at 31 December 2020, the Group's outstanding current and non-current loans and borrowings, which were GEL 1,777.3 million, were denominated in U.S. Dollars. The Group also incurs a portion of its trade payables in U.S. Dollars.

In the year ended 31 December 2020, the U.S. Dollar continued to appreciate relative to the Lari. This has had a negative effect on the Group, as foreign exchange losses increased due to the Group's borrowings, including the 2012 Notes, being denominated in U.S. Dollars. In the year ended 31 December 2020, the Swiss Franc appreciated relative to the Lari, which had the effect of: (i) positively impacting revenue, as freight car rental revenue is denominated in Swiss Francs; and (ii) to a certain extent, contributing to increases in costs of materials used for repair and maintenance.

The Group has not typically utilised forward exchange contracts, currency swaps or other hedging arrangements in respect of its foreign currency risk. Accordingly, fluctuations in the values of foreign currencies against the Lari will likely continue to have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as the trading price of the Notes. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Group's Results of Operations—Exchange Rates*" and "*—The Group's operations may be restricted by its loan covenants*".

Macroeconomic and Geopolitical Risks

The Group's operations are primarily conducted within Georgia. Accordingly, the Group's overall financial position and its results of operations are substantially dependent on the economic, legal and political conditions prevailing in Georgia.

Political, Economic and Related considerations

The Group's operations are primarily conducted within Georgia. Accordingly, the Group is affected by political, economic and other events in Georgia. Factors such as Gross Domestic Product ("**GDP**"), inflation, interest and currency exchange rates, as well as unemployment, personal income and corporate finance, can have a material impact on customer demand for its products and services.

Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy with a market-based economy. Political conditions in Georgia were highly volatile in the 1990s and in the early part of the 2000s. This transformation has been marked by periods of significant instability resulting at various times in declines in GDP, hyperinflation, an unstable currency, high levels of Government debt to GDP, the existence of "black" and "grey" market economies, high unemployment and underemployment and the impoverishment of a portion of the Georgian population.

Under the influence of the Georgian Dream Coalition, which has held a parliamentary majority since 2012 and, in the 2020 election, won 91 seats out of a total of 150, Georgia is generally seen to be business- and investor-friendly and, to date, has remained committed, in principle, to major economic and fiscal policies designed to liberalise and improve the Georgian economy.

In the parliamentary elections held in October and November 2020, opposition parties questioned the results of the first round and boycotted the second round of the elections, as well as the opening session and early proceedings of the new Parliament. On 17 February 2021, the leader of opposition party, the National Movement, was arrested in relation to his alleged participation in protests held on 20-21 June 2019. On 18 February 2021, the then-Prime Minister resigned citing his disagreement with the court decision to arrest Mr. Melia. On 19 April 2021, an agreement, mediated by the President of the EU Commission, Mr. Michel, was reached, which, *inter alia*, provided for the initiation of an amnesty law for violations and convictions stemming from protests by opposition parties on 19-21 June 2019 and requiring that Parliament address the perception of politicised justice through legislation and amending the necessary parliamentary rules of procedure. The agreement also provides for ambitious electoral reform initiatives, including for future parliamentary elections to be fully proportional. On 27 April 2021, signatories from opposition parties entered Parliament to participate in parliamentary business and a new speaker of Parliament was appointed.

In recent years, Georgia's economy has been affected by a number of external shocks, including the Russia-Ukraine crisis, the deepening recession in Russia and currency devaluations in its trading partner countries, including Russia, Azerbaijan and Armenia, all of which have an impact on neighbouring countries, such as Georgia. However, real GDP growth in Georgia

accelerated to 5.1% in 2019, 4.8% in 2018 and 4.8% in 2017 from 2.9% in 2016, according to the International Monetary Fund (the "**IMF**"). While the IMF estimates that real GDP growth in Georgia decelerated by 5.0% in 2020 as a result of the impact of the COVID-19 pandemic, the IMF forecasts real GDP growth of 3.5% in 2021 and 5.8% in 2022. In addition, Geostat, the National Statistics Office of Georgia, estimates that the Georgian economy contracted by 6.2% in 2020. The rebound in growth between 2016 and 2019 was supported by a strengthened external economic environment, which was reflected in increased foreign currency remittances from Georgians working abroad, higher net exports from Georgia and increased foreign direct investment ("**FDI**"). In 2020 and in the first quarter of 2021, global growth was severely impacted by the COVID-19 outbreak, with shrinking demand and damaged global supply chains. Georgia's growth has also been affected by, and is expected to continue to be affected by, COVID-19 related shocks. In particular, tourism revenues, which comprise a substantial portion of Georgia's GDP, were severely affected, with remittances and merchandise exports as well as foreign capital inflows also being adversely affected. This has resulted in, and is expected to continue to result in, an adverse effect on the liquidity and financial condition of customers in Georgia. Market turmoil and economic deterioration and political instability in Georgia may cause consumer spending to decline and have a material adverse effect on Georgia's growth prospects. Due to the high degree of dollarisation of the Georgian economy, the purchasing power of Georgian companies, including the Company and its subsidiaries, and individuals may be affected by currency fluctuations and, in particular, the depreciation of the Lari against the U.S. Dollar. Uncertain and volatile global and regional economic conditions could have substantial political and macroeconomic ramifications globally, which could, in turn, have a significant impact on the Georgian economy.

There has been significant instability in the Lari-U.S. Dollar exchange rate in recent years. On 1 January 2015, the Lari-U.S. Dollar exchange rate was GEL 1.8821 per U.S.$1.00, which depreciated by 30.4% to GEL 2.7061 per U.S.$1.00 as at 1 January 2017. The Lari-U.S. Dollar exchange rate remained relatively stable in 2018 and 2019 at GEL 2.7656 and GEL 2.8677 per U.S.$1.00 as at 31 December 2018 and 31 December 2019, respectively. In March 2020, the Lari depreciated against the U.S. Dollar, primarily due to COVID-19 restrictions imposed by the Government, there was a slight recovery in May 2020 and relative stability in the exchange rate until September 2020 when the Lari started to depreciate again against the U.S. Dollar. As at 24 May 2021, the Lari-U.S. Dollar exchange rate was GEL 3.31 per U.S.$1.00. A lack of stability in the currency market may adversely affect Georgia's economy given the extent of dollarisation of the Georgian economy and the large share of foreign currency debt.

The policy of the National Bank of Georgia (the "**NBG**") is to allow the Lari to float and to limit foreign exchange interventions only to dampen excess exchange rate volatility. The ability of the Government and the NBG to limit any such volatility will depend on a number of political and economic factors, including the NBG's and the Government's ability and willingness (on a policy level) to control inflation, the availability of foreign currency reserves and FDI inflows. Any further depreciation or a devaluation of the Lari could adversely affect Georgia's economy.

There can be no assurance that either the economic performance of, or political stability in, Georgia can or will be sustained. To the extent that economic growth or performance in Georgia slows or begins to decline, there is a return to high or sustained inflation, or political conditions deteriorate materially the Group's business, financial condition, results of operations and prospects may be adversely affected.

Regional tensions and disruptions in Georgia's neighbouring markets

Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two breakaway territories within its borders, Abkhazia and the Tskhinvali Region/South Ossetia. The growth of the Georgian economy is partially linked to the growth of the economies of its neighbours and, as a result, conditions in Georgia could be adversely affected by political unrest in, or along its borders with, such countries. Turkey represents the largest source of Georgian imports, accounting for 15.7%, 17.0% and 17.5% of total imports in 2018, 2019 and 2020 (according to preliminary data), respectively, according to figures published by GeoStat. Azerbaijan and Armenia accounted for 15.0% and 8.5% of Georgia's total exports, respectively in 2018, 13.4% and 11.4%, respectively, in 2019 and 13.2% and 5.6%, respectively, in 2020 (according to preliminary data), according to GeoStat. Russia accounted for approximately 13.0%, 13.1% and 13.2% of Georgia's total exports and approximately 10.0%, 10.3% and 11.1% of Georgia's total imports in 2018, 2019 and 2020 (according to preliminary data), respectively, according to GeoStat.

Ongoing political tensions within the region have led to sporadic outbreaks of violence and the straining of diplomatic relations between Georgia and its neighbours. Russia imposed sanctions on Georgia in 2006, and conflict between the countries escalated in 2008, when Russian forces crossed the international border and a state of war was declared. Although a French-brokered ceasefire was signed calling for the withdrawal of Russian troops, Russia recognised the independence of the breakaway regions and tensions persist. The introduction of a free trade regime between Georgia and the EU in 2014 and the European Parliament's approval of a proposal on visa liberalisation for Georgia in February 2017 have exacerbated tensions between Georgia and Russia. The geopolitical relationship between Russia and Ukraine remains strained following the crisis which began in 2013. Sanctions by the United States and the EU against Russia continue and there is uncertainty as to how and when the conflict between Russia and Ukraine will be resolved.

The civil unrest which took place in Turkey during 2016 has placed significant doubt over Turkey's ability to function as a stable regional trading partner for Georgia. According to the January 2020 *IMF World Economic Outlook Update*, the continued political uncertainty and rising inflation represent potential obstacles to the growth of the Turkish economy. In September 2020, large-scale military hostilities broke out between Armenia and Azerbaijan along the line of contact in the Nagorno-Karabakh conflict zone. Both sides declared martial law and mobilised their armies. Fighting lasted for several weeks and affected populated areas in the conflict zone. After three failed ceasefire attempts, the situation deescalated on 10 November 2020, when a trilateral Armenia-Azerbaijan-Russia ceasefire agreement was signed, and Russian peacekeepers were deployed. Further geopolitical strife in the region, most notably between Azerbaijan and Armenia, as well as civil unrest in Armenia following the ceasefire agreement reached with Azerbaijan, which resulted in loss of control of Armenia over a material part of Nagorno-Karabakh, may also have an impact upon Georgia, including on its economy, as well as on companies active in the region, including the Group.

An increase in regional tensions and disruptions in Georgia's neighbouring markets could have a material adverse effect on the Group in two key ways. Firstly, there may be a reduction in demand for the transport of goods to neighbouring markets in times of increased tension, which would, in turn, have a negative impact on the revenue the Group derives from freight transportation; and (ii) such tensions could have a material adverse effect on the Georgian economy, which as a Group primarily operating in Georgia, could, in turn, have a material adverse effect on the business environment in which the Group operates and, accordingly, on its business, financial condition, results of operations and prospects.

Legislative, Regulatory, Tax and Judicial Considerations

Georgia is still developing an adequate legal framework required for the proper functioning of a market-based economy. Several fundamental Georgian civil, criminal, tax, administrative and commercial laws have only recently become effective. In addition, since 27 June 2014 and the signing of the Association Agreement and establishment of a Deep and Comprehensive Free Trade Area (the "**DCFTA**") with the EU, Georgia has been required to update its legal framework to conform to EU trade-related and sector-specific legislation and has been gradually harmonising its trade legislation to EU standards and practices The recent nature of much of Georgian legislation and the rapid evolution of the Georgian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application.

In addition, the court system is understaffed and has been undergoing significant reforms. Judges and courts in Georgia are generally less experienced in the area of business, corporate and transportation law than is the case in certain other countries. The uncertainties of the Georgian judicial system could have a negative effect on the economy, which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

Tax laws have not been in force in Georgia for significant periods of time compared to more developed market economies. This creates challenges in complying with tax laws, to the extent that such tax laws are unclear or subject to differing interpretations, and subjects companies to the risk that their attempted compliance could be challenged by the authorities. Tax law enforcement can also be unpredictable. Moreover, Georgian tax laws are subject to frequent changes and amendments, which can result in unusual complexities for the Group and its business generally. On 1 January 2011, a new Tax Code of Georgia was adopted in Georgia came into effect (the "**Tax Code of Georgia**"). Differing opinions regarding the interpretation of various provisions of the Tax Code of Georgia exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. In December 2010, the Constitution of Georgia (the "**Constitution**") was amended to prohibit the introduction of new state-wide taxes or increases in existing tax rates (other than excise taxes) without a public referendum initiated by the Government (except in certain limited circumstances). In January 2011, the Parliament passed the Organic Law on Economic Liberty (the "**Organic Law**") reflecting the same constitutional guarantee. The Organic Law has been in effect since 31 December 2013. In October 2017, the Constitution was further amended to retract the provision prohibiting the introduction of new taxes and tax increases. The Organic Law was, however, also amended to guarantee that the prohibition on new taxes and tax increases will remain in place until December 2030. Differing opinions regarding the interpretation of various provisions of the Tax Code of Georgia exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict.

In May 2016, the Parliament adopted changes to the Tax Code of Georgia related to corporate profit tax, whereby an enterprise will not be liable for the payment of profit tax until the enterprise distributes its profit to the shareholders or incurs such costs or makes supplies or payments that are subject to corporate profit tax. It is expected that this change will intensify the economic activity and increase the capitalisation of the private sector. The relevant amendments to the Tax Code of Georgia have applied with effect from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses, which are expected to transfer to this model from 1 January 2023.

As tax legislation in Georgia will continue to evolve, there can be no assurance that new taxes and duties or new tax rates will not be introduced in the future or that any tax legislation passed in the future will not materially adversely affect the

Group's business, prospects, financial condition, cash flows or results of operations. Investors in Notes should be aware that the Tax Code of Georgia does not provide a clear definition of the place of sale (or supply) of the Notes for the purposes of determining profit or income tax exposure, and, accordingly, while it is unlikely that the sale of Notes, absent a sale of Notes on the territory of Georgia or to a Georgian tax resident, will trigger any Georgian tax obligations on the part of Noteholders, there is a risk that such interpretation of the Tax Code of Georgia may be interpreted differently by the tax authorities.

Enforcement of Arbitral Awards and Judgments

Payments under the Notes are dependent upon the Company making payments to investors in the manner contemplated under the Notes. If the Company fails to do so, it may be necessary for an investor to bring an action against the Company to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time-consuming.

On the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Company in courts outside Georgia or in a jurisdiction to which the Company has not explicitly submitted. The Company has not submitted to the jurisdiction of any courts, but instead has agreed to resolve disputes by arbitration in accordance with the rules and procedures of LCIA. Georgia is a party to the New York Convention. Pursuant to Article 45.1 of the Law of Georgia on Arbitration, arbitral awards against the Issuer, irrespective of the country in which it is rendered, may not be recognised and enforceable in Georgia if: (i) the party against whom the award is made proves before Georgian courts that: (a) a party to the arbitration at the time of entering into an arbitration agreement lacked legal authorisation or was a beneficiary of support (a person lacking legal capacity) who had appointed a supporter in relation to issues under the arbitration agreement but did not receive any support, or the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was made; (b) a party was not duly informed about the appointment of an arbitrator or the arbitration proceedings, or was not otherwise able to present its position or defend its interests; (c) the arbitral tribunal issued the award on a subject matter which was not submitted to arbitration by the parties or which goes beyond the scope of the claim the parties made in the arbitral court (provided that the decisions on matters submitted to arbitration can be separated from those not so submitted, in order that only that part of the award which contains decisions on matters submitted to arbitration may be recognised and enforced); (d) the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; (e) the arbitral award has not yet become binding or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or (f) the court establishes that: (x) the subject matter of the dispute is not subject to arbitration under Georgian law; or (y) the recognition and enforcement of the award is contrary to public order.

Therefore, an arbitration award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian law. It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural irregularities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia and could prevent or impede a Noteholder's ability to enforce the Company's obligations or claim damages in the event of non-payment (or another event of default) under the Notes.

Risks Related to the Notes

The trading price of the Notes may be volatile

The market for the Notes will be influenced by economic and market conditions in Georgia and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States, the Member States of the EU and elsewhere. There can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that events in Georgia or elsewhere will not cause market volatility or that such volatility will not adversely affect the liquidity or the price of the Notes or that economic and market conditions will not have any other adverse effect. If the Notes are traded after their initial issuance, they may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Company's ratings, the financial condition of the Group or other factors. Any such volatility could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, as well as on the trading price of the Notes.

The Terms and Conditions of the Notes include only a limited restriction on the Group's ability to incur additional indebtedness

Although the Terms and Conditions of the Notes include a covenant limiting the ability of the Company and its subsidiaries to incur additional Financial Indebtedness (as defined in Condition 3 (*Covenants*)), subject to certain conditions, this covenant nevertheless permits the Company and its subsidiaries to incur substantial additional Indebtedness in addition to the Notes. See "*Terms and Conditions of the Notes—Condition 3(d) (Incurrence of Financial Indebtedness)*". The incurrence of such

additional Indebtedness may reduce the amount investors may recover in respect of the Notes in certain circumstances by adversely affecting the Company's ability to repay principal of, and make payments of interest on, the Notes.

Unsecured obligations

The Notes constitute unsecured obligations of the Company, save to the extent required to be secured as set out in "*Terms and Conditions of the Notes – Condition 3(a) (Negative Pledge)*".

Changes in respect of the credit ratings of the Notes may materially and adversely affect the trading price of the Notes

The Notes are expected to be rated BB- by Fitch and B+ by S&P. Fitch is established in the UK and is registered under UK CRA Regulation. S&P is not established in the UK, but the rating it has given to the Notes is endorsed by S&P Global Ratings UK Limited, which is established in the UK and registered under the UK CRA Regulation. The Company cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating organisation if, in its judgment, circumstances in the future so warrant. Neither the Company nor any of the Managers has any obligation to inform the holders of the Notes (the "**Noteholders**") of any such revision, downgrade or withdrawal. Any adverse change in an applicable credit rating could have a material adverse effect on the trading price of the Notes.

The ratings may not reflect the potential impact of the risks discussed above, as well as any other factors that may affect the value of the Notes. A credit rating is not a recommendation by the rating organisation or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organisation and each should be evaluated independently from the other.

The Notes are subject to exchange rate risks and exchange controls

The Company will pay principal, interest and all other amounts (if any) on the Notes in U.S. Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to the depreciation of the U.S. Dollar or appreciation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. Dollar would decrease: (i) the Investor's Currency-equivalent yield on the Notes; (ii) the Investor's Currency-equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency-equivalent market value of the Notes.

Governments and monetary authorities may impose (as some have done in the past) exchange controls that could materially adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal at all. This could have a material adverse effect on the trading price of the Notes.

Interest Rate Risk

The Notes bear interest on their outstanding principal amount at a fixed interest rate. A holder of a security with a fixed interest rate is exposed to the risk that the value of such security could fall as a result of changes in the market interest rate. While the nominal compensation rate of the Notes is fixed during the life of the Notes, the current interest rate on the capital market (the "**Market Interest Rate**") typically changes on a daily basis. If the Market Interest Rate increases, the value of a security such as the Notes typically falls, until the yield of such security is approximately equal to the market interest rate. If the Market Interest Rate falls, the value of a security such as the Notes typically increases, until the yield of such a security is approximately equal to the Market Interest Rate. Consequently, Noteholders should be aware that movements of the Market Interest Rate can adversely affect the value of the Notes and can lead to losses for the Noteholders if they sell their Notes.

The Terms and Conditions of the Notes provide for decisions of defined majorities to bind all Noteholders

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes provide significant flexibility for value to leave the Company

The Terms and Conditions of the Notes include a covenant restricting the declaration or payment of dividends, and the making of other distributions, in respect of the Company's share capital, as well as voluntary repurchases, redemptions and repayments of the Company's share capital or subordinated indebtedness. This covenant does not prohibit, however, a variety of investments and distributions by the Company and its subsidiaries, which, if made or paid, could reduce amounts that would

otherwise be available to the Company to make payments in respect of the Notes. See "*Terms and Conditions of the Notes—Condition 3(f)—Limitation on Restricted Payments.*"

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited

Except in limited circumstances, the Notes will be issued only in global form, with interests therein held through the facilities of DTC and/or Euroclear and/or Clearstream, Luxembourg. Ownership of beneficial interests in the Notes is shown on, and the transfer of that ownership is effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg or their nominees and the records of their participants. The laws of some jurisdictions where such participants are incorporated may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the DTC and/or Euroclear and/or Clearstream, Luxembourg systems may be impaired.

While the Notes are represented by Global Notes, the Company will discharge its payment obligation under the Notes by making payment through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Company has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Minimum denominations of Notes and integral multiples

The denomination of the Notes is U.S.$200,000 and integral multiples of U.S.$1,000, in excess thereof. Therefore, it is possible that the Notes may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than U.S.$200,000 will not receive a Definitive Note in respect of such holding (should Note Certificates be printed) and would need to purchase a principal amount of Notes such that it holds an amount at least equal to U.S.$200,000.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurances can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Green Bonds may not be a suitable investment for all investors

In connection with the issue of the Notes as "green bonds", the Company has adopted its Green Bond Framework and S&P Global Rating has issued the Second Party Opinion based on the Green Bond Framework. Neither the Company's Green Bond Framework nor the Second Party Opinion is incorporated into, or forms part of, this Prospectus. The Company has also agreed to certain reporting and use of proceeds obligations, as more fully set out in the Green Bond Framework. Currently, the provider of the Second Party Opinion, S&P Global Rating, is not subject to any specific regulatory regime or other oversight.

There is currently no market consensus or single definition, whether legal, regulatory or otherwise, on what precise attributes are required for a particular project to be defined as "green", and therefore no assurance can be provided to investors that the projects will meet all investor expectations regarding such "green" or other equivalently-labelled performance objectives, or continue to meet the relevant eligibility criteria. Although the underlying Eligible Projects have been selected based on their general alignment with the green project categories recognised by the Green Bond Principles, and will be developed in accordance with relevant guidelines and standards, there can be no guarantee that adverse environmental and/or social impacts will not occur during the design, construction, commissioning and/or operating of the projects. In addition, where any negative impacts are insufficiently mitigated, the Eligible Projects may become controversial, and may be criticised by activist groups or other stakeholders.

The Company does not make any assurance or representation as to the suitability of the Second Party Opinion or the Notes to fulfil such environmental and sustainability criteria. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus regarding the use of proceeds, and its purchase of Notes should be based upon such investigation as it deems necessary.

The Second Party Opinion may not reflect the potential impact of all risks related to the structure, the market for green or sustainable bonds, the additional risks discussed above or any other factors that may affect the value of the Notes. The Second

Party Opinion is not a recommendation to buy, sell or hold securities and is only current as of the date that the Second Party Opinion was initially issued. Prospective investors must determine for themselves the relevance of such Second Party Opinion and/or the information contained therein.

The Notes are expected to be admitted to the Sustainable Bond Market of the London Stock Exchange. No representation or assurance is given by the Company, the Joint Lead Managers, the Green Structuring Adviser or any other person that the admission of the Notes to the Sustainable Bond Market of the London Stock Exchange satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, for example with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Projects . Additionally, it should be noted that the criteria for the listing, display on or admission to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated) may vary from one stock exchange or securities market to another. Furthermore, no representation or assurance is given or made by the Company, the Joint Lead Managers, the Green Structuring Adviser or any other person that any such listing or admission to trading will be maintained during the life of the Notes.

In addition, although the Company has agreed to certain reporting requirements and to use an amount equal to the net proceeds from the issue of the Notes to finance or refinance certain Eligible Projects, as described under "*Use of Proceeds*" below, it will not be a breach of a covenant or an event of default under the Terms and Conditions of the Notes if the Company fails to comply with such obligations and/or if the Second Party Opinion were to be withdrawn for any reason or if any such Notes were no longer listed or admitted to trading on any stock exchange or securities market as aforesaid. A withdrawal of the Second Party Opinion or any failure by the Company to use an amount equal to the net proceeds from the issue of the Notes to fund Eligible Projects or to fulfil its reporting requirements or otherwise to meet or continue to meet the investment requirements of certain environmentally focused investors with respect to the Notes may affect the value of the Notes and/or may have consequences for certain investors with portfolio mandates to invest in green assets.

Investors should refer to the Company's website and the Second Party Opinion for information and should determine for themselves the relevance of the information contained in this Prospectus regarding the use of proceeds and any investment in the Notes should be based upon such investigation as it deems necessary. The Company's website and the Second Party Opinion do not form part of this Prospectus.

Investors seeking exposure to "development finance" assets

There is currently no market consensus on what precise attributes are required for a particular project or financing to be defined as "development," and therefore no assurance can be provided to investors that the Notes and the use of proceeds by the Company or any development impact projects, will satisfy, whether in whole or in part, any expectations or requirements of any investor or any present or future expectations or requirements with respect to development finance. Neither the Company nor the Development Finance Structuring Agent makes any representations or assurances as to whether (and are not responsible for ensuring that): (a) the characterisation of the Notes as development finance or the level of its expected development intensity rating impact will (i) comport with any investor's definition of development finance, (ii) meet any investor's criteria and expectations with regard to developmental impact or (iii) comport with the characterisation or definitions used by any other development finance institution in the public or private sectors; or (b) the proceeds of the Notes, will in fact be used for eligible development finance projects. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus regarding the use of proceeds and its purchase of Notes should be based upon such investigation as it deems necessary.

In addition, although the proceeds from the issue of the Notes are expected to enable the development finance initiatives described under "*Development Impact*" below, it will not be a breach of a covenant or an event of default under the Terms and Conditions of the Notes if the Company fails to comply with such development finance initiatives.

Furthermore, there can be no assurance that the projects or financings defined as "development" will be capable of being implemented or substantially implemented in such a manner and in accordance with any timing schedule and that, accordingly, such proceeds will be totally or partially disbursed for such projects. Nor can there be any assurance that such projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Company. Any such event or failure by the Company will not constitute a breach of a covenant or an event of default under the Terms and Conditions of the Notes.

ENFORCEABILITY OF JUDGMENTS AND AWARDS

The Company is a joint stock company incorporated under the laws of Georgia. All of the Company's directors and executive officers reside outside the United Kingdom and the United States, and all of the assets of the Company and of such persons are located outside of the United States and the United Kingdom. The Company has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on the directors and executive officers of the Company or enforce judgments against such persons or the Company.

In addition, on the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Company in courts outside Georgia or in a jurisdiction to which the Company has not explicitly submitted. Pursuant to Article 68.2 of the *Law of Georgia on Private International Law*, foreign court judgments against the Company will not be recognised and enforceable in Georgian courts if:

(i) the matter is within the exclusive competence of Georgia;

(ii) there is a violation in the service of process or other procedures under the law of the country of the court which rendered the judgment;

(iii) a dispute involving the same subject matter between the same parties has already been decided by a Georgian court or by a foreign court, judgment of which has been recognised in Georgia;

(iv) the court rendering the judgment is not considered competent to adjudicate the dispute under Georgian legislation;

(v) the country whose court has rendered the judgment does not recognise judgments of Georgian courts;

(vi) a dispute involving the same subject matter between the same parties is already being heard in a Georgian court; or

(vii) the judgment of the foreign court contradicts fundamental principles of Georgian law.

Pursuant to Article 45.1 of the *Law of Georgia on Arbitration*, arbitral awards against the Company may not be recognised or enforceable in Georgia if:

(i) the party against whom the award is made proves before Georgian courts that:

  (a) a party to the arbitration lacked legal capacity;

  (b) the party was unauthorised to enter into the arbitration agreement or the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was made;

  (c) a party was not duly informed about the appointment of an arbitrator or the arbitration proceedings, or was not able to participate in the proceedings for other valid reasons;

  (d) the arbitral tribunal issued the award on a subject matter beyond the scope of the arbitration agreement or not submitted by the parties;

  (e) the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; or

  (f) the arbitral award has not yet become binding or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or

(ii) the court establishes that:

  (a) the subject matter of the dispute is not subject to arbitration under Georgian law; or

  (b) the award is contrary to public policy.

No treaty exists between Georgia and many Western jurisdictions, including many EU jurisdictions, for the reciprocal enforcement of foreign court judgments.

In addition, the Terms and Conditions of the Notes are governed by English law and provide that disputes arising from or in connection with the Notes may be settled by arbitration. Georgia is a party to the United Nations (New York) Convention on

the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**"). Therefore, an arbitration award obtained in a country, which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian civil procedure regulations, the Law of Georgia on Arbitration and other procedures and requirements established by Georgian legislation. It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural ambiguities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

Furthermore, the choice of English law as the governing law of the Terms and Conditions of the Notes and the transaction documents may not be given effect, and the recognition or enforcement of foreign court judgments and arbitral awards may be limited, by application of the Georgian law principle requiring compliance with mandatory provisions of the law of the country most closely connected to the transaction, including mandatory provisions of Georgian law. The nature and scope of such mandatory provisions are subject to a considerable degree of discretionary authority of the court in which recognition or enforcement of the judgment or arbitral award is being sought.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements with respect to the business, financial condition and results of operations of the Group and certain of the plans, intentions, expectations, assumptions, goals and beliefs of the Company regarding such items. These statements include all matters that are not historical fact and generally, but not always, may be identified by the use of words such as, "believes", "expects", "are expected to", "anticipates", "intends", "estimates", "should", "will", "will continue", "may", "is likely to", "plans" or similar expressions, including variations and the negatives thereof or comparable terminology and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations and projections;
- expected future revenues and performance;
- expected future liquidity, capital resources and Capital Expenditures;
- expected future growth in demand for services;
- economic outlook and industry trends;
- market developments;
- the impact of regulatory initiatives;
- plans or intentions relating to acquisitions; and
- competitive strengths and weaknesses.

The forward-looking statements in this Prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management's examination of historical operating trends, data contained in the Group's records and other data available from third parties. Although the Company believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict and which are beyond its control, and the Group may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in the Company's view, could cause actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to:

- overall economic and political conditions globally, in the Caucasus region and within Georgia and the continuing impact of the COVID-19 pandemic, the duration and magnitude of which cannot be ascertained;
- the Group's ability to overcome competition from alternative transit routes and providers of other methods of transport;
- the Group's ability to continue setting tariffs without regulation by the Government or otherwise freely react to market forces;
- operational limitations, including equipment failures and maintenance and rehabilitation issues related to the age of its assets;
- the Group's ability to implement the Modernisation Project;
- exchange rate, interest rate and inflation fluctuations;
- unplanned events or accidents affecting the Group's infrastructure;
- the Group's ability to achieve and maintain profitability in its Passenger SBU;
- changes in laws, regulations, taxation or accounting standards or practices in Georgia; and
- the Group' s success at managing the risks associated with the aforementioned factors.

The foregoing list is not exhaustive. When relying on forward-looking statements, potential investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as at the date on which they are made. Except to the extent required by law, including as required by the Listing Rules, Disclosure and Transparency Rules and Prospectus Rules published by the Financial Conduct Authority, neither the Company nor any of its agents, employees or advisers intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this Prospectus.

The sections of this Prospectus entitled "*Risk Factors*", "*Management's Discussion and Analysis of Results of Operations and Financial Performance*" and "*Description of the Group's Business*" contain a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Prospectus may not occur.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that the Group's actual business, financial condition and results of operations and prospects, as well as the development of the industry in which it operates, may differ significantly from those made in, or suggested by, the forward-looking statements contained in this Prospectus. In addition, even if the Group's business, financial condition and results of operations and prospects, as well as the development of the industry in which it operates, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

The Group's audited consolidated financial statements included in this Prospectus, together with the notes thereto, were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**") .

The Group's audited consolidated financial statements include:

- the Group's audited annual consolidated financial statements as at, and for the year ended, 31 December 2020, which include comparative financial information as at, and for the year ended, 31 December 2019, together with the notes thereto (the "**2020 Audited Consolidated Financial Statements**"); and

- the Group's audited annual consolidated financial statements as at, and for the year ended, 31 December 2019, which include comparative financial information as at, and for the year ended, 31 December 2018, together with the notes thereto (the "**2019 Audited Consolidated Financial Statements**" and, together with the 2020 Audited Consolidated Financial Statements, the "**Audited Consolidated Financial Statements**").

The Audited Consolidated Financial Statements have been audited and the Group's unaudited condensed consolidated interim financial statements as at 31 March 2021 and for the three-month periods ended 31 March 2021 and 2020 (the "**First Quarter Condensed Consolidated Financial Statements**") have been reviewed by KPMG Georgia LLC ("**KPMG**") of 5th Floor, GMT Plaza, 4 Liberty Square, 0105 Tbilisi, Georgia, as stated in their reports appearing herein. With respect to First Quarter Condensed Consolidated Financial Statements, KPMG has reported that they applied limited procedures in accordance with professional standards for a review of such financial information and that they did not audit and they do not express an audit opinion on such interim financial information. The First Quarter Condensed Consolidated Financial Statements, together with the notes thereto, were prepared in accordance with IAS 34 (*Interim Financial Reporting*).

The Audited Consolidated Financial Statements and the First Quarter Condensed Consolidated Financial Statements (together, the "**Consolidated Financial Statements**"), together with the respective notes thereto, are included in this Prospectus beginning on page F-2.

Restatement

In the course of preparing the First Quarter Condensed Consolidated Financial Statements, management identified certain errors in the condensed consolidated interim financial statements as at, and for the three months ended, 31 March 2020. Accordingly, management restated the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three months ended 31 March 2020 in the First Quarter Condensed Consolidated Financial Statements in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to adjust for those errors. The corrections have no effect on the consolidated financial statement as at, and for the year ended, 31 December 2020. See Note 20 to the First Quarter Condensed Consolidated Financial Statements for details of the changes to the amounts reported previously. The financial information included in this Prospectus for the three months ended 31 March 2020 has been extracted from the First Quarter Condensed Consolidated Financial Statements.

Emphasis of Matter

The auditors' report on the review of the First Quarter Condensed Consolidated Financial Statements includes an emphasis of matter in relation to comparative financial information, in which the Group's auditors state as follows;

"***Emphasis of Matter – Comparative Financial Information***

We draw attention to Note 20 to the condensed consolidated interim financial information which describes that the comparative financial information presented as at and for the three-month period ended 31 March 2020 has been restated. Our conclusion is not modified in respect of this matter".

The emphasis of matter is set out on page F-4 to this Prospectus. See also Note 20 to the First Quarter Condensed Consolidated Financial Statements.

Presentation of Alternative Performance Measures

In this Prospectus, the Group uses certain metrics in the analysis of its business and financial position, which the Group considers to constitute Alternative Performance Measures ("**APMs**"), as defined in the European Securities and Market Authority Guidelines on Alternative Performance Measures dated 5 October 2015 (the "**ESMA Guidelines**"). For further information see "*Selected Historical Financial and Operating Information—Reconciliation of Adjusted EBITDA, Adjusted Net Debt and other ratios"*.

Set out below is a summary of the APM metrics used, the definition, basis of calculation and the rationale for the inclusion of such metrics.

Metric	Definition used and method of calculation	Rationale
Adjusted EBITDA	Loss and total comprehensive loss, plus income tax expense and net finance costs, plus depreciation and amortisation expense, impairment loss on trade receivables and impairment loss on property, plant and equipment ("**Adjusted EBITDA**").	Performance measure
Adjusted EBITDA Margin	Adjusted EBITDA divided by revenue ("**Adjusted EBITDA Margin**").	Performance measure
Selected Ratios		
Debt	The sum of the Group's current loans and borrowings and non-current loans and borrowings ("**Debt**")	Liquidity and debt service ability measure
Debt to net cash from operating activities .	Debt divided by net cash from operating activities.	Liquidity and debt service ability measure
Debt to Adjusted EBITDA	Debt divided by Adjusted EBITDA.	Liquidity and debt service ability measure
Debt to total equity	Debt divided by total equity.	Liquidity and debt service ability measure
Adjusted Net Debt	Debt minus cash and cash equivalents and available credit facilities ("**Adjusted Net Debt**").	Liquidity and debt service ability measure
Adjusted Net Debt to Adjusted EBITDA ..	Adjusted Net Debt divided by Adjusted EBITDA.	Liquidity and debt service ability measure

The above APMs have been included in this Prospectus to facilitate a better understanding of the Group's historical trends of operation and financial condition. The Group uses APMs as supplementary information to its IFRS financial results, financial position and indebtedness. See the Consolidated Financial Statements and the notes thereto included in this Prospectus. The APMs are not defined by, or presented in accordance with, IFRS. The APMs are not measurements of the Group's operating performance under IFRS and should not be considered as alternatives to any measures of performance or liquidity management under IFRS. In addition, other companies, including those in the Group's industry, may calculate similarly titled APMs differently from the Group. In addition, because companies do not calculate these APMs in the same manner, the Group's presentation of such APMs may not be comparable to other similarly titled APMs used by other companies.

See "*Selected Historical Financial and Operating Information—Reconciliation of Adjusted EBITDA, Adjusted Net Debt and other ratios*" for a reconciliation of Adjusted EBITDA to loss and total comprehensive loss for the period, a reconciliation of Adjusted Net Debt to the Group's statement of financial position and the calculation of other ratios.

Currencies

In this Prospectus: all references to "**Lari**" or "**GEL**" are to the lawful currency of Georgia; all references to "**Tetri**" or "**tetri**" are to 1/100 of a Lari, all references to "**U.S. Dollars**" or "**U.S.$**" are to the lawful currency of the United States of America; all references to "**Euros**" or "**€**" are to the single currency of the participating member states of the European and Monetary Union of the Treaty Establishing the European Community, as amended from time to time; and all references to "**CHF**" or "**Swiss Francs**" are to the lawful currency of Switzerland.

This Prospectus contains translations of certain Lari amounts into U.S. Dollars or Swiss Francs and certain of U.S. Dollar or Swiss Franc amounts into Lari, at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Lari or Swiss Franc amounts actually represent such equivalent U.S. Dollar, Swiss Franc or Lari amounts, as the case may be, or could be or could have been converted into U.S. Dollars or Swiss Francs at the rate indicated as at the dates mentioned herein or at all.

Unless otherwise indicated, such U.S. Dollar amounts have been translated from Lari at an exchange rate of GEL 3.4118 = U.S.$1.00, being the rate as set by the NBG for 31 March 2021, or 3.2766 = U.S.$1.00, being the rate as set by the NBG for 31 December 2020. The U.S. Dollar exchange rate at 24 May 2021 was GEL 3.31 = U.S.$1.00. Unless otherwise indicated, such Swiss Franc amounts have been translated from Lari at an exchange rate of GEL 3.6215 = CHF 1.00, being the rate as set by the NBG for 31 March 2021 or GEL 3.7103 = CHF 1.00, being the rate as set by the NBG for 31 December 2020. The Swiss Franc exchange rate at 24 May 2021 was GEL 3.69 = CHF 1.00. Unless otherwise indicated, such Lari amounts have been translated from Swiss Francs at an exchange rate of CHF 0.2695 = GEL 1.00, being the rate set by the NBG for 31 December 2020. The Lari exchange rate at 24 May 2021 was CHF 0.2710 = GEL 1.00. See "*Exchange Rate Information*".

Rounding

Certain numerical figures set out in this Prospectus, including financial data presented in thousands and millions and percentages, have been subject to rounding, and, as a result, the totals of the data in this Prospectus may vary slightly from the actual arithmetic totals of such information. Percentages and amounts reflecting changes over time periods relating to financial and other data set out in "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" are calculated using the numerical data in the Consolidated Financial Statements or the tabular presentation of other data (subject to rounding) contained in this Prospectus, as applicable. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row. Some percentages in tables in this Prospectus have also been rounded and accordingly the totals in these tables may not add up to 100%.

Definitions

Unless otherwise noted, references to "management" are to the management board of the Company (the "**Board of Directors**"), and statements as to the Company's or the Group's beliefs, expectations, estimates and opinions are to those of the Company's management.

Industry and Market Data

Statistical data relating to Georgia in this Prospectus have, unless otherwise stated, been obtained from the NBG and the National Statistics Office of Georgia ("**Geostat**"). Market data used in this Prospectus have been extracted from official and industry sources and other sources the Company believes to be reliable, including from the NBG and other public sources in Georgia, as well as the Company's knowledge of its volumes and markets and assessments made by management. Certain statistics are maintained by these sources in Lari, U.S. Dollars or Swiss Francs, as applicable. Accordingly, certain statistics recorded in currencies other than Lari have been translated into Lari at the exchange rates indicated in this Prospectus, although no assurance can be given that such amount could have been so converted. Similar statistics may be obtained from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data were compiled or prepared on a basis consistent with international standards. While the Company has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Company nor the Joint Lead Managers have independently verified that data. In addition, industry publications generally state that their information is obtained from sources they believe to be reliable, but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions.

The Company has relied on the accuracy of such data and statements without carrying out an independent verification thereof, and therefore cannot guarantee their accuracy and completeness. Furthermore, management believes that its estimates and assessments are accurate and reliable, however, they have not been verified by independent external professionals.

The information that the Company has obtained from the NBG, Geostat or other third party sources has been accurately reproduced in this Prospectus and, as far as the Company is aware and is able to ascertain from the information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Prospectus, the source of such information has been identified.

General Information

Neither the contents of the Company's website, or any of the Company's subsidiaries' websites (or any other website), nor the content of any website accessible from hyperlinks on the Company's or any of its subsidiaries' websites (or any other website), is incorporated into, or forms part of, this Prospectus.

EXCHANGE RATE INFORMATION

The following table sets forth, at the dates and for the periods indicated, the period-end, average and high and low official rates set by the NBG, in each case for the purchase of Lari, all expressed in Lari per U.S. Dollar.

	Lari per U.S.$1.00			
	High	**Low**	**Average[(1)]**	**Period end**
Year				
2016	2.78	2.13	2.37	2.66
2017	2.77	2.38	2.51	2.59
2018	2.77	2.39	2.53	2.68
2019	2.98	2.64	2.82	2.87
2020	3.48	2.77	3.11	3.28
Month				
January 2021	3.31	3.28	3.30	3.30
February 2021	3.33	3.29	3.31	3.33
March 2021	3.41	3.32	3.34	3.41
April 2021	3.45	3.41	3.44	3.45
May 2021 (up to and including 24 May 2021)	3.45	3.31	3.41	3.31

Note:

(1) The average exchange rate for the year is the average of the daily exchange rates for the year. The average exchange rate for the month is the average of the daily exchange rates for each month.

The Lari/U.S. Dollar exchange rate set by the NBG reported on 24 May 2021 was GEL 3.31 to U.S.$1.00.

The following table sets forth, for the periods indicated, the period-end, average and high and low official rates set by the NBG, in each case for the purchase of Lari, expressed in Lari per Swiss Franc:

	Lari per CHF 1.00			
	High	**Low**	**Average[(1)]**	**Period end**
Year				
2016	2.71	2.16	2.40	2.60
2017	2.77	2.37	2.55	2.66
2018	2.78	2.43	2.59	2.73
2019	3.02	2.62	2.84	2.95
2020	3.75	2.86	3.32	3.71
Month				
January 2021	3.77	3.70	3.72	3.72
February 2021	3.72	3.66	3.69	3.67
March 2021	3.67	3.57	3.59	3.62
April 2021	3.79	3.62	3.72	3.79
May 2021 (up to and including 24 May 2021)	3.80	3.69	3.77	3.69

Note:

(1) The average exchange rate for the year is the average of the daily exchange rates for the year. The average exchange rate for the month is the average of the daily exchange rates for each month.

The Lari/Swiss Franc exchange rate set by the NBG reported on 24 May 2021 was GEL 3.69 to CHF 1.00.

The rates set out above may differ from the actual rates used in the preparation of the Group's Consolidated Financial Statements and other financial information appearing in this Prospectus.

No representation is made that Lari amounts referred to in this Prospectus could have been or could be converted into U.S. Dollars or Swiss Francs at the above exchange rates or at any other rate at all.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, after payment of commissions related to the issue of the Notes, will be approximately U.S.$498.5 million. This figure does not include expenses related to the issue of the Notes and admission to trading, estimated to be approximately £5,515.

The Company intends to use the proceeds of the issue of the Notes: (i) in the amount of approximately U.S.$494.5 million to refinance existing indebtedness of the Company, including, but not limited to, (A) the purchase of any or all of the 2012 Notes, tendered and accepted for purchase in the Tender Offer, (B) the early redemption of the 2012 Notes remaining (if any) on completion of the Tender Offer, and (C) the payment of any consent fees and accrued interest in connection therewith, all pursuant to the Tender Offer and Consent Solicitation Memorandum; and (ii) in the amount of approximately U.S.$4.0 million to finance the Company's infrastructure projects (including, without limitation, the Modernisation Project). The Company intends to fund any additional amounts required in respect of the Tender Offer and redemption of the 2012 Notes from its internal cash flows.

An amount equal to the net proceeds of the Notes will be used to finance or refinance one or more Eligible Projects (as defined below) and as further described in the Company's Green Bond Framework, which is available on the Company's website.

Under the Green Bond Framework, the Company may issue green bonds to finance and/or refinance, in whole or in part, the Company's expenditures relating to clean transportation (such as electric, hybrid, public rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions) (the "**Eligible Green Project Categories**"). Examples of eligible green projects within such Eligible Green Project Categories ("**Eligible Projects**") include:

- modernisation, maintenance and energy efficiency of existing electrified interurban railway lines;
- investments related to new railway lines and extensions;
- acquisition and maintenance cost of freight and passenger rolling stock;
- acquisition, modernisation and maintenance cost of trackside infrastructure (e.g., signalling systems); and
- the following eligible green project categories, which provide distinct environmental benefits.

For the avoidance of doubt, neither the Green Bond Framework nor the Second Party Opinion referred to below have been, or will be, incorporated by reference herein and, accordingly, neither the Green Bond Framework nor the Second Party Opinion form part of this Prospectus.

On 26 May 2021, pursuant to the Tender Offer and Consent Solicitation Memorandum, the Company invited holders of the 2012 Notes to: (i) tender any or all of the 2012 Notes held by them for purchase by the Company for cash; and (ii) concurrently consent to amend by extraordinary resolution the terms and conditions of the 2012 Notes to provide for the Mandatory Early Redemption, all on the terms and subject to the conditions set forth in the Tender Offer and Consent Solicitation Memorandum. As of 26 May 2021, there was U.S.$500 million in principal amount of the 2012 Notes outstanding. All 2012 Notes tendered in the Tender Offer and Consent Solicitation and accepted for purchase by the Company are expected to be settled, and the Mandatory Early Redemption to be completed, on or about 29 June 2021.

The Company will publish an annual 'Green Bond Allocation and Impact Report' on the Company's website, until full allocation of the proceeds of the Notes, and in the event of any material changes, until the maturity date of the Notes, as further detailed in the Green Bond Framework. This report will include: (i) details of Eligible Projects and allocations; (ii) relevant environmental outcomes and impacts; (iii) the proportional allocation of proceeds between existing projects and new projects; and (iv) the amount of cash or cash equivalents remaining to be allocated. In addition, the Company will request on an annual basis, starting one year following the Issue Date and until full allocation, an assurance report on the allocation of the proceeds of the Notes to Eligible Projects, to be provided by an external auditor.

At the request of the Company, S&P Global Rating has issued a Second Party Opinion in relation to the Green Bond Framework confirming that the Green Bond Framework is aligned with the core components of the Green Bond Principles. No assurance or representation is given by the Company or the Joint Lead Managers as to the suitability or reliability for any purpose whatsoever of the Green Bond Framework, the Second Party Opinion or any opinion or certification of any third party (whether or not solicited by the Company) made available in connection with the issue of the Notes and, in particular, with any Eligible Projects to fulfil any environmental, sustainability, social and/or other criteria. The Second Party Opinion will be available on the Company's website. See "*Risk Factors—Risks related to the Notes—Green Bonds many not be a suitable investment for all investors*".

DEVELOPMENT IMPACT

The Government has indicated the development of the country's infrastructure is one of the country's highest priorities. The Company's railway network is a critical component of the country's infrastructure as it provides freight services, transhipping, passenger services and freight forwarding services. It represents Georgia's national railway system, therefore, making it critical to the overall development of the country's transportation industry. Additionally, the Company is considered a strategic partner in national and economic development as it facilitates development in other industrial sectors (i.e., locomotive construction, railcar repair, concrete sleeper production, etc.) and plays a key role in maintaining economic relations between Georgia and its partner countries. Moreover, the Company's provision of key passenger transportation services at affordable prices is considered akin to a public service obligation and enables the State to promote regional development.

In 2018, Georgia ranked 119th in the Logistics Performance Index Global Rankings, a composite index collected by the World Bank to measure the quality of trade and transport-related infrastructure. The Company's ongoing investments aim to improve Georgia's transport and logistics infrastructure by increasing overall mobility and connectivity in the country.

The Notes are intended to partially finance the Company's infrastructure projects and refinance the existing indebtedness of the Company. The refinancing is expected to improve the Company's liquidity condition, which may enable the financing of long-term strategic initiatives the Company is undertaking. These resources, as well as any cash flow benefits resulting from potentially lower cost of debt service, are expected to enable the following development outputs over the maturity of the Notes:

- **Improve the efficiency and speed of freight and passenger trains by:**
  - Reducing travel time for freight trains in both directions from the Azerbaijani border to the Batumi port;
  - Improving allowed speed of passenger trains on the 64 km mountainous gorge section in Central Georgia up to 80 km / hr from 50 km / hr in 2020;
  - Increasing annual volume of freight and cargo transported to over 12 million tons from 11 million tonnes in 2020; and
  - Increasing number of railway passengers to over 2 million per year from 0.94 million in 2020.
- **Add onto existing railway infrastructure in order to increase volume and capacity by:**
  - Increasing volume of freight capacity to over 40 million tonnes per year from 27 million tonnes per year in 2020;
  - Increasing volume of passenger capacity to over 7 million per year from 4.5 million per year in 2020; and
  - Lengthening the railway network to over 1,440 km.
- **Promote gender diversity and inclusion by:**
  - Piloting dedicated visible boards to advertise communication materials that promote women and girls' safety, including a hotline and helpline to report cases of violence in up to 12 stations;
  - Allocating at least 10% of jobs from the construction industry to female employees;
  - Implementing a new policy against sexual harassment and supporting procedures;
  - Offering at least one annual awareness-raising activity on the Company's sexual harassment policy for staff and contractors; and
  - Increasing share of women in internships across transportation job categories at the Company.
- **Promote employment by:**
  - Creating over 20 new jobs through the construction of the Modernisation Project, which is expected to be completed by the end of 2022. See "*Description of the Group's Business—Projects—Modernisation Project*".

Development Impact Reporting

The Company plans to report progress on the development outputs above on an annual basis through its website.

Alignment with the United Nations Sustainable Development Goals

The anticipated impact of the development outputs above align with the United Nations Sustainable Development Goals (UN SDGs) #5, #8, and #9 in particular with the targets below:

- SDG Target 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life;
- SDG Target 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value;

- SDG Target 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment; and
- SDG Target 9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.

SELECTED HISTORICAL FINANCIAL AND OPERATING INFORMATION

This section should be read together with the information contained in "Presentation of Financial and Other Information", "Use of Proceeds", "Management's Discussion and Analysis of Results of Operations and Financial Condition", the Consolidated Financial Statements and the respective notes thereto included elsewhere in this Prospectus.

The following selected consolidated historical financial information as at and for the three-month periods ended 31 March 2021 and 2020 and as at and for the years ended 31 December 2020, 2019 and 2018 has been extracted from the Consolidated Financial Statements, which are included elsewhere in this Prospectus, other than non-IFRS measures and to the extent such financial information has been translated into U.S. Dollars.

Summary Statement of Profit or Loss and Other Comprehensive Income Data

For the Three-Month Periods ended 31 March 2021 and 2020

	For the three-month period ended 31 March		
	2021		2020[1]
	(U.S.$ millions)[2]	*(GEL millions)*	
		(unaudited)	
Revenue	38.6	127.9	122.0
Other income	0.7	2.3	3.4
Employee benefits expense	(12.2)	(40.5)	(40.2)
Depreciation and amortisation expense	(5.2)	(17.3)	(20.4)
Electricity, consumables and maintenance costs	(3.2)	(10.6)	(11.5)
Impairment loss on trade receivables	(0.6)	(2.0)	(0.4)
Other expenses	(6.5)	(21.4)	(15.5)
Results from operating activities	**11.5**	**38.2**	**37.4**
Finance income	1.5	4.8	3.9
Finance costs	(10.1)	(33.3)	(30.4)
Net foreign exchange loss	(19.3)	(64.0)	(193.2)
Net finance costs	**(27.9)**	**(92.4)**	**(219.7)**
Loss before income tax	**(16.4)**	**(54.2)**	**(182.4)**
Income tax expense	(0.1)	(0.2)	(0.2)
Loss and total comprehensive loss for the period	**(16.4)**	**(54.4)**	**(182.6)**

Notes:

(1) Restated. See "*Presentation of Financial and Other Information*".

(2) For convenience, these figures have been translated into U.S. Dollars at the average GEL/U.S.$ exchange rate, based on the average of monthly average rates published by the NBG, for the three months ended 31 March 2021, which was GEL 3.31 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

For the Years ended 31 December 2020, 2019 and 2018

	For the year ended 31 December			
	2020		2019	2018
	(U.S.$ millions)[1]	*(GEL millions)*	*(GEL millions)*	*(GEL millions)*
Revenue	157.4	489.4	491.0	424.6
Other income	4.0	12.5	12.8	19.5
Employee benefits expense	(54.8)	(170.5)	(160.6)	(154.3)
Depreciation and amortisation expense	(24.5)	(76.2)	(81.2)	(113.8)
Electricity, consumables and maintenance costs	(13.3)	(41.4)	(47.9)	(43.7)
Impairment loss on trade receivables	(4.4)	(13.6)	(33.7)	(12.0)
Impairment loss on property, plant and equipment	—	—	—	(691.4)
Other expenses	(22.8)	(71.0)	(72.1)	(73.8)
Results from operating activities	**41.5**	**129.2**	**108.2**	**(644.9)**
Finance income	8.5	26.5	14.8	14.5
Finance costs	(41.2)	(128.0)	(42.9)	(47.5)
Net foreign exchange loss	(61.7)	(191.9)	(85.2)	(37.5)
Net finance costs	**(94.3)**	**(293.4)**	**(113.3)**	**(70.5)**
Loss before income tax	**(52.8)**	**(164.1)**	**(5.1)**	**(715.4)**
Income tax expense	(0.2)	(0.5)	(0.5)	(1.2)
Loss and total comprehensive loss for the year	**(52.9)**	**(164.6)**	**(5.6)**	**(716.5)**

Note:

(1) For convenience, these figures have been translated into U.S. Dollars at the average GEL/U.S.$ exchange rate, based on the average of monthly average rates published by the NBG, for 2020, which was GEL 3.11 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Summary Statement of Financial Position Data

	As at 31 March		As at 31 December			
	2021		2020		2019	2018
	(U.S.$ millions)[1] *(unaudited)*	*(GEL millions)*	*(U.S.$ millions)*[2]	*(GEL millions)*	*(GEL millions)*	*(GEL millions)*
Assets						
Property, plant and equipment	533.3	1,818.7	557.8	1,829.6	1,865.4	1,826.6
Loans receivable	—	—	9.2	30.3	24.1	20.5
Other non-current assets	29.0	99.0	30.2	99.1	93.8	97.5
Non-current assets	**562.4**	**1,917.7**	**597.3**	**1,959.0**	**1,983.3**	**1,944.6**
Inventories	10.8	36.7	11.7	38.4	40.2	32.9
Loans receivable	9.5	32.3	—	—	—	—
Tax assets	—	—	0.5	1.8	6.4	3.9
Prepayments and other current assets	0.8	2.8	0.6	1.9	1.4	0.4
Trade and other receivables	8.9	30.3	7.2	23.6	24.3	40.9
Cash and cash equivalents	93.6	319.1	98.5	323.0	258.0	241.3
Current assets	**123.5**	**421.3**	**118.5**	**388.7**	**330.3**	**319.4**
Total assets	**685.9**	**2,338.9**	**715.8**	**2,347.8**	**2,313.6**	**2,264.0**
Equity						
Share capital	309.1	1,053.9	321.3	1,053.9	1,053.4	1,053.7
Non-cash owner contribution reserve	29.4	100.3	30.6	100.3	100.3	100.2
Accumulated losses	(249.1)	(849.4)	(242.4)	(795.0)	(630.3)	(624.7)
Total equity	**89.4**	**304.9**	**109.5**	**359.3**	**523.4**	**529.2**
Liabilities						
Loans and borrowings	520.2	1,773.9	519.2	1,703.0	1,500.7	1,336.7
Advances received from the Government	13.7	46.6	14.2	46.6	46.6	46.6
Payables for non-current assets[3]	14.7	50.0	16.3	53.5	21.6	55.1
Non-current liabilities[3]	**548.5**	**1,870.4**	**549.7**	**1,803.1**	**1,568.8**	**1,438.4**
Loans and borrowings	12.9	44.0	22.7	74.4	64.9	134.2
Trade and other payables[3]	24.6	83.8	25.1	82.3	128.3	136.5
Liabilities to the Government	1.4	4.7	1.4	4.7	4.9	5.3
Provisions	5.0	17.1	5.1	16.6	16.0	11.4
Tax liabilities	1.6	5.5	—	—	—	—
Other current liabilities	2.5	8.4	2.3	7.4	7.2	9.1
Current liabilities[3]	**48.0**	**163.6**	**56.5**	**185.4**	**221.4**	**296.4**
Total liabilities	**596.5**	**2,034.0**	**606.3**	**1,988.5**	**1,790.2**	**1,734.8**
Total equity and liabilities	**685.9**	**2,338.9**	**715.8**	**2,347.8**	**2,313.6**	**2,264.0**

Notes:

(1) For convenience, these figures have been translated into U.S. Dollars at the period-end GEL/U.S.$ exchange rate published by the NBG for 31 March 2021, which was GEL 3.41 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S. Dollars at the period-end GEL/U.S.$ exchange rate published by the NBG for 31 December 2020, which was GEL 3.28 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) Certain trade and other payables items as at 31 December 2019 and 31 December 2018 have been reclassified as payables for non-current assets to be consistent with the presentation in the 2020 Audited Consolidated Financial Statements and differ from those presented in the Group's financial statements as at, and for the years ended, 31 December 2018 and 2019. See Note 19 to the 2020 Audited Consolidated Financial Statements.

Summary Cash Flow Statement Data

	For the three months ended 31 March			For the year ended 31 December			
	2021		2020[(1)]	2020		2019	2018
	(U.S.$ millions)[(2)]	*(GEL millions)*	*(GEL millions)*	*(U.S.$ millions)*[(3)]	*(GEL millions)*	*(GEL millions)*	*(GEL millions)*
		(unaudited)					
Net cash from operating activities	16.2	53.5	56.4	68.4	212.7	215.2	179.0
Net cash used in investing activities	(0.0)	(0.0)	(8.7)	(12.0)	(37.3)	(85.7)	(75.5)
Net cash used in financing activities	(19.3)	(64.0)	(55.6)	(42.3)	(131.6)	(122.4)	(112.3)
Net increase/(decrease) in cash and cash equivalents	(3.2)	(10.6)	(8.0)	14.1	43.8	7.2	(8.8)
Cash and cash equivalents at 1 January	97.6	323.0	258.0	83.0	258.0	241.3	243.0
Effect of exchange rate fluctuations on cash and cash equivalents	2.1	6.8	22.9	6.8	21.0	9.5	7.6
Effect of movements in ECL on cash and cash equivalents	(0.0)	(0.1)	(0.1)	0.1	0.2	(0.0)	(0.6)
Cash and cash equivalents at period end	96.4	319.1	272.8	103.9	323.0	258.0	241.3

Notes:

(1) Restated. See "*Presentation of Financial and Other Information*".

(2) For convenience, these figures have been translated into U.S. Dollars at the average GEL/U.S.$ exchange rate, based on the average of monthly average rates published by the NBG, for the three months ended 31 March 2021, which was GEL 3.31 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) For convenience, these figures have been translated into U.S. Dollars at the average GEL/U.S.$ exchange rate, based on the average of monthly average rates published by the NBG, for 2020, which was GEL 3.11 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Other Financial and Operating Data

	For the three months ended 31 March		For the year ended 31 December			
	2021	2020	2020		2019	2018
	(GEL millions, except as noted)	*(GEL millions, except as noted)*	*(U.S.$ millions, except as noted)*[1] *(unaudited)*	*(GEL millions, except as noted)*	*(GEL millions, except as noted)*	*(GEL millions, except as noted)*
Other Financial Data						
Adjusted EBITDA[2]	57.6	58.1	70.4	219.0	223.1	172.3
Adjusted EBITDA Margin[2](*%*)	45.03	47.63	—	44.74	45.45	40.58
Selected Ratios						
Debt[3] to net cash from operating activities[5]	—	—	—	8.36	7.28	8.22
Debt[3] to Adjusted EBITDA[2]	—	—	—	8.12	7.02	8.54
Debt[3] to total equity[4]	5.96	—	—	4.95	2.99	2.78
Adjusted Net Debt to Adjusted EBITDA[3][6]	—	—	—	6.35	5.20	6.19
Selected Operating Data						
Freight volume (*thousand tonnes*)	2,981	2,774	—	11,063	10,861	10,005
Number of passengers (*thousands*)	53	553	—	939	3,027	2,851
Number of working rail cars	7,633	7,755	—	7,632	7,755	7,856
Number of employees (as at 31 March or 31 December)	12,373	12,635	—	12,369	12,669	12,627

Notes:

(1) For convenience, these figures have been translated into U.S. Dollars at the average GEL/U.S.$ exchange rate, based on the average of monthly average rates published by the NBG, for 2020, which was GEL 3.11 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) Adjusted EBITDA, as calculated by the Group, represents loss and total comprehensive loss, plus income tax expense and net finance costs, plus depreciation and amortisation expense, impairment loss on trade receivables and impairment loss on property, plant and equipment. Adjusted EBITDA Margin is Adjusted EBITDA divided by revenue. Adjusted EBITDA and Adjusted EBITDA Margin are non-IFRS measures that are not measurements of financial performance under IFRS and should not be considered as an alternative to results from operating activities or cash flows from operating activities or as a measure of liquidity or as an indicator of the Group's operating performance or any other measure of performance derived in accordance with IFRS. The Group includes Adjusted EBITDA, Adjusted EBITDA Margin and other non-IFRS measures in this Prospectus because it believes that they are useful measures of the Group's performance and liquidity and debt service ability. Other companies, including those in the Group's industry, may calculate similarly titled financial measures differently from the Group. Because all companies do not calculate these financial measures in the same manner, the Group's presentation of such financial measures may not be comparable to other similarly titled measures of other companies. See "—*Reconciliation of Adjusted EBITDA, Adjusted Net Debt and other ratios*" for a discussion of the Group's use of Adjusted EBITDA and a reconciliation of these figures to loss and total comprehensive loss for the period.

(3) Debt is comprised of current loans and borrowings and non-current loans and borrowings. See Note 15 to the First Quarter Condensed Consolidated Financial Statements, Note 18 to the 2020 Audited Consolidated Financial Statements and Note 19 to the 2019 Audited Consolidated Financial Statements.

(4) Debt to total equity is calculated as Debt divided by total equity.

(5) Debt to net cash from operating activities is calculated as Debt divided by net cash from operating activities.

(6) Adjusted Net Debt is Debt minus cash and cash equivalents, minus available credit facilities. Adjusted Net Debt to Adjusted EBITDA is calculated as Adjusted Net Debt divided by Adjusted EBITDA.

Reconciliation of Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Debt and other ratios

The following tables present a reconciliation of loss and total comprehensive loss for the periods to Adjusted EBITDA, Adjusted EBITDA Margin, of Adjusted Net Debt to the Group's statement of financial position and the calculation of Debt to net cash from operating activities. Adjusted EBITDA, Adjusted EBITDA Margin, Debt and Adjusted Net Debt are not measures of financial performance under IFRS. Adjusted EBITDA, Adjusted EBITDA Margin, Debt, Adjusted Net Debt and other non-IFRS measures should not be considered in isolation or as an alternative to results from operating activities, cash flows from operating activities or other financial measures of the Group's results of operations or liquidity derived in accordance with IFRS. The Group includes Adjusted EBITDA, Adjusted EBITDA Margin, Debt, Adjusted Net Debt and other non-IFRS measures in this Prospectus because it believes that they are useful measures of the Group's performance and liquidity and debt service ability. Other companies, including those in the Group's industry, may calculate similarly titled financial measures differently from the

Group. Because all companies do not calculate these financial measures in the same manner, the Group's presentation of such financial measures may not be comparable to other similarly titled measures of other companies.

Reconciliation of Adjusted EBITDA and Adjusted EBITDA Margin

	For the three months ended 31 March		
	2021		2020
	(U.S.$ millions, except as noted)[1]	*(GEL millions, except as noted) (unaudited)*	*(GEL millions, except as noted)*
Loss and total comprehensive loss for the period	**(16.4)**	**(54.4)**	**(182.6)**
Add back:			
Income tax expense	0.1	0.2	0.2
Net finance costs	27.9	92.4	219.7
Results from operating activities	**11.5**	**38.2**	**37.4**
Add back:			
Depreciation and amortisation expenses	5.2	17.3	20.4
Impairment loss on trade receivables	0.6	2.0	0.4
Impairment loss on property, plant and equipment	0	0	0
Adjusted EBITDA	**17.4**	**57.6**	**58.1**
Revenue	38.6	127.9	122.0
Adjusted EBITDA Margin[2] *(%)*	—	**45.03**	**47.63**

	For the year ended 31 December			
	2020		2019	2018
	(U.S.$ millions, except as noted)[3]	*(GEL millions, except as noted)*	*(GEL millions, except as noted)*	*(GEL millions, except as noted)*
	(unaudited)			
Loss and total comprehensive loss for the year	**(55.1)**	**(164.6)**	**(5.6)**	**(716.5)**
Add back:				
Income tax expense	0.2	0.5	0.5	1.2
Net finance costs	96.5	293.4	113.3	70.5
Results from operating activities	**41.6**	**129.2**	**108.2**	**(644.9)**
Add back:				
Depreciation and amortisation expenses	24.5	76.2	81.2	113.8
Impairment loss on trade receivables	4.4	13.6	33.7	12.0
Impairment loss on property, plant and equipment	–	–	–	691.4
Adjusted EBITDA	**70.4**	**219.0**	**223.1**	**172.3**
Revenue	157.4	489.4	491.0	424.6
Adjusted EBITDA Margin[2] *(%)*	**–**	**44.74**	**45.45**	**40.58**

Notes:

(1) For convenience, these figures have been translated into U.S. Dollars at the average GEL/U.S.$ exchange rate, based on the average of monthly average rates published by the NBG, for the three months ended 31 March 2021, which was GEL 3.31 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) Adjusted EBITDA Margin is Adjusted EBITDA divided by revenue.

(3) For convenience, these figures have been translated into U.S. Dollars at the average GEL/U.S.$ exchange rate, based on the average of monthly average rates published by the NBG, for 2020, which was GEL 3.11 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Reconciliation of Adjusted Net Debt

	As at 31 December			
	2020		2019	2018
	(U.S.$ millions)[1]	*(GEL millions)*	*(GEL millions)*	*(GEL millions)*
Loans and borrowings (non-current portion)...............	519.2	1,703.0	1,500.7	1,336.7
plus Loans and borrowings (current portion)	22.7	74.4	64.9	134.2
Debt	**541.9**	**1,777.4**	**1,565.6**	**1,470.9**
Minus:				
Cash and cash equivalents...	98.5	323.0	258.0	241.3
Available credit facilities...	19.8	64.8	146.7	162.8
Adjusted Net Debt	**423.6**	**1,389.6**	**1,160.9**	**1,066.8**
Adjusted EBITDA...	70.4	219.0	223.1	172.3
Debt to Adjusted EBITDA[(2)]	—	8.12	7.02	8.54
Adjusted Net Debt to Adjusted EBITDA[(3)]	—	6.35	5.20	6.19

Notes:

(1) For convenience, these figures have been translated into U.S. Dollars at the period-end GEL/U.S.$ exchange rate published by the NBG for 31 December 2020, which was GEL 3.28 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) Calculated as Debt divided by Adjusted EBITDA.

(3) Calculated as Adjusted Net Debt divided by Adjusted EBITDA.

Reconciliation of Other Ratios

The following table sets forth details of the calculation of Debt to net cash from operating activities as at the dates indicated.

	As at 31 December			
	2020		2019	2018
	(U.S.$ millions)[1]	*(GEL millions)*	*(GEL millions)*	*(GEL millions)*
Loans and borrowings (non-current portion)................	519.2	1,703.0	1,500.7	1,336.7
plus Loans and borrowings (current portion)	22.7	74.4	64.9	134.2
Debt	**541.9**	**1,777.4**	**1,565.6**	**1,470.9**
divided by Net cash from operating activities (for the year ended 31 December)...	—	212.7	215.2	179.0
Debt to net cash from operating activities[2]	—	**8.36**	**7.28**	**8.22**

Notes:

(1) For convenience, these figures have been translated into U.S. Dollars at the period-end GEL/U.S.$ exchange rate published by the NBG for 31 December 2020, which was GEL 3.28 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) Debt divided by net cash from operating activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis of the Group's operating and financial results and prospects is based on the Consolidated Financial Statements prepared in accordance with IFRS, as well as the Group's internal financial and operating records. Prospective investors should read the following discussion together with the remainder of this Prospectus, including "Risk Factors" and the Consolidated Financial Statements (including the related notes thereto) and should not rely solely on the information set out in this section.

Overview

JSC Georgian Railway is, by statute, Georgia's only vertically-integrated railway company. It principally provides freight services, transhipping a variety of cargo, including oil, oil products, ores, grains and other cargo, which principally originate in the east, from the Caspian Sea and Central Asia, across Georgia to the Black Sea. The Group also provides passenger services and freight forwarding services. It has a vertically-integrated business model, owning and operating the tracks, stations, other infrastructure and rolling stock comprising Georgia's entire national railway system, as well as the land adjoining the tracks. Currently, the Group sets its own tariffs without the need to obtain Government approval.

The Group's mainline rail network, together with that of Azerbaijan Railway, forms the Caucasus railway corridor, a key segment of the TRACECA corridor. The Group's mainline rail network is thus a key link in the shortest route from the Caspian Sea and Central Asia to the Black Sea and the Mediterranean basin. As a key link in the transportation chain between Europe and Central Asia, the Group believes that it is uniquely positioned to capitalise on trade between Europe and the Caspian Region and Central Asia. Three of the Group's lines terminate at the Black Sea, at the Georgian port cities of Batumi, Kulevi and Poti. Access to these ports allows easy on-shipment of transit cargo to the Mediterranean basin and Europe.

The Group operates the national railway system through three strategic business units, or SBUs: the Freight SBU, which consists of freight traffic (transportation and handling) and freight car rental services; the Passenger SBU, which primarily transports passengers within Georgia; and the Infrastructure SBU, which operates, maintains and manages the Group's principal infrastructure assets. The Infrastructure SBU provides services only to the Freight SBU, and the Passenger SBU and does not conduct business with third-party customers. For the year ended 31 December 2020, the Group transported 11.1 million tonnes of freight and carried 0.9 million passengers. For the three months ended 31 March 2021, the Group transported 3.0 million tonnes of freight and carried 53,000 passengers. The three SBUs are supported by the Company's subsidiaries, which are principally engaged in freight forwarding and handling and property management. For IFRS reporting purposes, however, the Group has two reportable segments, the freight transportation segment and the passenger transportation segment. The freight transportation segment accounted for 94.7%, 91.6% and 91.5%, of the Group's total revenue for the years ended 31 December 2020, 2019 and 2018, respectively. In the three months ended 31 March 2021, the freight transportation segment accounted for 98.3% of the Group's consolidated revenue, as compared to 94.6% in the corresponding period in 2020.

The freight transportation segment accounted for 94.7% of the Group's total revenue in 2020 and 98.3% of the Group's total revenue in the three months ended 31 March 2021. The Group transports both dry cargoes and liquid cargoes (primarily oil products), with dry cargoes accounting for 72.5% of the Group's total freight transportation volumes in the year ended 31 December 2020, as compared to 71.7% and 68.6% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, dry cargoes accounted for 62.7% of freight transportation volumes, as compared to 72.4% in the corresponding period in 2020. Liquid cargoes accounted for 27.5% of the Group's total freight transportation volumes in the year ended 31 December 2020, as compared to 28.3% and 31.4% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, liquid cargoes accounted for 37.3% of the Group's total freight transportation volumes, as compared to 27.6% in the corresponding period in 2020. A significant percentage of oil products transported by the Group (approximately 76% in the year ended 31 December 2020) originates in Azerbaijan.

For the year ended 31 December 2020, the Group had consolidated revenue of GEL 489.4 million, loss and total comprehensive loss of GEL 164.6 million and Adjusted EBITDA of GEL 219.0 million, as compared to consolidated revenue of GEL 491.0 million, loss and total comprehensive loss of GEL 5.6 million and Adjusted EBITDA of GEL 223.2 million for the year ended 31 December 2019, and consolidated revenue of GEL 424.6 million, loss and total comprehensive loss of GEL 716.5 million and Adjusted EBITDA of GEL 172.3 million for the year ended 31 December 2018. For the three months ended 31 March 2021, the Group had consolidated revenue of GEL 127.9 million, loss and total comprehensive loss of GEL 54.4 million and Adjusted EBITDA of GEL 57.6 million, as compared to consolidated revenue of GEL 122.0 million, loss and total comprehensive loss of GEL 182.6 million and Adjusted EBITDA of GEL 58.1 million for the corresponding period in 2020.

Recent Developments

Since 31 March 2021, the following developments have occurred that may affect the Group's financial condition and results of operations in the future:

2012 Notes Tender Offer and Consent Solicitation

On 26 May 2021, the Company invited holders of the 2012 Notes to tender any and all such notes for purchase by the Company for cash and to simultaneously consent to the mandatory redemption of the 2012 Notes pursuant to the Tender Offer and Consent Solicitation, subject to certain terms and conditions and restrictions, as set out in a Tender Offer and Consent Solicitation Memorandum dated 26 May 2021.

Factors Affecting the Group's Results of Operations

The Group's financial performance and results of operations have been and continue to be affected by a number of factors, the most significant of which are set out below. See also "*Risk Factors*".

Macroeconomic and political factors

The Group's results have been, and future results are likely to be, affected by global economic activity in general, and regional and national economic activity in particular. Because substantially all of the Group's revenues are derived from freight transportation, the Group's results are particularly sensitive to trade flows of commodities, such as oil products, ores, grain, construction materials and crude oil. Specifically, freight transit volumes are affected by trade between and among the EU (and, more broadly, Europe) and the member states of the TRACECA corridor. Dry cargoes accounted for 72.5% of the Group's total freight transportation volumes in the year ended 31 December 2020, as compared to 71.7% and 68.6% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, dry cargoes accounted for 62.7% of freight transportation volumes, as compared to 72.4% in the corresponding period in 2020. Of the Group's total dry cargoes, transit shipments accounted for 46.8% of the Group's total dry cargo transportation volumes in the year ended 31 December 2020, as compared to 45.2% and 35.1% of the Group's total dry cargo transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, transit shipments accounted for 46.8% of total dry cargo transportation volumes, as compared to 51.4% in the corresponding period in 2020. Liquid cargoes accounted for 27.5% of the Group's total freight transportation volumes in the year ended 31 December 2020, as compared to 28.3% and 31.4% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, liquid cargoes accounted for 37.3% of the Group's total freight transportation volumes, as compared to 27.6% in the corresponding period in 2020. Of the Group's total liquid cargoes, transit shipments accounted for 58.8% of the Group's total liquid cargoes in the year ended 31 December 2020, as compared to 56.7% and 56.0% of the Group's total liquid cargoes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, transit shipments accounted for 77.3% of total liquid cargoes, as compared to 62.8% in the corresponding period in 2020. A significant percentage of oil products (approximately 76% in the year ended 31 December 2020) originates in Azerbaijan. See "*Industry*".

The Group's freight volumes prior to the global recession grew, and since recovery from the global recession began, grew to a large extent until 2012, as a result of growing trade between and among the commodity and energy-rich emerging market economies in or near the TRACECA corridor, such as Azerbaijan, Kazakhstan and Turkmenistan, on the one hand, and the EU (and, more broadly, Europe), on the other. Since 2012, the Group's freight volumes have generally declined primarily due to competition from alternative routes, and competition from oil pipelines for the transportation of crude oil, with the Group now only transporting minimal quantities of crude oil. See "*Description of the Group's Business—Business Operations—Freight Competition*". In each of 2019 and 2020, the Group's freight volumes increased, primarily due to increased transportation of ores and other dry cargoes. The impact of COVID-19 has negatively impacted levels of trade and economic activity in Europe, in particular, and in several TRACECA members, including Georgia, and consequently trade undertaken among and between these countries declined and industrial activity slowed within Georgia.

In recent years economic growth has been slow across the region, including Georgia, for several reasons. These include a number of geopolitical developments, such as: (i) low oil prices (a consequence of reduced import demand from Russia, the largest economy in the region, following the recession in Russia); (ii) Russia being subject to international sanctions; (iii) conflict situations in eastern Ukraine and Crimea; (iv) the armed conflict between Azerbaijan and Armenia in 2020; and (v) the recent depreciation of the Russian Rouble and other currencies in the region.

In order to reduce its dependence on the CIS countries and to seize new opportunities, the Group is currently planning to expand its operations into new markets, and in particular, China and Turkey. Following the completion of the Baku-Tbilisi-Kars railway line, expected to become fully operational in 2022, a new railway route has been established that runs from China to Europe through Georgia and Turkey, and the Group aims to capitalise on increased trade volumes in these jurisdictions. In 2020,

approximately 15% of China's total trade was with the EU, and approximately 9% of Turkish imports originated from China. The Group is also targeting the development of a trade route to India.

COVID-19

On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. In response, the Government has taken several measures to contain the outbreak, including imposing restrictions on the cross-border movement of people, entry restrictions for foreign visitors to the country and instructing businesses to encourage employees to work from home. During March 2020, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theatres, museums and sport facilities.

In response to the travel restrictions imposed by the Government, the Group temporarily reduced its passenger transportation services, which, in turn, decreased its revenue from the passenger transportation segment, which accounted for 2.3% of the Group's total revenue for the year ended 31 December 2020, as compared to 6.3% for the year ended 31 December 2019. However, apart from passenger transportation services, the Group has largely returned its operations to pre-pandemic levels. In addition, the temporary restrictions placed by the Government in 2020 on air and land transportation has positively impacted the Group's revenue from freight traffic, which accounted for 79.6% of total revenue for the year ended 31 December 2020, as compared to 76.1% for the year ended 31 December 2019. Despite the impact of COVID-19, the Group's revenue from freight traffic increased in 2020, primarily driven by strong results in the first quarter following the adjustment to certain freight tariffs to make them more attractive to customers, as well as the ability to continue operations throughout 2020 unhindered by pandemic-related restrictions imposed on road and air transportation.

If the COVID-19 pandemic continues its current trajectory of steady improvement and re-opening of global economies, the Group expects a positive impact on its short-term financial position and operating results. However, if the pandemic worsens, as a result, for example, of a "third wave", resulting in future extended or more severe lockdown periods and restrictions, the Group expects that it would result in a material adverse effect on the Group's financial position and operating results and cannot predict how long such impact would last. Management continues to monitor the global and national situation closely and will respond as it is able to mitigate the impact of such events and circumstances if they occur.

Passenger volumes, particularly for international travel, are affected by the levels of disposable income of populations both in Georgia and in the countries neighbouring Georgia, and more recently by the impact of domestic and international travel restrictions imposed by the Government and governments of neighbouring countries as a result of COVID-19. The revenue generated by, and passenger numbers transported by, the Passenger SBU were materially adversely impacted in 2020, and to date in 2021, by the impact of the COVID-19 pandemic. In line with Government regulations, passenger transportation was ceased from the second half of March 2020 until 15 June 2020 and, subject to certain limited exceptions, from 28 November 2020 until 27 February 2021.

For a description of the Group's freight volumes and passenger volumes during the periods presented, see "*Description of the Group's Business—Business Operations—Freight SBU—Freight Composition*" and "*Description of the Group's Business—Business Operations—Passenger SBU—Passenger Customers*" and *"—Freight volumes*".

Operational efficiency

In September 2010, the Group began to implement its Modernisation Project. The key objective of the Modernisation Project is to modernise the infrastructure and increase the capacity of the Group's main line, as well as to rehabilitate existing infrastructure. The Modernisation Project aims to reduce the Capital Expenditures required for maintenance of the Group's infrastructure and decrease the Group's operating costs, primarily through the: (i) improvement of the rail lines along the Group's main line; and (ii) debottlenecking the line to increase its capacity. The main bottleneck is in a mountainous region in the centre of Georgia, approximately 40 km length of gorge. The topography of the gorge complicates rail operations, causing delays, quickening the depreciation of the tracks and rolling stock and increasing the need for additional pulling locomotives. The Modernisation Project aims to build a direct tunnel through the gorge, thereby decreasing the track gradient and so reducing electricity and fuel expenses, wear and tear on wheels and tracks, maintenance expenses, the need for extra locomotives and the extra stops needed to cool the brakes on the trains. This is expected to increase throughput capacity from 27 million tons of cargo *per annum* to 48 million tons *per annum*, with the possibility of further expansion to a potential 100 million *per annum*. The Modernisation Project is substantially complete. In particular, the contractor has completed approximately 96% of the works (which includes the construction of all six planned tunnels, three out of the six planned bridges, 81% of the planned artificial structures (which includes bridges, culverts and water ditches) and 67% of the subgrade work), as compared to 93% as at 31 December 2020 and 88% as 31 December 2019. Since the beginning of 2021, the Group has also started conducting a part of the works using its own personnel for railway track construction, signalling centralisation and blocking, power and electric traction lines. During 2020, GEL 21.2 million was spent on the project, as compared to GEL 93.8 million in 2019. Based on current estimates, it is expected that the Modernisation Project will be completed in 2023 (and the portion of works being conducted by the external contractor is expected to be completed in 2022).

For a description of the Group's past and budgeted Capital Expenditures, including those relating to the Modernisation Project, see "*—Liquidity and Capital Resources—Capital Expenditures*".

Exchange rates

The Group's reporting currency is the Lari. There is a mismatch between the denomination of the Group's revenues, which are predominantly denominated in foreign currencies, and expenses, which are largely denominated in Lari. For example and to a material extent, the Group enters into transactions denominated in U.S. Dollars and, to a lesser extent, Swiss Francs (in relation to freight car rental) and carries a portion of its liabilities and assets in these currencies. Therefore, variations between the rate of exchange between the U.S. Dollar or the Swiss Franc, on the one hand, and the Lari, on the other hand, have had, and will continue to an effect on the Group's results of operations.

The Group quotes its freight tariffs in U.S. Dollars. The majority of the Group's non-Georgian freight customers pay U.S. Dollars or Swiss Francs, while Georgian customers pay in Lari. In 2020, approximately 5% of the Group's freight revenues were Lari-denominated, representing principally demurrage charges to Georgian customers. In addition, 100% of the Group's Capital Expenditures related to the Modernisation Project are denominated in Swiss Francs, as were, to a certain extent during the period under review, its operating expenses, including rental charges for using the railcars of other national railway operators and many of the costs of materials used for repair and maintenance.

In the year ended 31 December 2019, the U.S. Dollar appreciated relative to the Lari, which had a positive effect on the Group's revenues but a negative effect on the Group's debt which is denominated in U.S. Dollars. In the year ended 31 December 2020, the U.S. Dollar continued to appreciate relative to the Lari. This has had a negative effect on the Group, because it increased the Group's foreign exchange losses.

In each of 2019 and 2020, the Swiss Franc appreciated relative to the Lari, which had the effect of: (i) positively impacting revenue, as freight car rental revenue is denominated in Swiss Francs; and (ii) to a certain extent, contributing to increases in costs of materials used for repair and maintenance. Management expects that future revenue and profit growth, if any, will be substantially dependent on volume and tariff increases rather than the effects of currency movements.

In the period ended 31 March 2021, the U.S. Dollar appreciated relative to the Lari. This had a positive effect on the Group's revenues, but a negative effect on the Group's debt, which is denominated in U.S. Dollars.

See "*Exchange Rate Information*" and "*—Quantitative and Qualitative Disclosures about Market Risk—Market risk—Currency risk*."

Freight tariffs

The Group's results of operations are driven to a significant degree by freight tariffs. The Group has a written tariff policy specifying the methods and formulas for determining the various tariffs for its services and offers a number of discounts, which it publishes in its website.

Although rail transportation in Georgia is a statutory monopoly, the Group's pricing policies are not subject to direct Government regulation. Accordingly, the Group is currently not subject to any mandatory tariffs, and the Group, pursuant to the Railway Code, sets its own tariff policies independently.

Georgia is in the process of implementing certain legislation and regulation equivalent to EU legislation in accordance with the provisions of the Association Agreement, including Directive 34, by 2022. Directive 34 requires, among other things, the establishment of a regulatory body responsible for overseeing tariff policy in the railway sector to prevent discrimination and anti-competitiveness. Accordingly, there can be no assurance that the Group will not be subject to mandatory tariffs or tariff review in the future. See "*Description of the Group's Business—Business Operations—Freight SBU—Freight tariffs*" and "*Description of the Group's Business—Regulation—Directive 34*".

The following table sets forth information in respect of the Group's revenue per tonne-kilometre, by type of freight, for the periods indicated.

	For the three months 31 March		
	2021	**2020**	**Change Q1 2021 vs. Q1 2020**
	(U.S.$ cents)		*(%)*
Average Tariffs[(1)]			
Oil products	3.17	4.15	(23.6)
Crude Oil	2.27	4.06	(44.1)
Dry cargo	2.92	3.03	(3.6)

	For the year ended 31 December				
	2020	**2019**	**Change 2020 vs. 2019**	**2018**	**Change 2019 vs. 2018**
	(U.S.$ cents)		*(%)*	*(U.S.$ cents)*	*(%)*
Average Tariffs[(1)]					
Oil products	4.42	5.02	(13.6)	4.46	12.4
Crude Oil	3.85	4.27	(11.1)	2.37	80.4
Dry cargo	3.12	3.20	(2.7)	3.39	(5.5)

Note:

(1) Revenue per tonne-kilometre is calculated as freight traffic revenue (not including revenue from logistical services and any handling charges) divided by tonne-kilometres. The Group uses a detailed formula for each individual transportation order that takes into consideration various factors, including the type and weight of freight as well as the direction and the distance over which the cargo is carried. Amounts stated are in U.S. cents per tonne-kilometre, unless otherwise indicated.

The Group may change its tariffs and discounts it applies to its tariffs upon one month's notice to its customers.

Freight volumes

The Group's results of operations are also driven to a significant degree by freight volumes, which are, in turn, driven by global, regional and national economic trends, including, recently, the effects of COVID-19 in Georgia and abroad. Total volumes for liquid and dry cargo, stated on a million tonne-kilometre basis, for the year ended 31 December 2020, were 2,895.3, as compared to 2,909.0 and 2,571.1 for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 0.5% in 2020, as compared to 2019, and an increase of 13.1% in 2019, as compared to 2018.

The decrease of freight volumes in the year ended 31 December 2020, as compared to 2019, was primarily due to a decrease in the sales of ores, grain products, construction freight, industrial freight and cement.

The increase of freight volumes in the year ended 31 December 2019, as compared to 2018, was primarily due to an increase in the sales of chemicals and fertilisers, ferrous metals, scrap metals and other product categories.

In the three months ended 31 March 2021, total volumes for liquid and dry cargo, stated on a million tonne-kilometre basis, were 839.2, as compared to 771.9 in the corresponding period in 2020, reflecting an increase of 8.0%.

The majority of the Group's liquid cargo revenue is generated from oil products. As a result, 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 2020, approximately 76.0% of crude oil and oil products were transported from three countries (Russia, Azerbaijan and Turkmenistan), mostly to Europe and Georgia.

The major factors impacting the transportation of dry cargo include: (i) general economic conditions and developments in Georgia; and (ii) economic developments and conditions in Georgia's key partnering countries including Azerbaijan, Armenia, Turkmenistan, Kazakhstan and other countries in the region. For example, in the years 2020, 2019 and 2018, the trends shown in the data on the tables below were principally caused by changes in product direction mix, as well as changes in product category mix.

Seasonality

Another factor affecting the Group's volumes of goods transported via container vessels and waterways is seasonality. The Group has in recent years experienced difficulties dispatching cargo from ships docked at certain ports due to adverse weather conditions, especially during the winter season, when ports in the Caspian Sea may close as a result.

The following tables set forth the breakdown of the Freight SBU's freight transportation volumes by thousand tonnes and turnover (in thousand tonne-kilometres), by type of freight transported, for the periods indicated:

	For the three months ended 31 March			
	2021		2020	
	(thousand tonnes)	*(thousand tonne-kilometres)*	*(thousand tonnes)*	*(thousand tonne-kilometres*
Liquid cargoes	**1,113**	**366,706**	**767**	**230,997**
Crude oil	*1*	*424*	*5*	*1,816*
Oil products[(1)]	*1,112*	*366,283*	*762*	*229,181*
Dry cargoes	**1,868**	**472,460**	**2,007**	**540,939**
Ores	*387*	*61,836*	*463*	*103,902*
Construction freight	*204*	*30,551*	*182*	*31,096*
Grain	*41*	*7,645*	*53*	*9,272*
Ferrous metals and scrap	*130*	*28,341*	*160*	*42,023*
Chemicals and fertilisers	*338*	*111,709*	*364*	*119,885*
Cement	*9*	*2,232*	*17*	*4,127*
Sugar	*105*	*40,100*	*1*	*81*
Industrial freight	*74*	*16,420*	*93*	*16,089*
Other	*579*	*173,627*	*674*	*214,464*
Total	**2,981**	**839,167**	**2,774**	**771,937**

Note:

(1) Oil products primarily include products such as petrol, bitumen, diesel fuel and liquefied natural gas (LNG).

	For the year ended 31 December					
	2020		2019		2018	
	(thousand tonnes)	*(thousand tonne-kilometres)*	*(thousand tonnes)*	*(thousand tonne-kilometres)*	*(thousand tonnes)*	*(thousand tonne-kilometres)*
Liquid cargoes	**3,046**	**884,935**	**3,077**	**896,564**	**3,140**	**922,967**
Crude oil	*6*	*1,998*	*14*	*3,772*	*168*	*65,692*
Oil products[(1)]	*3,040*	*882,937*	*3,063*	*892,792*	*2,972*	*857,275*
Dry cargoes	**8,018**	**2,010,357**	**7,784**	**2,012,422**	**6,865**	**1,648,141**
Ores	*1,878*	*326,505*	*2,020*	*506,208*	*1,578*	*326,705*
Construction freight	*909*	*141,685*	*1,027*	*155,397*	*1,170*	*163,622*
Grain	*308*	*71,992*	*424*	*98,032*	*475*	*102,750*
Ferrous metals and scrap	*535*	*129,996*	*525*	*120,668*	*550*	*119,026*
Chemicals and fertilisers	*940*	*308,651*	*719*	*220,786*	*552*	*193,969*
Cement	*46*	*11,467*	*113*	*27,628*	*119*	*25,406*
Sugar	*285*	*98,207*	*327*	*120,193*	*356*	*128,532*
Industrial freight	*365*	*63,095*	*458*	*89,513*	*410*	*65,840*
Other	*2,751*	*858,760*	*2,171*	*673,997*	*1,655*	*522,290*
Total	**11,063**	**2,895,292**	**10,861**	**2,908,986**	**10,005**	**2,571,108**

Note:

(1) Oil products primarily include products such as petrol, light fuel, diesel fuel and liquefied natural gas (LNG).

The following tables sets forth the breakdown of the Freight SBU's freight transportation volumes by destination of freight transported for the periods indicated:

	For the three months ended 31 March			
	2021		2020	
	(thousand tonnes)	*(%)*	*(thousand tonnes)*	*(%)*
Liquid cargoes	**1,113**	**37.3**	**767**	**27.6**
Local	*16*	*0.5*	*33*	*1.2*
Export	*5*	*0.2*	*2*	*0.1*
Import	*231*	*7.7*	*250*	*9.0*
Transit	*860*	*28.8*	*482*	*17.4*
Dry cargoes	**1,868**	**62.7**	**2,007**	**72.4**
Local	*404*	*13.6*	*307*	*11.1*
Export	*319*	*10.7*	*314*	*11.3*
Import	*269*	*9.0*	*354*	*12.8*
Transit	*875*	*29.4*	*1,032*	*37.2*
Total	**2,981**	**100.0**	**2,774**	**100.0**

	For the year ended 31 December					
	2020		2019		2018	
	(thousand tonnes)	*(%)*	*(thousand tonnes)*	*(%)*	*(thousand tonnes)*	*(%)*
Liquid cargoes	**3,046**	**27.5**	**3,077**	**28.3**	**3,140**	**31.4**
Local	*143*	*1.3*	*208*	*1.9*	*200*	*2.0*
Export	*10*	*0.1*	*18*	*0.2*	*21*	*0.2*
Import	*1,102*	*10.0*	*1,105*	*10.2*	*1,161*	*11.6*
Transit	*1,791*	*16.2*	*1,746*	*16.1*	*1,760*	*17.6*
Dry cargoes	**8,018**	**72.5**	**7,784**	**71.7**	**6,865**	**68.8**
Local	*1,760*	*15.9*	*1,515*	*13.9*	*1,604*	*16.0*
Export	*1,085*	*9.8*	*1,255*	*11.6*	*1,145*	*11.4*
Import	*1,422*	*12.9*	*1,499*	*13.8*	*1,708*	*17.1*
Transit	*3,751*	*33.9*	*3,515*	*32.4*	*2,407*	*24.1*
Total	**11,063**	**100.0**	**10,861**	**100.0**	**10,005**	**100.0**

Freight volumes increased by 0.2 million tonnes, or 1.9%, in the year ended 31 December 2020, as compared to 2019. The increase was primarily due to an increase in the volumes of "other" freight transported, including methanol, p_Xylene, meat products and mineral water.

Freight volumes increased by 0.2 million tonnes, or 7.5%, in the three months ended 31 March 2021, as compared to the corresponding period in 2020. This increase was primarily due to an increase in the volumes of oil products transported in the three months ended 31 March 2021.

Cost of electricity and materials

Electricity constitutes a significant component of the Group's operating expenses. Electricity costs include principally the costs of the electricity used to move the Group's locomotives and vehicles and the electricity used in the Group's buildings. Approximately 97% of the Group's railway network is electrified.

Electricity tariffs are denominated in Lari. In September 2011, the Company signed the Electricity Agreement for the purchase and sale of electricity with EnergoPro Georgia. The contract has a term of ten years, securing a fixed price for more than 90% of the Group's electricity needs (subject to certain circumstances, under which these tariffs can be increased). The Electricity Agreement is due to expire in September 2021, however, as of July 2021, the Group may have to purchase electricity on the open market, pursuant to structural changes made to the Georgian electricity market under Resolution № 46 of 2020 of the Georgian National Energy and Water Supply Regulatory Commission on Approving Electricity Market Rules. The exact pricing

policy of the market is not yet established. See "*Risk Factors—Operational Risks relating to the Group and its Business—The Group's energy costs could increase*".

As a result of the expiration of the Electricity Agreement, the Group estimates that the electricity tariff and electricity costs for the Group could double in 2021, as compared to 2020 (based on the current maximum tariff electricity providers are allowed to charge clients). Electricity providers are expected to charge the maximum tariff chargeable in 2021, primarily due to a decrease in the overall consumption of electricity in 2020. As a result, the Group expects a material increase in electricity costs in 2021. The GNERC approved new tariffs for end-users of electricity beginning in January 2021, which has since resulted in an increase in electricity tariffs for commercial subscribers. Management does not expect tariffs to be revised significantly in 2022 and 2023.

The following table sets forth the average price of electricity for the periods indicated.

	For the three months ended 31 March		**For the year ended 31 December**		
	2021	**2020**	**2020**	**2019**	**2018**
			(GEL per kilowatt hour)		
Average price	0.155	0.130	0.130	0.130	0.130

Average electricity tariffs increased by 0.13% in the year ended 31 December 2020, as compared to 2019. The stability in average prices was primarily due to the fact that electricity tariffs were mostly fixed during this time.

The electricity expenses of the Group may be split into two categories: (i) 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 (ii) utility expenses, which are not related to transportation volume, and are generally considered as fixed.

The following table sets forth the electricity expenses of the Group, by category, for the years indicated.

	For the three months ended 31 March		**For the year ended 31 December**		
	2021	**2020**	**2020**	**2019**	**2018**
			(GEL thousands)		
Electricity expenses of traction	4,857	4,621	16,143	18,533	17,434
Utility expenses.......................	1,351	1,187	3,377	3,536	3,528
Total	**6,207**	**5,808**	**19,519**	**22,069**	**20,962**

See "*—Results of Operations for the Years ended 31 December 2020, 2019 and 2018—Electricity, consumables and maintenance costs*".

The Group's fuel requirements consist principally of the costs of diesel used by support locomotives and vehicles and other fuel used in operations. Purchase prices for diesel fuel, on a per litre basis, decreased by approximately 23.5% in the year ended 31 December 2020, as compared to 2019, having increased by 3.7% in 2019, as compared to 2018.

The following table sets forth the fuel expenses for the years indicated.

	For the three months ended 31 March		**For the year ended 31 December**		
	2021	**2020**	**2020**	**2019**	**2018**
			(GEL thousands)		
Fuel expenses	1,372	2,014	6,184	7,023	6,704

The Group's electricity and fuel costs have generally increased throughout the periods presented, generally in line with freight volume increases requiring growing consumption of electricity and due to the increases in electricity tariffs and fuel prices. However, in 2020, despite fuel volumes increasing by 1.9% compared to 2019, fuel expenses decreased due to lower fuel prices in 2020, as compared to 2019, due to lower global oil prices.

The Group uses steel, basalt and other materials in the repair of rail tracks, railcars and locomotives and other infrastructure. The cost of such materials has increased during the periods presented. The Group's use of these materials has decreased

throughout the periods presented, primarily due to the impact of the Government-imposed COVID-19 pandemic regulations on the operations of the Group, and, in particular, the restriction of movement and travel, which led to delays to operations relating to repair works.

Depreciation

The Group's depreciable assets consist principally of its: rail track infrastructure, including the tracks, tunnels, bridges and stations; transport, machinery, equipment and other, consisting principally of railcars, locomotives and moveable equipment used in freight and passenger operations; and buildings and constructions, such as the Company's headquarters, other offices and some stations.

Depreciation is recognised on a straight-line basis over the estimated useful lives of each part of a depreciable asset, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. See "*—Critical Accounting Policies—Depreciation*".

While the Group has been carrying out operational improvements under the Modernisation Project, its depreciation expense has continued to decrease moderately from period to period, in part due to the Modernisation Project and certain of the Group's assets reaching the end of their respective useful lives. The Group has also made strategic investments that enhance the operational efficiency of its assets, which have made some of its older infrastructure redundant or obsolete.

For a more detailed description of the Group's infrastructure investments and its depreciable asset base and related depreciation, see *"—Liquidity and Capital Resources—Capital Expenditures*" and Note 10 of the 2020 Audited Consolidated Financial Statements and Note 11 of the 2019 Audited Consolidated Financial Statements.

Passenger tariffs and volumes

The Group's passenger transportation segment represented 2.3%, 6.3% and 6.5% of its total revenue for the years ended 31 December 2020, 2019 and 2018, respectively. In the three months ended 31 March 2021, the passenger transportation segment represented 0.6% of the Group's total revenue, as compared to 3.9% in the corresponding period in 2020.

Passenger revenues are a function of passenger tariffs, which management measures in terms of average tariffs per thousand passenger-kilometre and the total number of passenger kilometres, for any given period. The Group's revenue per passenger-kilometre was 4.5 tetri for the three months ended 31 March 2021, as compared to 4.1 tetri for the corresponding period in 2020. The Group's revenue per passenger-kilometre was 4.5 tetri for the year ended 31 December 2020, as compared to 4.6 tetri and 4.3 tetri for the years ended 2019 and 2018, respectively.

The following table sets forth information in respect of the Group's passenger tariffs for the periods indicated.

	For the three months ended 31 March		For the year ended 31 December		
	2021	2020	2020	2019	2018
	(tetri per passenger-kilometre)				
Average revenue per passenger kilometre[(1)]..	4.5	4.1	4.5	4.6	4.3

Note:
(1) Average revenue is calculated as passenger traffic revenue per passenger-kilometre.

The following table sets forth the number of passenger kilometres for the periods indicated:

	For the three months ended 31 March		For the year ended 31 December		
	2021	2020	2020	2019	2018
	(passenger kilometres, thousands)				
Domestic	17,086	113,450	245,502	653,970	613,224
International	0	1,436	1,436	22,674	20,389
Total	**17,086**	**114,886**	**246,938**	**676,644**	**633,613**

The revenues generated by, and passenger numbers transported by, the Passenger SBU were materially adversely impacted in 2020 and to date in 2021 by the impact of the COVID-19 pandemic. In line with Government regulations, passenger transportation was ceased from the second half of March 2020 until 15 June 2020 and, subject to certain limited exceptions, from 28 November 2020 until 27 February 2021. See "*Risk Factors—Operational Risks relating to the Group and its Business—The Group faces risks related to the adverse impact of the COVID-19 pandemic*".

Explanation of Key Comprehensive Income Items

Revenue

The Group's revenue comprises freight traffic, logistics services, passenger traffic, rent of wagons and other rental income, freight car cross-border charge and other income. The Group generates substantially all of its revenue through the freight transportation segment.

The freight transportation segment derives revenue from freight traffic, logistic services (which represents revenue generated by the Company's subsidiaries), rent of wagons and other rental income and freight car cross-border charges. Freight traffic revenue comprises revenue from freight transportation services, generated by transporting customer cargoes along the Group's railway network. Logistics services revenue comprises revenue generated by the Group's subsidiary companies. Rent of wagons and other rental income relates to income from operating leases and is generated from leasing railcars to the Group's customers and leasing locomotives to other railway companies outside Georgia, including Azerbaijan Railway. Revenue from freight car cross-border charge is generated when the Group's wagons cross the Georgian border and enter another country's territory, based on daily charges for wagons, containers and any other services.

The passenger transportation segment has consistently generated more than 93% of its revenue from passenger traffic. The substantial majority of passenger traffic revenue derives from the transportation of passengers through the sale of railway tickets. To a very limited extent, passenger traffic revenue also includes revenue from ticket commissions and the transport of unaccompanied luggage within Georgia.

Other revenue, which appears in Note 6 of the 2020 Audited Consolidated Financial Statements and Note 7 of the 2019 Audited Consolidated Financial Statements, primarily consists of revenue from the sale of scrap metal that the Group generates from ongoing maintenance and repair.

Other income

Other income is primarily comprised of penalties accrued on creditors and debtors, which consists of: penalty payments under contracts with the Group's service providers or to parties to which the Group provides services; revenue from surplus inventory; revenue from gifts and additional income due for tax purposes.

Employee benefits expense

Employee benefit expense is primarily comprised of salaries, bonuses and workers compensation for injury or sickness, business trip expenses and funded pension expenses.

Depreciation and amortisation expense

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised on a straight-line basis over the estimated useful lives of each major component of an item of property, plant and equipment. Depreciation methods and useful lives are reviewed at each financial year end and adjusted, if appropriate.

The Group's amortisation expense is immaterial.

Electricity, consumables and maintenance costs

Electricity consumables and maintenance costs is comprised of electricity, materials, repair and maintenance and fuel. Electricity costs include principally the costs of the electricity used to move the Group's locomotives and vehicles and the electricity used in the Group's buildings. Material costs primarily comprise the costs of rail track construction and renovation. Maintenance costs comprise the costs of repairs and maintenance done directly by the Group. Fuel includes the costs of diesel used by locomotives and vehicles and other fuel used in operations.

Other expenses

Other expenses are primarily comprised of property and land taxes, expenses related to logistic services, security costs and other expenses (comprised principally of office expenses, consultancy expenses, membership costs for the Organisation for the Cooperation of Railways, communications, and internet and sundry other items).

Land taxes are determined by the municipalities where the land is located, while property taxes are calculated at 1% of the book value of an asset, but certain railway infrastructure assets, such as, tracks, are exempted from this tax.

Net finance costs

Finance income comprises interest income on bank deposits and loans receivable and gain on modification of financial instruments. Finance costs comprise interest expense on financial liabilities measured at amortised cost, unwinding of discount on provision and financial liabilities measured at amortised cost, impairment loss on other financial assets and net foreign exchange loss.

Income tax expense

Income tax expense comprises current and deferred tax. Following the introduction of the new tax system in Georgia, there are no differences in the tax bases for assets and their carrying amounts for Georgian entities (including the Company) and, accordingly, deferred income tax assets and liabilities no longer arise. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. See Note 28(f) to the 2020 Audited Consolidated Financial Statements and Note 29(f) to the 2019 Audited Consolidated Financial Statements.

Operating and Financial Results

Business and reportable segments

For purposes of its business operations, the Group operates the national railway system through three SBUs: the Freight SBU, which derives revenue from freight traffic (transportation and handling) and the freight car cross border charge; the Passenger SBU, which primarily transports passengers within Georgia and on international routes, connecting Georgia with Azerbaijan and Armenia; and the Infrastructure SBU, which operates, maintains and manages the Group's principal infrastructure assets. The Infrastructure SBU is a cost centre providing services only to the Freight SBU and the Passenger SBU and does not conduct business with third-party customers. The three SBUs are supported by the Group's subsidiaries, which are engaged in freight forwarding and handling and property management. For IFRS reporting purposes, however, the Group has two reportable segments, the freight transportation segment and the passenger transportation segment. A reportable segment is a segment of the Group that engages in business activities from which it may earn revenues and incur expenses. The reporting segments offer different products and services and are managed separately because they require different technologies and marketing strategies. Segment information includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Items that are not allocated for IFRS reporting purposes to the Freight SBU and the Passenger SBU comprise mainly railway infrastructure, corporate assets (primarily the Group's headquarters), head office expenses, financial income and expenses, tax expenses and tax assets and liabilities. Items related to infrastructure are not allocated to a reporting segment as the Group has not yet implemented systems for such allocations. In 2022, pursuant to Directive 34, Infrastructure SBU reporting is expected to be separated. The Group may also prepare independent financial reports for each of the Company's three main SBUs or undergo other "unbundling" measures in furtherance of the implementation of Directive 34. See "*Description of the Group's Business—Regulation—Directive 34*".

During the periods under review, the freight transportation segment generated substantially all of the Group's revenue, accounting for 94.7%, 91.6% and 91.5% of total revenue for the years ended 31 December 2020, 2019 and 2018, respectively, and generated GEL 322.7 million, GEL 310.1 million and GEL 220.5 million in reportable segment profit before infrastructure costs, net interest cost and income tax for the years ended 31 December 2020, 2019 and 2018, respectively.

The passenger transportation segment accounted for 2.3%, 6.3% and 6.5% of total revenue for the years ended 31 December 2020, 2019 and 2018, respectively. The passenger transportation segment incurred reportable segment loss before infrastructure costs, net interest cost and income tax of GEL 24.8 million, GEL 4.5 million and GEL 5.2 million for the years ended 31 December 2020, 2019 and 2018, respectively.

Approximately 95% of the Group's consolidated revenue is generated in Georgia, with the remainder generated in neighbouring countries. The non-current assets of the Group are located in Georgia. For additional information about the Group's reportable segments, see Note 5 to the First Quarter Condensed Consolidated Financial Statements, Note 5 of the 2020 Audited Consolidated Financial Statements and Note 6 of the 2019 Audited Financial Statements.

Results of Operations for the Three-Month Periods ended 31 March 2021 and 2020

The following table sets forth the Group's results of operations for the three months ended 31 March 2021 and 2020, derived from the First Quarter Condensed Consolidated Financial Statements, unless otherwise indicated.

	For the three months ended 31 March			
	2021		2020[(1)]	Change Q1 2021 vs. Q2 2020
	(U.S.$ millions)[(2)]	*(GEL millions)*	*(GEL millions)*	*(%)*
		(unaudited)		
Revenue	38.6	127.9	122.0	4.8
Other income	0.7	2.3	3.4	(32.4)
Employee benefits expense	(12.2)	(40.5)	(40.2)	0.7
Depreciation and amortisation expense	(5.2)	(17.3)	(20.4)	(15.2)
Electricity, consumables and maintenance costs	(3.2)	(10.6)	(11.5)	(7.8)
Impairment loss on trade receivables	(0.6)	(2.0)	(0.4)	400.0
Other expenses	(6.5)	(21.4)	(15.5)	38.1
Results from operating activities	**11.5**	**38.2**	**37.4**	**2.1**
Finance income	1.5	4.8	3.9	23.1
Finance costs	(10.1)	(33.3)	(30.4)	9.5
Net foreign exchange loss	(19.3)	(64.0)	(193.2)	(66.9)
Net finance costs	**(27.9)**	**(92.4)**	**(219.7)**	**(57.9)**
Loss before income tax	**(16.4)**	**(54.2)**	**(182.4)**	**(70.3)**
Income tax expense	(0.1)	(0.2)	(0.2)	(22.3)
Loss and total comprehensive loss for the period	**(16.4)**	**(54.4)**	**(182.6)**	**(70.2)**

Notes:

(1) Restated. See "*Presentation of Financial and Other Information*".

(2) For convenience, these figures have been translated into U.S. Dollars at the average GEL/U.S.$ exchange rate, based on the average of monthly average rates published by the NBG, for the three months ended 31 March 2021, which was GEL 3.31 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Revenue

The following table sets forth the breakdown of the Group's revenue by business line for the periods indicated.

	For the three months ended 31 March		
	2021	2020[(1)]	Change Q1 2021 vs. Q1 2020
	(GEL thousands) *(unaudited)*		*(%)*
Freight traffic	102,672	93,884	9.4
Logistics services	17,690	13,114	34.9
Freight car cross-border charge	4,930	4,944	(0.3)
Rent of wagons and other rental income	1,219	4,195	(70.9)
Passenger traffic	767	4,682	(83.6)
Other	588	1,205	(51.2)
Total	**127,866**	**122,024**	**4.8**

Note:

(1) Restated. See "*Presentation of Financial and Other Information*".

The Group's revenue was GEL 127.9 million for the three months ended 31 March 2021, as compared to GEL 122.0 million for the corresponding period in 2020, reflecting an increase of 4.8% (or GEL 5.8 million).

The increase in revenue in the three months ended 31 March 2021, as compared to the corresponding period in 2020, was primarily due to a 9.4% increase in revenue from freight traffic and a 34.9% increase in revenue from logistics services, which

were partially offset by a 70.9% decrease in revenue from the rent of wagons and other rental income and a 83.6% decrease in revenue from passenger traffic.

Revenue from freight traffic

The Group's revenue from freight traffic was GEL 102.7 million for the three months ended 31 March 2021, as compared to GEL 93.9 million for the corresponding period in 2020, reflecting an increase of 9.4% (or GEL 8.8 million). This increase in revenue from freight traffic was primarily due to an increase in liquid cargo volumes of 45.1% (or 0.3 million tonnes), as a result of increased demand for oil products. An increase in demand for the transportation of sugar dry cargoes also contributed to the overall increase in revenue from freight traffic for the three months ended 31 March 2021, as compared to the corresponding period in 2020.

Revenue from logistic services

The Group's revenue from logistic services was GEL 17.7 million for the three months ended 31 March 2021, as compared to GEL 13.1 million for the corresponding period in 2020, reflecting an increase of 34.9% (or GEL 4.6 million). This increase in revenue from logistic services was primarily due to an increase in revenue from oil product transportation of the Company's subsidiary, GR Transit LLC ("**GR Transit**"), which was partly offset by decreased revenues from another of the Company's subsidiaries, GR Transit Line LLC ("**GR Transit Line**"), which provides liquid cargo transportation services.

Freight car cross-border charge

The Group's revenue from freight car cross-border charges was GEL 4.9 million for the three months ended 31 March 2021, as compared to GEL 4.9 million, reflecting a decrease of 0.3% (or GEL 0.0 million), primarily due to a decrease in the usage of semi-wagons.

Rent of wagons and other rental income

The Group's revenue from rent of wagons and other rental income was GEL 1.2 million for the three months ended 31 March 2021, as compared to GEL 4.2 million for the corresponding period in 2020, reflecting a decrease of 70.9% (or GEL 3.0 million). This decrease was primarily due to the expiration of certain contracts.

Revenue from passenger traffic

The Group's revenue from passenger traffic was GEL 0.8 million for the three months ended 31 March 2021, as compared to GEL 4.7 million for the corresponding period in 2020, reflecting a decrease of 83.6% (or GEL 3.9 million). This decrease in revenue from passenger traffic was primarily due to the closure of the Group's passenger services in 2021 until 27 February 2021 in line with Government restrictions issued in response to the COVID-19 pandemic.

Other

The Group's other revenue (which primarily comprises revenue from renting out spaces in buildings owned by the Group, sales of scrap and repair services for third parties) was GEL 0.6 million for the three months ended 31 March 2021, as compared to GEL 1.2 million for the corresponding period in 2020, reflecting a decrease of 51.2% (or GEL 0.6 million). This decrease in other revenue was primarily due to decreased revenue from the sale of scrap.

Other income

The Group's other income was GEL 2.3 million for the three months ended 31 March 2021, as compared to GEL 3.4 million for the corresponding period in 2020, reflecting a decrease of 32.4% (or GEL 1.1 million), primarily due to provision reversals in the three months ended 31 March 2020.

Employee benefits expense

The Group's employee benefits expense was GEL 40.5 million for the three months ended 31 March 2021, as compared to GEL 40.2 million for the corresponding period in 2020, reflecting an increase of 0.7% (or GEL 0.3 million). This increase in employee benefits expense was primarily due to one-off costs related to the retirement of certain employees.

Depreciation and amortisation expense

The Group's depreciation and amortisation expense was GEL 17.3 million for the three months ended 31 March 2021, as compared to GEL 20.4 million for the corresponding period in 2020, reflecting a decrease of 15.2% (or GEL 3.1 million). This decrease was primarily due to a decrease in capital expenses in the three months ended 31 March 2021, as compared to the corresponding period in 2020, which was, in turn, due to a decrease in Capital Expenditures in relation to the Modernisation Project in that period, primarily due to Government-imposed COVID-19 restrictions, which required works to be temporarily halted. As of April 2021, the works in relation to the Modernisation Project have recommenced. The decrease in depreciation and amortisation expense in the three months ended 31 March 2021 was also partially due to certain assets having come to the end of their useful lives during that period.

Electricity, consumables and maintenance costs

The following table sets forth the breakdown of the Group's electricity, consumables and maintenance costs for the periods indicated.

	For the three months ended 31 March		
	2021	**2020[(1)]**	**Change Q1 2021 vs. Q1 2020**
	(GEL thousands) (unaudited)		*(%)*
Electricity	6,207	5,808	6.9
Materials	2,208	1,961	12.6
Fuel	1,372	2,014	(31.9)
Repair and maintenance	807	1,750	(53.9)
Total	**10,594**	**11,533**	**(8.1)**

Note:

(1) Restated. See "*Presentation of Financial and Other Information*".

The Group's costs from electricity, consumables and maintenance costs were GEL 10.6 million for the three months ended 31 March 2021, as compared to GEL 11.5 million for the corresponding period in 2020, reflecting a decrease of 8.1% (or GEL 0.9 million). This decrease was primarily due to a 53.9% (or GEL 0.9 million) decrease in repair and maintenance costs, due to the reduced need for repair work in relation to rolling stock and other facilities, as a result of decreased passenger transportation. The decrease in electricity, consumables and maintenance costs in the three months ended 31 March 2021, as compared to the corresponding period in 2020, was also due to a 31.9% (or GEL 0.6 million) decrease in fuel expenses, which, in turn, related to decreased fuel prices in the three months ended 31 March 2021, as compared to the corresponding period in 2020. This decrease was partially offset by increases in electricity and materials costs in the three months ended 31 March 2021, as compared to the corresponding period in 2020, by 6.9% (or GEL 0.4 million) and 12.6% (or GEL 0.2 million), respectively, due to an increase in gross tonne-kilometres, which, in turn, related to increased freight volumes transported in the three months ended 31 March 2021, as compared to the corresponding period in 2020.

Impairment loss on trade receivables

The Group's impairment losses on trade receivables were GEL 2.0 million for the three months ended 31 March 2021, as compared to GEL 0.4 million for the corresponding period in 2020, reflecting an increase of 400.0% (or GEL 1.6 million). This increase was primarily due to additional impairment losses accrued in respect of increased receivables as a result of an increase in revenue in the three months ended 31 March 2021.

Other expenses

The following table sets forth the breakdown of the Group's other expenses for the periods indicated.

	For the three months ended 31 March		
	2021	**2020**[1]	**Change Q1 2021 vs. Q1 2020**
	(GEL thousands) (unaudited)		*(%)*
Logistic services	8,897	3,146	182.8
Property and land tax	5,720	6,012	(4.9)
Freight car cross-border charge	2,488	1,585	57.0
Security	2,416	2,363	2.2
Other	1,895	2,421	(21.7)
Total	**21,416**	**15,527**	**37.9**

Note:
(1) Restated. See "*Presentation of Financial and Other Information*".

The Group's other expenses were GEL 21.4 million for the three months ended 31 March 2021, as compared to GEL 15.5 million for the corresponding period in 2020, reflecting an increase of 37.9% (or GEL 5.9 million). This increase was primarily due to a 182.8% (or GEL 5.8 million) increase in expenses for logistics services.

Logistics services expenses increased by 182.8% (or GEL 5.8 million) in the three months ended 31 March 2021, as compared to the corresponding period in 2020, to GEL 8.9 million, as compared to GEL 3.1 million in the three months ended 31 March 2020, primarily due to an increase in the expenses of GR Transit, which provides crude oil and oil products transportation services. This was partially offset by the decreased expenses of GR Transit Line, which provides crude oil and oil products transportation services.

Property and land tax expenses decreased by 4.9% (or GEL 0.3 million) in the three months ended 31 March 2021, as compared to the corresponding period in 2020, to GEL 5.7 million, as compared to GEL 6.0 million in the three months ended 31 March 2020, primarily due to the depreciation of property, plant and equipment, which, in turn, resulted in a decrease in taxable property, plant and equipment.

Freight car cross-border charges increased by 57.0% (or GEL 0.9 million) in the three months ended 31 March 2021, as compared to the corresponding period in 2020, to GEL 2.5 million, as compared to GEL 1.6 million in the three months ended 31 March 2020, primarily due to increased competition from platform cars and tank cars.

Security expenses increased by 2.2% (or GEL 0.1 million) in the three months ended 31 March 2021, as compared to the corresponding period in 2020, to GEL 2.4 million, as compared to GEL 2.4 million in the three months ended 31 March 2020, primarily due to an increased number of security employees and an increase in the scope of security services provided.

Other expenses decreased by 21.7% (or GEL 0.5 million) in the three months ended 31 March 2021, as compared to the corresponding period in 2020, to GEL 1.9 million, as compared to GEL 2.4 million in the three months ended 31 March 2020, primarily due to decreased legal provisions, membership fees under the Tariff Agreement (which are attributable to access on foreign routes).

Results from operating activities

As a result of the foregoing, the Group's results from operating activities for the three months ended 31 March 2021 were a profit of GEL 38.2 million, as compared to a profit of GEL 37.4 million for the corresponding period in 2020, reflecting an increase of 2.1% (or GEL 0.8 million).

Finance income

The Group recorded finance income for the three months ended 31 March 2021 of GEL 4.8 million, as compared to GEL 3.9 million for the corresponding period in 2020, reflecting an increase of 23.1% (or GEL 0.9 million). This increase in finance income was due to an increase in interest income under the effective interest method, in turn, due to the depreciation of the Lari against the U.S. Dollar in the three months ended 31 March 2021, as compared to the corresponding period in 2020.

Finance costs

The Group recorded finance costs for the three months ended 31 March 2021 of GEL 33.3 million, as compared to GEL 30.4 million for the corresponding period in 2020, reflecting an increase of 9.5% (or GEL 2.9 million). This increase was primarily due to an increase in interest expense on financial liabilities measured at amortised costs, which was, in turn, due to the depreciation of the Lari against the U.S. Dollar.

Net foreign exchange loss

Net foreign exchange loss was GEL 64.0 million for the three months ended 31 March 2021, as compared to GEL 193.2 million for the corresponding period in 2020, reflecting a decrease of 66.9% (or GEL 129.2 million). The decrease in net foreign exchange loss was primarily due to higher depreciation of the Lari against the U.S. Dollar in the three months ended 31 March 2020, as compared to the corresponding period in 2021.

Net finance costs

As a result of the foregoing, the Group recorded net finance costs for the three months ended 31 March 2021 of GEL 92.4 million, as compared to GEL 219.7 million for the corresponding period in 2020, reflecting a decrease of 57.9% (or GEL 127.3 million).

Loss before income tax

The Group's loss before income tax was GEL 54.2 million for the three months ended 31 March 2021, as compared to losses of GEL 182.4 million for the corresponding period in 2020, reflecting a decrease in losses of 70.3% (or GEL 128.2 million) due to the reasons stated above.

Income tax expense

The Group's income tax expense was GEL 0.2 million for the three months ended 31 March 2021, as compared to GEL 0.2 million for the corresponding period in 2020. This stability in income tax expense was principally due to the stability of operations subject to income tax.

The operations attributable to income tax include non-economic activities such as membership fees, financing sport associations and the Group's Railway Transportation College.

Loss and total comprehensive loss for the period

As a result of the foregoing, the Group's loss and total comprehensive loss for the three months ended 31 March 2021 was GEL 54.4 million, as compared to GEL 182.6 million for the corresponding period in 2020, reflecting a decrease in loss of 70.2% (or GEL 128.2 million).

Results of Operations for the Years ended 31 December 2020, 2019 and 2018

The following table sets forth the Group's results of operations for the years ended 31 December 2020, 2019 and 2018, derived from the Audited Consolidated Financial Statements, unless otherwise indicated.

	For the year ended 31 December					
	2020		2019	Change 2020 vs. 2019	2018	Change 2019 vs. 2018
	(U.S.$ millions)[(1)]	*(GEL millions)*	*(GEL millions)*	*(%)*	*(GEL millions)*	*(%)*
Revenue	157.4	489.4	491.0	(0.3)	424.6	15.6
Other income	4.0	12.5	12.8	(2.3)	19.5	(34.4)
Employee benefits expense	(54.8)	(170.5)	(160.6)	(6.2)	(154.3)	(4.1)
Depreciation and amortisation expense	(24.5)	(76.2)	(81.2)	(6.2)	(113.8)	(28.6)
Electricity, consumables and maintenance costs	(13.3)	(41.4)	(47.9)	(13.6)	(43.7)	(9.6)
Impairment loss on trade receivables	(4.4)	(13.6)	(33.7)	(59.6)	(12.0)	(180.8)
Impairment loss on property, plant and equipment	—	—	—	—	(691.4)	—
Other expenses	(22.8)	(71.0)	(72.1)	(1.5)	(73.8)	(2.3)
Results from operating activities	**41.5**	**129.2**	**108.2**	**19.4**	**(644.9)**	—
Finance income	8.5	26.5	14.8	79.1	14.5	2.1
Finance costs	(41.2)	(128.0)	(42.9)	(198.4)	(47.5)	(9.7)
Net foreign exchange loss	(61.7)	(191.9)	(85.2)	(125.2)	(37.5)	127.2
Net finance costs	**(94.3)**	**(293.4)**	**(113.3)**	**(159.0)**	**(70.5)**	**60.7**
Loss before income tax	**(52.8)**	**(164.1)**	**(5.1)**	**3,117.6**	**(715.4)**	**(99.3)**
Income tax expense	(0.2)	(0.5)	(0.5)	0.0	(1.2)	(58.3)
Loss and total comprehensive loss for the year	**(52.9)**	**(164.6)**	**(5.6)**	**2,839.3**	**(716.5)**	**(99.2)**

Note:

(1) For convenience, these figures have been translated into U.S. Dollars at the average GEL/U.S.$ exchange rate, based on the average of monthly average rates published by the NBG, which was GEL 3.11 per U.S.$1.00. Such translation should not be construed as a representation that the Lari amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Revenue

The following table sets forth the breakdown of the Group's revenue by business line for the years indicated.

	For the year ended 31 December				
	2020	2019	Change 2020 vs. 2019	2018	Change 2019 vs. 2018
	(GEL thousands)		*(%)*	*(GEL thousands)*	*(%)*
Freight traffic	389,308	373,913	4.1	292,963	27.6
Logistics services	54,106	48,814	10.8	70,318	(30.6)
Passenger traffic	11,201	31,138	(64.0)	27,404	13.6
Rent of wagons and other rental income	8,838	16,090	(45.1)	11,297	42.4
Freight car cross-border charge	14,147	14,156	(0.1)	17,468	(19.0)
Other	11,770	6,927	69.9	5,164	34.1
Total	**489,370**	**491,038**	**(0.3)**	**424,614**	**15.6**

The Group's revenue was GEL 489.4 million for the year ended 31 December 2020, as compared to GEL 491.1 million and GEL 424.6 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 0.3% (or GEL 1.7 million) in 2020, as compared to 2019, and an increase of 15.6% (or GEL 66.4 million) in 2019, as compared to 2018.

The decrease in revenue in the year ended 31 December 2020, as compared to 2019, was primarily due to a 64.0% decrease in revenue from passenger traffic and a 45.1% decrease in revenue from rent of wagons and other rental income. This was, in turn, due to the impact of COVID-19 on passenger services in 2020 and the expiry of certain wagon rental contracts.

The increase in revenue in the year ended 2019, as compared to 2018, was primarily due to a 27.6% increase in revenue from freight traffic, which was only partially offset by a 30.6% decrease in revenue from logistics services.

Revenue from freight traffic

The Group's revenue from freight traffic was GEL 389.3 million for the year ended 31 December 2020, as compared to GEL 373.9 million and GEL 293.0 million for the years ended 31 December 2019 and 2018, respectively, representing an increase of 4.1% (or GEL 15.4 million) in 2020, as compared to 2019, and an increase of 27.6% (or GEL 81.0 million) in 2019, as compared to 2018.

The increase of 4.1% in revenue from freight traffic in the year ended 31 December 2020 compared to the year ended 31 December 2019 was primarily due to an increase in dry cargo volumes of 3.0% (or 0.2 million tonnes), as a result of increased demand for chemicals and fertilisers, ferrous metals, scrap metals and other dry cargoes. The increase was also due to a rise in income from freight handling by 11.4%, as a result of increased revenue from station services and 24-hour services.

The increase of 27.6% in revenue from freight traffic in the year ended 31 December 2019 compared to the year ended 31 December 2018 was primarily due to an increase in dry cargo volumes of 13.4% (or 0.9 million tonnes or 364 million tonne-kilometres), as a result of increased demand for ores and other dry cargoes.

Revenue from logistic services

The Group's revenue from logistic services was GEL 54.1 million for the year ended 31 December 2020, as compared to GEL 48.8 million and GEL 70.3 million for the years ended 31 December 2019 and 2018, respectively, representing an increase of 10.8% (or GEL 5.3 million) in 2020, as compared to 2019, and a decrease of 30.6% (or GEL 21.5 million) in 2019, as compared to 2018.

The increase in revenue from logistic services in the year ended 31 December 2020, as compared to 2019, was primarily due to an increase in revenue from oil product transportation of the Company's subsidiary, GR Transit, which was partly offset by decreased revenues from another of the Company's subsidiaries, GR Logistics and Terminals LLC ("**GR Logistics and Terminals**"), which provides container transportation services.

The decrease in revenue from logistic services in the year ended 31 December 2019, as compared to 2018, was primarily due to a decrease in revenue from oil product transportation generated by GR Transit, which was partially offset by increased revenues generated from services provided by GR Logistics and Terminals.

Revenue from passenger traffic

The Group's revenue from passenger traffic was GEL 11.2 million for the year ended 31 December 2020, as compared to GEL 31.1 million and GEL 27.4 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 64.0% (or GEL 19.9 million) in 2020, as compared to 2019, and an increase of 13.6% (or GEL3.7 million) in 2019, as compared to 2018.

The decrease in revenue from passenger traffic in the year ended 31 December 2020, as compared to 2019, was primarily due to the closure of the Group's passenger services between the second half of March 2020 and 15 June 2020 and, subject to certain limited exceptions, from 28 November 2020 until the end of 2020 (and beyond) in line with Government restrictions issued in response to the COVID-19 pandemic.

The increase in revenue from passenger traffic in the year ended 31 December 2019, as compared to 2018, was primarily due to a 6.2% increase in passenger numbers in 2019 to 3.0 million, as compared to 2.9 million in 2018. Revenue increased at a higher rate than passenger numbers in 2019 due to an increase in the number of passengers using main line trains (which have higher ticket prices than certain other lines). The average loading rate of the trains on the main line in 2019 was 72%, as compared to 68% in 2018.

Rent of wagons and other rental income

The Group's revenue from rent of wagons and other rental income was GEL 8.8 million for the year ended 31 December 2020, as compared to GEL 16.1 million and GEL 11.3 million for the years ended 31 December 2019 and 2018, respectively,

representing a decrease of 45.1% (or GEL 7.3 million) in 2020, as compared to 2019, and an increase of 42.4% (or GEL 4.8 million) in 2019, as compared to 2018.

The decrease in revenue from rent of wagons and other rental income in the year ended 31 December 2020, as compared to 2019, was primarily due to the expiration of certain contracts.

The increase in revenue from rent of wagons and other rental income in the year ended 31 December 2019, as compared to 2018, was primarily due to an increase in grain carriers rented by a subsidiary of the Company.

Freight car cross-border charge

The Group's revenue from freight car cross-border charges was GEL 14.1 million for the year ended 31 December 2020, as compared to GEL 14.2 million and GEL 17.5 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 0.1% (or GEL 0.1 million) in 2020, as compared to 2019, and a decrease of 19.0% (or GEL 3.3 million) in 2019, as compared to 2018.

The decrease in revenue from freight car cross-border charges in the year ended 31 December 2020, as compared to 2019, was primarily due to a decrease in the usage of semi-wagons.

The decrease in revenue from freight car cross-border charges in the year ended 31 December 2019, as compared to 2018, was due to decreased usage of semi-wagons and grain carriers in 2019.

Other

The Group's other revenue was GEL 11.8 million for the year ended 31 December 2020, as compared to GEL 6.9 million and GEL 5.2 million for the years ended 31 December 2019 and 2018, respectively, representing an increase of 69.9% (or GEL 4.8 million) in 2020, as compared to 2019, and an increase of 34.1% (or GEL 1.8 million) in 2019, as compared to 2018.

The increase in other revenue in the year ended 31 December 2020, as compared to 2019, was primarily due to increased income from sale of materials. This was, in turn, due to increased demand for scrap metal.

The increase in other revenue in the year ended 31 December 2019, as compared to 2018, was primarily due to increased income from the sale of goods and materials (other than scrap metal).

Other income

The Group's other income was GEL 12.5 million for the year ended 31 December 2020, as compared to GEL 12.8 million and GEL 19.5 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 2.3% (or GEL 0.3 million) in 2020, as compared to 2019, and a decrease of 34.4% (or GEL 6.7 million) in 2019, as compared to 2018.

The decrease in other income in the year ended 31 December 2020, as compared to 2019, was primarily due to a decrease in continuing operations, as a result of a decrease in revenue from accrued penalties on creditors.

The decrease in other income in the year ended 31 December 2019, as compared to 2018, was primarily due to a decrease in other income generated from non-continuing operations (*i.e.,* from one-off transactions), which was, in turn, due to a decrease in revenues from sales of fixed assets and decreased corrections of prior period errors. This decrease was partially offset by an increase in income from continuing operations (*i.e.,* penalties on creditors and debtors).

In 2018, other income categories mainly consisted of revenue from continuing operations, such as penalties on creditors and debtors, and revenue from one-off transactions, surplus of inventory and corrections of prior period errors.

Employee benefits expense

The Group's employee benefits expense was GEL 170.5 million for the year ended 31 December 2020, as compared to GEL 160.6 million and GEL 154.3 million for the years ended 31 December 2019 and 2018, respectively, representing an increase of 6.2% (or GEL 9.9 million) in 2020, as compared to 2019, and an increase of 4.1% (or GEL 6.3 million) in 2019, as compared to 2018.

The increase in employee benefits expense for the year ended 31 December 2020, as compared to 2019, was primarily due to an increase in salaries (by GEL 10.0 million, or 7.3%), according to the decision of the Board of Directors to increase the wages of approximately 11,000 employees by 10% with effect from December 2019.

The increase in employee benefits expense for the year ended 31 December 2019, as compared to 2018, was primarily due to increases in other benefits (by GEL 0.6 million, or 14.3%) and salaries (by GEL 5.1 million, or 3.8%). The salary increases in 2019 reflected the effects of a Board of Directors' decision to increase the wages of approximately 11,000 employees by 10% with effect from 1 December 2019. The increases in other benefits in 2019, as compared to 2018, was primarily due to funded pension expenses.

Depreciation and amortisation expense

The Group's depreciation and amortisation expense was GEL 76.2 million for the year ended 31 December 2020, as compared to GEL 81.2 million and GEL 113.8 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 6.2% (or GEL 5.0 million) in 2020, as compared to 2019, and a decrease of 28.7% (or GEL 32.6 million) in 2019, as compared to 2018.

The decrease in depreciation and amortisation expense in the year ended 31 December 2020, as compared to 2019, was primarily due to a decrease in capital expenses in 2020, as compared to 2019. This was, in turn, due to a decrease in Capital Expenditures in relation to the Modernisation Project in 2020, primarily due to Government-imposed COVID-19 restrictions, which required works to be temporarily halted. As of April 2021, the works in relation to the Modernisation Project have recommenced. The decrease in depreciation and amortisation expense in 2020 was also partially due to certain assets having come to the end of their useful lives in 2020.

The decrease in depreciation and amortisation expense in the year ended 31 December 2019, as compared to 2018, was due to impairment of property, plant and equipment of GEL 691.4 million in 2018, which resulted in reduced net book values and consequently reduced depreciation and amortisation expense in 2019.

Electricity, consumables and maintenance costs

The following table sets forth the breakdown of the Group's electricity, consumables and maintenance costs for the years indicated.

	For the year ended 31 December				
	2020	**2019**	**Change 2020 vs. 2019**	**2018**	**Change 2019 vs. 2018**
	(GEL thousands)		*(%)*	*(GEL thousands)*	*(%)*
Electricity	19,519	22,069	(11.6)	20,962	5.3
Materials	10,306	12,135	(15.1)	11,929	1.7
Repair and maintenance	5,402	6,694	(19.3)	4,113	62.8
Fuel	6,184	7,023	(11.9)	6,704	4.8
Total	**41,411**	**47,921**	**(13.6)**	**43,708**	**9.6**

The Group's costs from electricity, consumables and maintenance costs were GEL 41.4 million for the year ended 31 December 2020, as compared to GEL 47.9 million and GEL 43.7 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 13.6% (or GEL 6.5 million) in 2020, as compared to 2019, and an increase of 9.6% (or GEL 4.2 million) in 2019, as compared to 2018.

The decrease in electricity, consumables and maintenance costs in the year ended 31 December 2020, as compared to 2019, was principally due to a decrease in materials, repair and maintenance costs, as well as a decrease in electricity expenses and fuel expenses. Electricity costs decreased by 11.8% (or GEL 2.6 million) in 2020 to GEL 19.5 million, as compared to GEL 22.1 million in 2019, primarily due to a decrease in passenger transportation as a result of regulations introduced to prevent the spread of COVID-19. These regulations led to the Government temporarily reducing passenger transportation during the second and third quarters of 2020. Due to less repair works in 2020 (which was, in turn, primarily due to the COVID-19 pandemic), materials costs decreased by 14.9% (or GEL 1.8 million) in 2020 to GEL 10.3 million, as compared to GEL 12.1 million in 2019. Repair and maintenance costs decreased by 19.4% (or GEL 1.3 million) in 2020 to GEL 5.4 million, as compared to GEL 6.7 million in 2019, primarily due to the reduced need for repair work in relation to rolling stock and other facilities, as a result of decreased passenger transportation. Fuel costs decreased by 11.4% (or GEL 0.8 million) in 2020 to GEL 6.2 million, as compared to GEL 7.0 million in 2019, primarily due to decreased fuel prices in 2020, compared to 2019.

The increase in electricity, consumables and maintenance costs in the year ended 31 December 2019, as compared to 2018, was principally due to an increase in repair and maintenance costs. Electricity costs increased by 5.3% (or GEL 1.1 million) in 2019 to GEL 22.1 million, as compared to GEL 21.0 million in 2018, primarily due to increased turnover of freight and passengers in 2019, which, in turn, led to increased purchases of electricity (with 142.4 Gwh of electricity purchased in 2019, as compared to

134.4 Gwh of electricity purchased in 2018), primarily due to increased transportation and repair works. Materials costs increased by 1.7% (or GEL 0.2 million) in 2019 to GEL 12.1 million, as compared to GEL 11.9 million in 2018, primarily due to the increased usage of materials, mainly for repair and maintenance works. Repair and maintenance costs increased by 62.8% (or GEL 2.6 million) in 2019 to GEL 6.7 million, as compared to GEL 4.1 million in 2018, primarily due to a higher volume of repair works of rolling stock and other facilities. Fuel costs increased by 4.8% (or GEL 0.3 million) in 2019 to GEL 7.0 million, as compared to GEL 6.7 million in 2018, primarily due to an increase in fuel prices.

See "*Description of the Group's Business—Regulation—Electricity Supply*".

Impairment loss on trade receivables

The Group's impairment losses on trade receivables were GEL 13.6 million for the year ended 31 December 2020, as compared to GEL 33.7 million and GEL 12.0 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 59.6% (or GEL 20.1 million) in 2020, as compared to 2019, and an increase of 180.8% (or GEL 21.7 million) in 2019, as compared to 2018.

The decrease in impairment loss on trade receivables in the year ended 31 December 2020, as compared to 2019, was principally due to provisions made against one of the Group's counterparty companies, as described below.

The increase in impairment loss on trade receivables in the year ended 31 December 2019, as compared to 2018, was principally due to a provision made against one significant counterparty serving liquid freight in an amount of GEL 40.2 million in 2019 (as compared to a provision of GEL 18.4 million made in 2018). See Note 15 to the 2019 Audited Consolidated Financial Statements.

Impairment loss on property, plant and equipment

For the year ended 31 December 2018, the Group recognised impairment loss on property, plant and equipment of GEL 691.4 million. Impairment testing was carried out by the Group in 2018 due to the significant and long-term decline in the volumes transported (5.90 billion metric-tonnes per kilometre of cargo in 2012, as compared to 2.75 billion metric tonnes per kilometre of cargo in 2018) and revenue (U.S.$212 million in 2012, as compared to U.S.$95 million in 2018). Revenue as at 31 December 2018 from freight transportation services represented approximately 57.0% of the total revenue generated for the past two years, which was considered an indicator of the impairment.

The recoverable amount of the cash generating unit was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the cash generating unit. Based on this analysis, the recoverable amount of the cash generating unit was determined to be less than its carrying amount by GEL 691.4 million. 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-rata* basis.

As at each of 31 December 2020 and 2019, the Group reassessed its estimates and conducted an impairment test, as a result of which neither additional impairment nor reversal of previously recognised impairment losses were recognised.

Other expenses

The following table sets forth the breakdown of the Group's other expenses for the years indicated.

	For the year ended 31 December				
	2020	**2019**	**Change 2020 vs. 2019**	**2018**	**Change 2019 vs. 2018**
	(GEL thousands)		*(%)*	*(GEL thousands)*	*(%)*
Property and land tax	23,938	22,225	7.7	26,813	(17.1)
Logistic services	21,105	20,182	4.6	17,636	14.4
Security	9,917	9,246	7.3	9,209	0.4
Freight car cross-border charge	3,688	3,780	(2.4)	4,177	(9.5)
Other[1]	12,394	16,695	(25.8)	15,923	4.8
Total	**71,042**	**72,128**	**(1.5)**	**73,758**	**(2.2)**

Note:

(1) This line item includes the fees paid to the audit firms for the provision of audit and other professional services.

The Group's other expenses were GEL 71.0 million for the year ended 31 December 2020, as compared to GEL 72.1 million and GEL 73.8 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 1.5% (or GEL 1.1 million) in 2020, as compared to 2019, and a decrease of 2.2% (or GEL 1.6 million) in 2019, as compared to 2018.

The 1.5% (or GEL 1.1 million) decrease in other expenses in the year ended 31 December 2020, as compared to 2019, was principally due to other operating expenses (*i.e.,* provisions of law and membership fees). Membership fees are payable under the Tariff Agreement and permit access to foreign routes.

Property and land tax expenses increased by 7.7% (or GEL 1.7 million) in 2020 to GEL 23.9 million, as compared to GEL 22.2 million in 2019, primarily due to an increase in property tax, caused by capitalised borrowing costs in relation to assets under construction. Management expects that property taxes will be reduced once the Modernisation Project is completed, as railway infrastructure-related linear assets are free of property tax, whilst assets under the Modernisation Project are subject to property tax during the construction process. The increase in property tax in 2020 was partially offset by the decrease of custom penalties compared to 2019.

Logistics services expenses increased by 4.6% (or GEL 0.9 million) in 2020 to GEL 21.1 million, as compared to GEL 20.2 million in 2019, primarily due to an increase in the expenses of GR Transit, which provides crude oil and oil products transportation services. This was partially offset by the decreased expenses of GR Logistics and Terminals, which provides container transportation, which services were disrupted in 2020 due to the Government-imposed COVID-19 restrictions. Security expenses increased by 7.3% (or GEL 0.7 million) in 2020 to GEL 9.9 million, as compared to GEL 9.2 million in 2019, primarily due to increased numbers of security employees and an increase in the scope of security services provided. Freight car cross-border charges decreased by 2.4% (or GEL 0.1 million) in 2020 to GEL 3.7 million, as compared to GEL 3.8 million in 2019, primarily due to a decrease in usage of platform cars. Other expenses decreased by 25.8% (or GEL 4.3 million) in 2020 to GEL 12.4 million, as compared to GEL 16.7 million in 2019, primarily due to decreased legal provisions, membership fees (which are attributable to access on foreign routes) and utility expenses.

The 2.2% (or GEL 1.6 million) decrease in other expenses in the year ended 31 December 2019, as compared to 2018, was principally due to decreases in property and land tax expenses and freight car cross-border charges, which were partially offset by an increase in logistics services expenses.

Property and land tax expenses decreased by 17.1% (or GEL 4.6 million) in 2019 to GEL 22.2 million, as compared to GEL 26.8 million in 2018, primarily due to a 31.7% decrease in property taxes, which was, in turn, primarily due to impairment of property, plant and equipment. Logistic services expenses increased by 14.4% (or GEL 2.5 million) in 2019 to GEL 20.2 million, as compared to GEL 17.6 million in 2019, primarily due to increased expenses of the Company's container transportation subsidiary, GR Logistics and Terminals, which was partially offset by a decrease in the expenses of GR Transit, the Company's subsidiary that mainly serves crude oil and oil products transportation. Security expenses increased by 0.4% (or GEL 0.0 million) in 2019 to GEL 9.2 million, as compared to GEL 9.2 million in 2018. Freight car cross-border charges decreased by 9.5% (or GEL 0.4 million) in 2019 to GEL 3.8 million, as compared to GEL 4.2 million in 2018, primarily due to the implementation of contractual arrangements between the Company and a counterpart railway that released the Group from certain freight car cross-border charges in 2019. Other expenses increased by 4.8% (or GEL 0.8 million) in 2019 to GEL 16.7 million, as compared to GEL 15.9 million in 2018, primarily due to an increase in law provision expenses.

Results from operating activities

As a result of the foregoing, the Group's results from operating activities for the year ended 31 December 2020 were a profit of GEL 129.2 million, as compared to a profit of GEL 108.2 million for the year ended 31 December 2019 and a loss of GEL 644.9 million for the year ended 31 December 2018.

Finance income

The Group recorded finance income for the year ended 31 December 2020 of GEL 26.5 million, as compared to GEL 14.8 million and GEL 14.5 million for the years ended 31 December 2019 and 2018, respectively, representing an increase of 79.1% (or GEL 11.7 million) in 2020, as compared to 2019, and an increase of 2.1% (or GEL 0.3 million) in 2019, as compared to 2018.

The increase in finance income in the year ended 31 December 2020, as compared to 2019, was primarily due to a gain on the modification of certain financial instruments (of GEL 7.4 million), which was, in turn, due to the Group amending the construction contract for the Modernisation Project to defer payment of the outstanding payables for up to three years.

See Note 9 and Note 19 to the 2020 Audited Consolidated Financial Statements and Note 10 to the 2019 Audited Consolidated Financial Statements.

Finance costs

The Group recorded finance costs for the year ended 31 December 2020 of GEL 128.0 million, as compared to GEL 42.9 million for the year ended 31 December 2019, and GEL 47.5 million for the year ended 31 December 2018, representing an increase in losses of 198.4% (or GEL 85.1 million) in 2020, as compared to 2019, and a decrease in losses of 9.7% (or GEL 4.6 million) in 2019, as compared to 2018.

The increase in finance costs in 2020 was primarily due to an increase in interest expense on financial liabilities measured at amortised cost, from GEL 42.8 million for the year ended 31 December 2019 to GEL 126.8 million for the year ended 31 December 2020. This increase was primarily due to the suspension of capitalisation of borrowing costs on a qualifying asset. See Notes 9 and 10(a) to the 2020 Audited Consolidated Financial Statements.

Net foreign exchange loss

The Group recorded net foreign exchange loss for the year ended 31 December 2020 of GEL 191.9 million, as compared to GEL 85.2 million for the year ended 31 December 2019, and GEL 37.5 million for the year ended 31 December 2018, representing an increase in losses of 125.2% (or GEL 106.7 million) in 2020, as compared to 2019, and an increase in losses of 127.2% (or GEL 47.7 million) in 2019, as compared to 2018.

The increase in net foreign exchange loss in the year ended 31 December 2020, as compared to 2019, was primarily due to the depreciation of the Lari against the U.S. Dollar in 2020 by 14%. The increase in net foreign exchange loss in the year ended 31 December 2019, as compared to 2018, was primarily due to the depreciation of the Lari against the U.S. Dollar in 2019 by 7%. See Note 10 to the 2019 Audited Consolidated Financial Statements.

Net finance costs

As a result of the foregoing, the Group recorded net finance costs for the year ended 31 December 2020 of GEL 293.4 million, as compared to GEL 113.3 million and GEL 70.5 million for the years ended 31 December 2019 and 2018, respectively, representing an increase of 159.0% (or GEL 180.1 million) in 2020, as compared to 2019, and an increase of 60.7% (or GEL 42.8 million) in 2019, as compared to 2018.

Loss before income tax

The Group's loss before income tax was GEL 164.1 million for the year ended 31 December 2020, as compared to losses of GEL 5.1 million and GEL 715.4 million for the years ended 31 December 2019 and 2018, representing an increase in losses of 3,117.65% (or GEL 159.0 million) in 2020, as compared to 2019, and a decrease of 99.3% (or GEL 710.3 million) in 2019, as compared to 2018, in each case, due to the reasons stated above.

Income tax expense

The Group's income tax expenses were GEL 0.5 million for the year ended 31 December 2020, as compared to GEL 0.5 million and GEL 1.2 million for the years ended 31 December 2019 and 2018, respectively, and a decrease of 58.3% (or GEL 0.7 million) in 2019, as compared to 2018.

The stability in income tax expenses throughout the years ended 31 December 2020 and 2019, respectively, was principally due to the stability of operations subject to income tax.

The decrease of 58.3% in income tax expenses for the year ended 31 December 2019, as compared to 2018, was principally due to a reduction in the operations subject to income tax.

The operations attributable to income tax include non-economic activities such as membership fees, financing sport associations and the Group's Railway Transportation College.

The Group's consolidated effective tax rate (calculated as income tax expense divided by profit before income tax) for the year ended 31 December 2020 was 0.6%, as compared to 10.2% and 0.2% for the years ended 31 December 2019 and 2018, respectively, primarily due to a decrease in loss before income tax.

The Group did not record deferred tax benefit for the years ended 31 December 2020, 2019 and 2018 as a result of changes to Georgian tax law. See "*—Explanation of Key Comprehensive Income Items—Income tax expense*". A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used.

Loss and total comprehensive loss for the year

As a result of the foregoing, the Group's loss and total comprehensive loss for the year was GEL 164.6 million for the year ended 31 December 2020, as compared to GEL 5.6 million and GEL 716.5 million for the years ended 31 December 2019 and 2018, respectively, representing an increase of 2,839.29% (or GEL 159.0 million) in 2020, as compared to 2019, and a decrease of 99.2% (or GEL 710.9 million) in 2019, as compared to 2018.

Liquidity and Capital Resources

The Group's liquidity needs arise principally from the need to finance its working capital and to fund the Modernisation Project. The Group's principal sources of liquidity have, for the periods discussed herein, consisted of:

- cash generated from operations representing principally payments from freight customers and passengers; and
- interest earned on term deposits.

Management expects that, for at least the next three years, it will fund its working capital and the costs of the Modernisation Project (and, if restarted, the Tbilisi Bypass Project (as defined below)) from existing cash and generated amounts from operations. As at 31 December 2020, the Group had cash and cash equivalents of GEL 323.0 million and undrawn credit facilities of GEL 64.8 million. See "*—Borrowing—Other credit facilities*".

Management's policy is to increase Adjusted EBITDA by increasing freight turnover whilst maintaining liquidity levels. As the Group's debt is largely denominated in foreign currencies, the capital structure is very sensitive to exchange rate fluctuations. By increasing Adjusted EBITDA and maintaining a sufficient amount of cash on the Group's balance sheet, the Group aims to reduce leverage and maintain its stability. However, management may from time to time revise this policy and targets depending on investment opportunities as they arise. Restrictions on existing and new credit facilities may also be more restrictive than management's target ratios.

Cash flows

The Group's cash flow management policies focus on maintaining a flexible Capital Expenditure programme and maximising cash flow generation, in line with potential future changes in passenger numbers and freight volumes transported. Through these policies, management aims to permit both the maintenance of infrastructure and the pursuit of selective growth opportunities. Management seeks to rely on operating cash flows to finance Capital Expenditures and to maintain a diversified funding structure for strategic initiatives.

Cash flows for the three months ended 31 March 2021 and 2020

The following table sets forth a summary of the Group's cash flows for the periods indicated.

	For the three months ended 31 March		
	2021	**2020**	**Change Q1 2021 vs. Q1 2020**
	(GEL thousands) *(unaudited)*		*(%)*
Net cash from operating activities	53,465	56,377	(5.2)
Net cash used in investing activities	(41)	(8,727)	(99.5)
Net cash used in financing activities	(63,992)	(55,637)	15.0
Net increase/(decrease) in cash and cash equivalents	**(10,568)**	**(7,987)**	**32.3**
Cash and cash equivalents at 1 January	322,986	257,976	25.2
Effect of exchange rate fluctuations on cash and cash equivalents	6,794	22,902	(70.3)
Effect of movements in ECL on cash and cash equivalents	(147)	(55)	167.3
Cash and cash equivalents at 31 March	**319,065**	**272,836**	**16.9**

Net cash from operating activities

The Group's net cash from operating activities was GEL 53.5 million for the three months ended 31 March 2021, as compared to GEL 56.4 million for the corresponding period in 2020, reflecting a decrease of 5.2% (or GEL 2.9 million). This decrease was primarily due to an increase in cash paid to suppliers and employees.

Net cash used in investing activities

The Group's net cash used in investing activities was GEL 0.0 million for the three months ended 31 March 2021, as compared to GEL 8.7 million for the corresponding period in 2020, reflecting a decrease of 99.5% (or GEL 8.7 million). This decrease was primarily due to a 63.1% (or GEL 9.1 million) decrease in cash used in the acquisition of property, plant and equipment, which was, in turn, primarily due to lower average cash outflows in relation to the Modernisation Project in the three months ended 31 March 2021, as compared to the corresponding period in 2020.

Net cash used in financing activities

The Group's net cash used in financing activities was GEL 64.0 million for the three months ended 31 March 2021, as compared to GEL 55.6 million for the corresponding period in 2020, reflecting an increase of 15.0% (or GEL 8.4 million). This increase in cash used was due to a 15.0% (or GEL 8.4 million) increase in interest paid in the three months ended 31 March 2021, as compared to in the corresponding period in 2020, which was, in turn, as a result of the depreciation of the Lari against the U.S. Dollar, as the Group's borrowings are denominated in U.S. Dollars.

Cash flows for the years ended 31 December 2020, 2019 and 2018

The following table sets forth a summary of the Group's cash flows for the years indicated.

	For the year ended 31 December				
	2020	2019	Change 2020 vs. 2019	2018	Change 2019 vs. 2018
	(GEL thousands)		*(%)*	*(GEL thousands)*	*(%)*
Net cash from operating activities .	212,716	215,236	(1.2)	179,040	20.2
Net cash used in investing activities..	(37,313)	(85,663)	(56.4)	(75,481)	13.5
Net cash used in financing activities..	(131,610)	(122,376)	7.5	(112,349)	8.9
Net increase/(decrease) in cash and cash equivalents...................	**43,793**	**7,197**	**508.5**	**(8,790)**	**(181.9)**
Cash and cash equivalents at 1 January..	257,976	241,308	6.9	243,018	(0.7)
Effect of exchange rate fluctuations on cash and cash equivalents	20,968	9,486	121.0	7,635	24.2
Cash and cash equivalents at 31 December.....................................	**322,986**	**257,976**	**25.2**	**241,308**	**6.9**

Net cash from operating activities

The Group's net cash from operating activities was GEL 212.7 million for the year ended 31 December 2020, as compared to GEL 215.2 million and GEL 179.0 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 1.2% (or GEL 2.5 million) in 2020, as compared to 2019, and an increase of 20.2% (or GEL 36.2 million) in 2019, as compared to 2018.

This decrease in net cash from operating activities for the year ended 31 December 2020, as compared to 2019, was principally due to a decrease in cash receipts from customers. This was partially offset by a decrease in cash paid to suppliers and employees, which was, in turn, due to the impact of Government-imposed restrictions on the Group's operations designed to prevent the spread of COVID-19, and in particular, the temporary suspension of all passenger transportation.

The increase in net cash from operating activities for the year ended 31 December 2019, as compared to 2018, was principally due to a 10.6% (or GEL 48.3 million) increase in cash receipts from customers, which was partially offset by a 4.4% (or GEL 12.1 million) increase in cash paid to suppliers and employees.

Net cash used in investing activities

The Group's net cash used in investing activities was GEL 37.3 million for the year ended 31 December 2020, as compared to GEL 85.7 million and GEL 75.5 million for the years ended 31 December 2019 and 2018, respectively, representing a decrease of 56.4% (or GEL 48.4 million) in 2020, as compared to 2019, and an increase of 13.5% (or GEL 10.2 million) in 2019, as compared to 2018.

This decrease in net cash used in investing activities in the year ended 31 December 2020, as compared to 2019, was principally due to a 50.2% (or GEL 56.2 million) decrease in cash used in the acquisition of property, plant and equipment, which was, in turn, primarily due to lower average cash outflows in relation to the Modernisation Project in 2020, as compared to 2019.

This increase in net cash used in investing activities in the year ended 31 December 2019, as compared to 2018, was principally due to a 7.1% (or GEL 7.5 million) increase in cash used in the acquisition of property, plant and equipment, which was partially offset by a 6.7% (or GEL 0.8 million) increase in interest received, which was, in turn, primarily due to higher average cash balances and higher interest rates in 2019, as compared to 2018.

Net cash used in financing activities

The Group's net cash used in financing activities was GEL (131.6) million for the year ended 31 December 2020, as compared to GEL (122.4) million and GEL (112.3) million for the years ended 31 December 2019 and 2018, respectively, representing an increase of 7.5% (or GEL 9.2 million) in 2020 as compared to 2019, and an increase of 8.9% (or GEL 10.0 million) in 2019, as compared to 2018.

This increase in net cash used in financing activities in the year ended 31 December 2020, as compared to 2019, was principally due to an 6.6% (or GEL 7.3 million) increase in interest paid and a 15.9% (or GEL 2.0 million) increase in repayment of borrowings in 2020 which was, in turn, as a result of the significant depreciation of the Lari against the U.S. Dollar, as the Group's borrowings are denominated in U.S. Dollars.

This increase in net cash used in financing activities in the year ended 31 December 2019, as compared to 2018, was principally due to an 8.9% (or GEL 9.0 million) increase in interest paid and a 9.0% (or GEL 1.0 million) increase in repayment of borrowings in 2019, due to the depreciation of the Lari against the U.S. Dollar.

Borrowings

As at 31 March 2021 and 31 December 2020, the current and non-current loans and borrowings of the Group, consisting primarily of the 2012 Notes and amounts drawdown under the Export Credit Facility, were GEL 1,817.9 million and GEL 1,777.3 million, respectively.

2012 Notes

On 27 June 2012, the Company issued the 2012 Notes, which are admitted to the Official List of the FCA and to trading on the London Stock Exchange. The 2012 Notes mature on 11 July 2022 and bear interest at the rate of 7.75% *per annum*, which is payable semi-annually in arrear on 11 January and 11 July in each year, except that the first payment of interest was made on 11 January 2013. The terms and conditions of the 2012 Notes contain a negative pledge provision, a restriction on certain corporate reorganisations and a debt incurrence covenant. The Company believes that it is in compliance with all covenants under the 2012 Notes.

The entire U.S.$500 million in principal amount of the 2012 Notes is outstanding. The proceeds from the offering of the 2012 Notes were used to finance the Modernisation Project and to fund the early redemption of a portion of the Company's U.S.$250 million 9.875% Notes due 2015.

On 26 May 2021, the Company invited holders of the 2012 Notes to tender any and all such notes for purchase by the Company for cash and to simultaneously consent to the mandatory redemption of the 2012 Notes pursuant to the Tender Offer and Consent Solicitation. See "*—Recent Developments—2012 Notes Tender Offer and Consent Solicitation*".

Other credit facilities

The Group's other credit facilities, which are listed below, include various general and financial covenants, typical for agreements of this nature, including certain financial ratios, restrictions on disposals of certain assets and financial reporting obligations. The Company believes that it is in compliance with all covenants under these facilities or, as described below, has otherwise obtained waivers in respect of any potential covenant breaches.

- On 28 June 2016, the Company entered into a secured export credit facility agreement for up to a principal amount of U.S.$43.7 million with Credit Suisse AG (the "**Export Credit Facility**"). The Export Credit Facility is covered by export risk insurance issued by Swiss Export Risk Insurance. Amounts drawn down under the Export Credit Facility bear interest at a rate of LIBOR+1.25% and are repayable in 20 equal, consecutive semi-annual repayment instalments, with the final payment date in November 2026. Amounts drawn down under this facility agreement are secured by a pledge over the purchased trains. The Export Credit Facility includes a number of covenants, including a requirement that the ratio of the Company's net debt to Adjusted EBITDA not exceed 4.0. As at each of 31 December 2018, 2019 and 2020, the Company received a waiver from Credit Suisse AG to waive application of this covenant for that year. As at 31 March 2021, there was GEL 89.2 million in principal amount outstanding under this facility agreement.

- As at 31 March 2021, the Company had unused credit lines totalling GEL 32.0 million and U.S.$10.0 million, respectively, under credit facility agreements with JSC Bank of Georgia and JSC VTB Bank Georgia, together totalling GEL 66.1 million, maturing in 2022.

Capital expenditures

The Group's Capital Expenditures for the years ended 31 December 2020, 2019 and 2018, were GEL 55.9 million, GEL 112.2 million and GEL 104.7 million, respectively. The Group has budgeted Capital Expenditures for the year ended 31 December 2021 of U.S.$38.3 million. The Group's principal Capital Expenditures consist of Capital Expenditures in respect of the Modernisation Project (amounting to U.S.$0.5 million as at 31 March 2021) and the acquisition of new units of, and repairs of existing, rolling stock and the rehabilitation of infrastructure assets such as bridges, rails and electric supply assets.

The following table sets forth the Group's Capital Expenditures for the years indicated.

	For the year ended 31 December					
	2020		**2019**		**2018**	
	(GEL millions)	*(%)*	*(GEL millions)*	*(%)*	*(GEL millions)*	*(%)*
Modernisation Project	21.1	37.7	93.8	83.6	92.3	88.2
Maintenance expenditures etc.	34.8	62.3	18.4	16.4	12.4	11.8
Total	**55.9**	**100.0**	**112.2**	**100.0**	**104.7**	**100.0**

Based on its current plans and relevant estimates, the Group estimates its planned Capital Expenditures in the three-year period from 1 January 2021 to 31 December 2023 to be approximately U.S.$109.0 million. The following table sets forth the Group's budgeted Capital Expenditures for the years indicated.

	For the year ended 31 December					
	2023(E)[1]		**2022(E)[1]**		**2021(E)[1]**	
	(U.S.$ millions)	*(GEL millions)*	*(U.S.$ millions)*	*(GEL millions)*	*(U.S.($) millions)*	*(GEL millions)*
Modernisation Project..	18.5	60.9	14.2	46.7	25.6	84.2
Maintenance expenditures etc.[2]..........................	10.9	35.9	26.9	88.5	12.7	41.8
Total..	**29.4**	**96.7**	**41.1**	**135.2**	**38.3**	**126.0**

Notes:

(1) Estimates based on amounts currently budgeted by management.

(2) After the completion of the Modernisation Project, management expects that the Group will use its resources to repair and renovate its rolling stock. As a result, management expects that the Group's maintenance expenditures will increase.

Management reviews, and will continue to review, its budgeted Capital Expenditures from time to time. Management expects to adjust to its Capital Expenditures plan depending on a number of factors, including the evolution of the Group's actual results of operations and cash flows as against budget, market conditions, levels of demand for the Group's services, the availability of funding and other factors fully or partially outside the Group's control.

Capital commitments

The Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 367.6 million as at the year ended 31 December 2020, as compared to GEL 331.6 million for the year ended 2019, representing an increase of 10.9% (or GEL 36 million).

This increase was primarily due to the impact of fluctuations in the Lari/U.S. Dollar exchange rate in 2020. Contracts relating to the Modernisation Project decreased in 2020 (totalling GEL 65.4 million as at 31 December 2020, as compared to GEL 91.2 million for the year ended 2019, a decrease of 28.3%, or GEL 25.8 million), while amounts in respect of contracts for the Tbilisi Bypass Project (as defined below) totalled GEL 302.0 million and GEL 240.0 million as at each of 31 December 2020 and 2019, with amounts in 2020 increased due to the depreciation of the Lari against the U.S. Dollar. Management does not expect that the cessation of the construction agreement with the counterparty responsible for the completion of the Tbilisi Bypass Project (as defined below) will result in the payment of the above amount, as an advanced payment was made to the counterparty, with repayable amounts due to the Group.

Related Party Transactions

In the course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions or these parties are under common ownership or control, as defined in IAS 24 "Related Party Disclosures".

The Company is indirectly controlled by the Government, as 100% of the Company's shares are held by the Partnership Fund, which is itself 100% directly owned by the Government. See "*Sole Shareholder and Management*".

The Group's related party transactions largely consist of transactions with the Government and other state-owned companies. Such contracts primarily relate to wagon rental, station rental and certain freight transportation services, as well as security services.

Key management remuneration

Key management personnel consist of members of the Supervisory Board and members of the Board of Directors. For the years ended 31 December 2020, 2019 and 2018, total salaries and bonuses received by such persons, which is included in the Group's employee benefits expense, was GEL 0.9 million, GEL 1.0 million and GEL 1.1 million, respectively. For the three months ended 31 March 2021 and 2020, total salaries and bonuses received by such persons were GEL 0.2 million and GEL 0.2 million, respectively.

Transactions with other related parties

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence of the Government.

In respect of its other related party transactions, the Group purchases securities services from a state agency, which amounted to GEL 9.7 million in the year ended 31 December 2020, GEL 9.2 million in 2019 and GEL 9.2 million in 2018. In the three months ended 31 March 2021, purchases of security services from the state agency amounted to GEL 2.3 million, as compared to GEL 2.3 million in the corresponding period in 2020. The Group does not usually have significant balances for these purchases. Management estimates that the aggregate amounts of other income and expenses and the related balances with other Government-related entities are not significant.

On 25 May 2016, the Company entered into an unsecured subordinated term facility agreement (as lender) with the Partnership Fund (as borrower) with a total commitment of up to U.S.$7 million (the "**Partnership Fund Loan**") in connection with the Partnership Fund's obligations under a loan with Credit Suisse AG. Amounts drawn down under the Partnership Fund Loan bear interest at a rate of 9.75% and are repayable in one instalment on the maturity date, which is the later of 25 May 2021 or the date falling six months after all amounts owing to Credit Suisse AG by the Partnership Fund have been paid in full. Interest on this loan is capitalised semi-annually each calendar year. The Partnership Fund Loan includes commitment cancellation and loan acceleration clauses in case any disbursements or repayments of the loan directly result in a breach of covenants by the Company under the 2012 Notes. As at 31 December 2020, there was U.S.$9.3 million in principal amount outstanding under this facility agreement (including capitalised interest). In 2020, the Group accrued interest income in an amount of GEL 2.7 million, as compared to GEL 2.2 million in 2019 and GEL 1.8 million in 2018 in respect of the Partnership Fund Loan. In the three months ended 31 March 2021, the Group accrued interest income in an amount of GEL 0.7 million, as compared to GEL 0.6 million in the corresponding period in 2020, in respect of the Partnership Fund Loan.

As at each of 31 March 2021, 31 December 2020 and 31 December 2019, the Group did not have any unused credit lines with the Partnership Fund.

For further information on certain of the Group's related party transactions, see Note 18 to the First Quarter Condensed Consolidated Financial Statements, Note 25 to the 2020 Audited Consolidated Financial Statements and Note 26 to the 2019 Audited Consolidated Financial Statements.

Quantitative and Qualitative Disclosures about Market Risk

The Group has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

General

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans receivables and cash and cash equivalents. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk was GEL 376.6 million, GEL 306.2 million and GEL 301.3 million as at 31 December 2020, 2019 and 2018, respectively. For information about the maximum exposure to credit risk by type of financial asset and (with respect to trade receivables) by geographic region, see Note 17 to the First Quarter Condensed Consolidated Financial Statements, Note 21(b)(ii) to the 2020 Audited Consolidated Financial Statements and Note 22(b)(ii) to the 2019 Audited Consolidated Financial Statements.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, Management also considers the factors that may influence the credit risk of the Group's customer base including the default risk of the industry and country in which customers operate. During 2020, 23% of the Group's consolidated revenue was attributable to sales transactions with two customers, as compared to 11% attributable to a single customer in 2019 and 7% attributable to a single customer in 2018.

Credit risk is managed mostly by requesting prepayments from freight and passenger transportation customers. Accordingly, the Group's trade receivables mainly consist of receivables from foreign railway companies and one large customer. Credit risk related to receivables from foreign railway companies is managed through the monthly monitoring of receivable balances and requiring immediate repayment of a debt when the balance approaches specific limits set for each individual counterparty.

More than 90% of the Group's foreign railway customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties.

No collateral in respect of trade receivables is generally required. The Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade receivables.

Typically, the Group receives advance payments for its freight transportation services. The Group neither receives nor makes payments from or to foreign railway companies for the usage of the Group's freight cars on their rail networks.

Expected credit loss assessment for corporate customers

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement regarding customer behaviour. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies.

See Note 21(b)(ii) of the 2020 Audited Consolidated Financial Statements and Note 22(b)(ii) of the 2019 Audited Consolidated Financial Statements for details of the exposure to credit risk and ECLs for trade receivables.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group aims to have sufficient cash on demand to meet expected operational expenses for a period of three months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters or global pandemic.

The Group maintains committed unused credit lines under its loan agreements with JSC Bank of Georgia and JSC VTB Bank (Georgia). See "*—Liquidity and Capital Resources—Borrowings—Other credit facilities*" for a description of these facilities.

The table below sets forth the amount of the Group's contractual commitments, as at 31 December 2020, based on contractual undiscounted payments:

	As at 31 December 2020				
	Total	**Less than 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
			(GEL millions)		
Loans and borrowings[(1)]	1,982.1	142.5	1,780.6	44.6	14.4
Trade payables[(2)]	124.1	63.5	27.7	32.9	0.0
Total	**2,106.2**	**206.0**	**1,808.2**	**77.5**	**14.4**

Notes:

(1) Includes interest and principal payments on the 2012 Notes and the Export Credit Facility.

(2) Trade payables comprises mainly payables for construction works in relation to the Modernisation Project.

See Note 17 to the First Quarter Condensed Consolidated Financial Statements, Note 21(b)(iii) to the 2020 Audited Consolidated Financial Statements and Note 22(b)(iii) to the 2019 Audited Consolidated Financial Statements.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currency of the Group is the Georgian Lari. The currencies in which the Group's transactions are primarily denominated and settled are U.S. Dollars and Swiss Francs.

Borrowings and related interest are denominated in currencies that match the cash flows generated by the underlying operations of the Group. In the year ended 31 December 2020, 89.0% of the Group's revenue was denominated in foreign currency, whilst 93.1% of the Group's operating costs were denominated in Lari. This provides an economic hedge without a need to enter into derivatives contracts.

The following table sets forth the currency breakdown of the Group's revenue for the periods indicated.

	For the year ended 31 December					
	2020		2019		2018	
	(GEL thousands)	*% of total revenue*	*(GEL thousands)*	*% of total revenue*	*(GEL thousands)*	*% of Total revenue*
U.S.$-denominated revenue...............	412,415	84.3	386,680	78.7	333,423	78.6
CHF-denominated revenue...............	22,985	4.7	30,246	6.2	25,362	6.0
GEL-denominated revenue...............	53,970	11.0	74,113	15.1	65,563	15.4
Total revenue.....	**489,370**	**100.0**	**491,038**	**100.0**	**424,614**	**100.0**

The following table sets forth the currency breakdown of the Group's operating costs (comprised of the Group's employee benefits expense, depreciation and amortisation expense, electricity, consumables and maintenances costs and other expenses) for the periods indicated.

	For the year ended 31 December					
	2020		2019		2018	
	(GEL thousands)	*% of total operating expenses*	*(GEL thousands)*	*% of total operating expenses*	*(GEL thousands)*	*% of total operating expenses*
U.S.$-denominated operating expenses	21,105	5.9	20,182	5.6	17,636	4.6
CHF-denominated expenses.............	3,688	1.0	3,780	1.0	4,177	1.1
GEL-denominated expenses.............	334,318	93.1	337,883	93.4	363,795	94.3
Total operating expenses.............	**359,111**	**100.0**	**361,845**	**100.0**	**385,608**	**100.0**

The following table sets forth the Group's exposure to foreign currency risk as at the dates indicated.

	As at 31 December					
	2020		2019		2018	
	U.S.$-denominated	*CHF-denominated*	*U.S.$-denominated*	*CHF-denominated*	*U.S.$-denominated*	*CHF-denominated*
	(GEL thousands)					
Cash and cash equivalents	194,823	1	186,711	128	180,680	17
Loan receivable	30,336	—	24,133	—	20,480	—
Trade receivables..........................	18,549	507	6,816	6,957	33,324	4,323
Secured loan	(79,999)	—	(80,968)	—	(85,594)	—
Unsecured bonds	(1,697,337)	—	(1,484,663)	—	(1,385,265)	—
Trade and other payables..............	(5,468)	—	(7,115)	(15)	(659)	—
Net exposure	**(1,539,096)**	**508**	**(1,355,086)**	**7,070**	**(1,237,034)**	**4,340**

A reasonably possible weakening of the Lari, as indicated below, against the U.S. Dollar and the Swiss Franc as at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

The following table sets forth the effects described above as at the dates indicated.

	Profit or loss and equity[1]
	(GEL thousands)
31 December 2020	
U.S.$ (10% weakening)	(153,910)
CHF (10% weakening)	51
31 December 2019	
U.S.$ (10% weakening)	(135,509)
CHF (10% weakening)	707
31 December 2018	
U.S.$ (10% weakening)	(123,703)
CHF (10% weakening)	434

Note:

(1) This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

A strengthening of the Lari against the above currencies as at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

See Note 17 to the First Quarter Condensed Consolidated Financial Statements, Note 21(b)(iv) to the 2020 Audited Consolidated Financial Statements and Note 22(b)(iv) to the 2019 Audited Consolidated Financial Statements.

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

The Group does not account for any fixed-rate financial instruments as fair value through profit or loss or fair value through other comprehensive income. Therefore, a change in interest rates as the reporting date would not have an effect in profit or loss or in equity.

A reasonably possible change of 100 basis points in interest rates in either direction as at 31 December 2020 would have affected profit or loss by GEL 0.8 million, as compared to GEL 0.8 million as at 31 December 2019 and GEL 0.9 million as at 31 December 2018. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

See Note 17 to the First Quarter Condensed Consolidated Financial Statements, Note 21(b)(v) to the 2020 Audited Consolidated Financial Statements and Note 22(b)(v) to the 2019 Audited Consolidated Financial Statements.

Capital management

The Group has no formal policy for capital management, but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. Management believes that this is achieved with efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows and unsecured bonds. Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements.

Critical Accounting Policies

The Group has identified the accounting policies discussed below as critical to the Group's business and results of operations. The following accounting policies are both important to the portrayal of the Group's reported amounts of expenses, assets, liabilities and the disclosure of contingent liabilities at the reporting date and require the Group's management's most subjective or complex judgments, often as a result of the need to estimate the effects of matters that are inherently uncertain. The Group's management bases its estimates and assumptions on historical experience, where applicable and other factors believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. There can be no assurance that the actual results will be consistent with these estimates and assumptions.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Residual values for rails, wagons and locomotives are assessed based on the estimated market price of scrap metal and the estimated weight of rails, wagons and locomotives less deinstallation costs.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. Major scheduled capital repairs for wagons and locomotives, estimated at 16% of the cost, are considered as major components and depreciated separately for an average useful life of seven to 15 years based on the expected timing of the capital repairs.

The estimated average useful lives of significant items of property, plant and equipment for 2020, 2019 and 2018 are as follows:

Buildings and construction	30-44 years
Rail track infrastructure	13-25 years
Transport, machinery, equipment and other	10-16 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

Impairment of non-derivative financial assets

The Group recognises loss allowances for expected credit losses ("**ECLs**") on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and

- other debt securities and bank balances for which credit risk (*i.e.*, the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (*i.e.,* the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group

expects to receive). See Note 28(k)(i) to the 2020 Audited Consolidated Financial Statements and Note 29(k)(i) to the 2019 Audited Consolidated Financial Statements.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. See Note 28(k)(i) to the 2020 Audited Consolidated Financial Statements and Note 29(k)(i) to the 2019 Audited Consolidated Financial Statements.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such impairment exists, then the asset's recoverable amount is estimated. See Note 28(k)(ii) to the 2020 Audited Consolidated Financial Statements and Note 29(k)(ii) to the 2019 Audited Consolidated Financial Statements.

New Accounting Standards

Certain new standards, amendments and interpretations have been published that were not yet effective as at 1 January 2021 and were not applied in preparing the 2020 Audited Consolidated Financial Statements. For information on these new accounting pronouncements that may impact the Group's operations, see Note 29 to the 2020 Audited Consolidated Financial Statements.

INDUSTRY

Overview

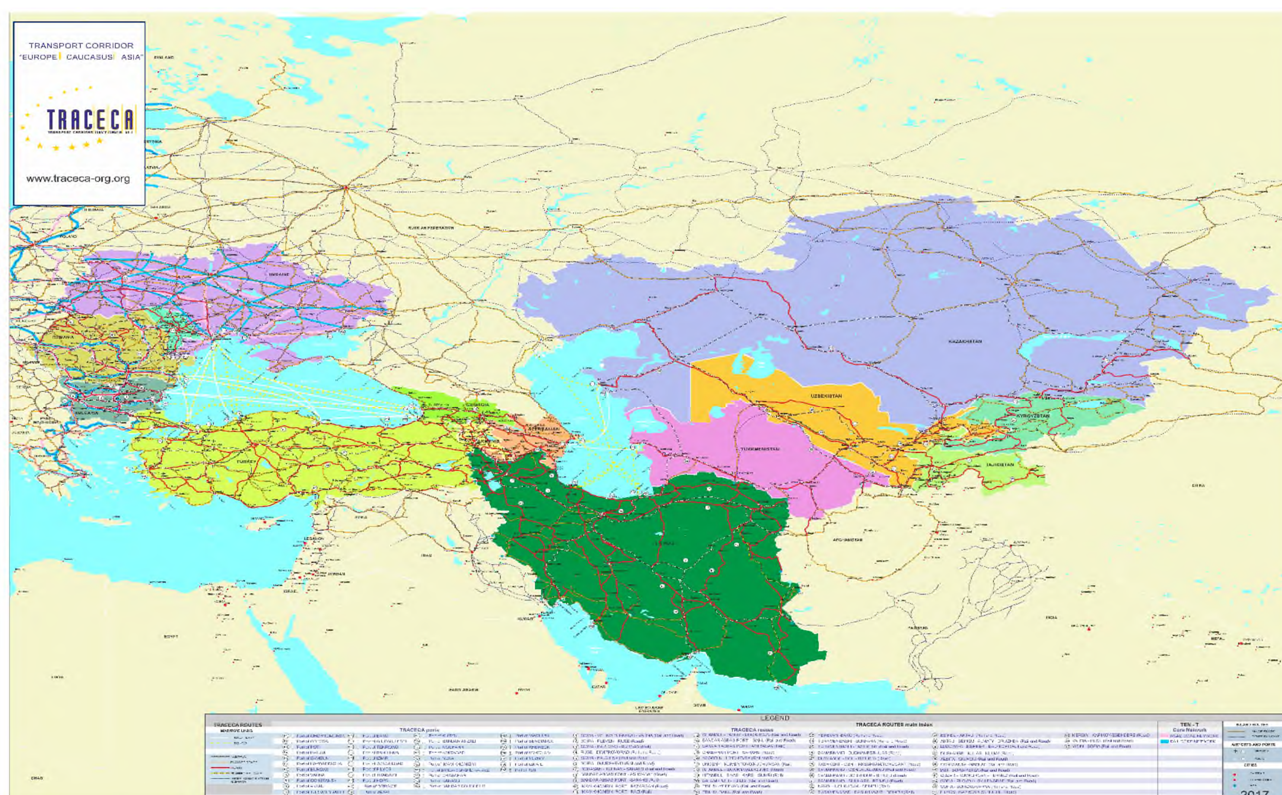
The Group's mainline rail network, together with that of Azerbaijan Railway, forms the Caucasus corridor, a key segment of the TRACECA corridor. The Group's mainline rail network is thus a key link in the shortest route from the Caspian Sea and Central Asia to the Black Sea and the Mediterranean basin. Three of the Group's lines terminate at the Black Sea, at the port cities of Batumi, Kulevi and Poti. Access to these ports allows easy on-shipment of transit cargo to the Mediterranean basin and Europe.

The Caucasus Transportation Market

Introduction

The TRACECA corridor is the shortest route from the Caspian Sea and Central Asia to the Black Sea and the Mediterranean basin. Railway transportation through the Caucasus corridor is shared by Georgia and Azerbaijan, which act as a bridge between the Caspian Sea and Black Sea regions.

The map below shows key transportation links in the region:



Source: TRACECA

TRACECA

TRACECA is a technical assistance programme financed by the EU, which was first established in 1993. TRACECA is aimed at the development of the transport corridor between Europe and Asia across the Black Sea, the countries of the South Caucasus and Central Asian countries.

In 1998, the Basic Multilateral Agreement on International Transport for development of the Transport Corridor (the "**TRACECA Basic Agreement**") was signed by Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Romania, Tajikistan, Turkey, Uzbekistan and Ukraine. Iran also became a signatory member in 2009, while Turkmenistan participates in the technical assistance programme without being a signatory member.

The main objectives of TRACECA are to: (i) enhance the role and functions of the TRACECA corridor in international trade outside the TRACECA region as an important alternative to other corridors; (ii) ensure a sustainable multi-modal transport network, allowing for the smooth and uninterrupted flow of trade and passengers, and to maximise the transit potential of the corridor; (iii) encourage stakeholders to make systematic evaluations of the regional and international consequences of national policies whilst solving transportation and logistics issues, which will promote further negotiations with donors; (iv) introduce and increase the use of best practices across the industry and to draw upon regional and international experience, modernised approaches and innovations across the TRACECA countries; (v) promote the improvement of global logistics of supply chains and develop transport processes based on international practices; (vi) arrange optimal conditions to attract private sector investors to create maritime routes, international logistic centres and the realisation of combined projects; (vii) identify and prioritise infrastructure-related and other projects from the point of view of investment and financing schemes; and (viii) reinforce human resources and the capacity for development.

Five expert groups have been established, comprising (i) aviation; (ii) security (in relation to all modes of transport); (iii) road and rail transport; (iv) transport infrastructure; and (v) maritime transport groups. In 2000, the Intergovernmental Commission TRACECA (the "**IGC**") was established to regulate issues relating to the implementation and application of the TRACECA Basic Agreement and, in 2001 the IGC TRACECA Permanent Secretariat was established in Baku. According to figures published by the EU, it has financed 70 completed technical assistance projects and 14 investment projects through TRACECA since 1993.

Overview of key players

The key players in the railway transportation sector in the Caucasus region are the Group, Azerbaijan Railway and South Caucasus Railways (formerly Armenian Railways and now operating under a concession to Russian Railways). The Group's railway network connects with Azerbaijan Railway's network at the Azerbaijan border, and management estimates that, in 2020, 86% of the Group's transit freight traffic was received from or transported to Azerbaijan Railway's network. The Group's rail network also connects with the South Caucasus Railways' network, although the tonnage transported through this connection is much lower. Since hostilities in the Abkhazia region in 1992, there has been no active link through Abkhazian Railway. There is no indication that this link will be re-opened in the near-term.

Upon completion of the construction of the new Baku-Tbilisi-Kars railway line, which is currently in test mode and expected to be fully completed by the end of 2022, the Group's rail network will also be connected to the railway network operated by Turkish Railway. See "*Description of the Group's Business—Strategy—Continue to grow its freight service business, while increasing geographic diversification*".

Georgian Rail System

As Georgia's only vertically-integrated railway operator, the Group owns and operates the national freight and passenger railway network, including the tracks, terminals, other infrastructure and rolling stock, as well as the land adjoining the tracks. As at 31 December 2020, the rail assets of the Group included:

- a railway network of 1,436 kilometres, of which 97% was electrified, including a 527 kilometre fully-electrified mainline from the Azerbaijan and Armenian borders to the Black Sea (of which 296 kilometres was double-track line);

- 99 freight stations within Georgia, 45 of which are used for commercial purposes; since 2016 ten freight stations have been closed to increase effectiveness;

- 31 passenger stations with 51 ticket booths; and

- significant rolling stock, including 26 EMUs, 153 working locomotives (of which 90 were electric and 63 were diesel locomotives), four working passenger locomotives, 7,632 working freight cars (of which 4,407 were active) and 39 working passenger railcars.

A number of key ports support the Group's rail infrastructure, including: (i) Kulevi port, which handles liquid cargoes, is operated by Vitol and SOCAR and has a current capacity of 10 million tonnes per annum, expandable to 20 million tonnes per annum; (ii) Poti port, which handles liquid and dry cargoes and is located in the free economic zone near Poti, with a current capacity of 600,000 twenty-foot equivalent units ("**TEU**") and planned expansion works; and (iii) Batumi port, which handles liquid and dry cargoes, is operated by JSC National Company KazMunayGas, and has a current capacity of approximately 15 million tonnes

per annum, expandable to approximately 28 million tonnes per annum. Rail ferry connections also operate to Bulgaria, Russia, Ukraine and Turkey, as well as connections between ports in Azerbaijan and Central Asia.

Freight Traffic Overview

The Caucasus corridor is mainly used for the transportation of bulk commodity products comprised of oil and oil product liquid cargoes and dry cargoes, which are largely comprised of ores, grain and construction freight.

The volume of railway freight traffic is affected by global and regional macroeconomic conditions, the availability of infrastructure capacity, including ports capacities and rolling stock, and competition from other modes of transport. Freight customers have several options for the transportation of products within the region. The substantial majority of oil produced in the Caspian Basin is transported via the pipeline network. This network is dominated by the Baku-Tbilisi-Ceyhan pipeline (the "**BTC Pipeline**") and the Caspian Pipeline Consortium pipeline (the "**CPC Pipeline**") and supplemented by a number of smaller pipelines and share of the Russian pipeline system made available to Caspian Basin oil production. In addition, transportation routes involving transport by rail through the Caucasus corridor (via Georgia and Azerbaijan), Russia or Iran, as well as swaps with Iran or other transport options are also available. The transportation of dry cargo through the Caucasus corridor is mainly conducted by railway or road and growing levels of containerisation have been seen in recent years.

The following table sets forth a breakdown of transported cargo in Georgia (excluding pipelines), by type of transport, for the years indicated:

	2017	**2018**	**2019**	**2020**
		(%)		
Road	74.0	75.7	74.2	74.1
Railway	25.8	24.3	25.8	25.9
Air	0.1	0.1	0.1	0.1

Source: MOESD.

According to figures published by the MOESD, the total volume of cargoes transported in Georgia (excluding pipelines) was 41.5 million tonnes in 2017, 41.1 million tonnes in 2018, 42.3 million tonnes in 2019 and 42.9 million tonnes in 2020.

Freight Turnover and Composition

The freight transportation segment accounted for 94.7% of the Group's total revenue in 2020 and 98.3% of the Group's total revenue in the three months ended 31 March 2021. The Group transports both dry cargoes and liquid cargoes (primarily oil products), with dry cargoes accounting for 72.5% of the Group's total freight transportation volumes in the year ended 31 December 2020, as compared to 71.7% and 68.6% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, dry cargoes accounted for 62.7% of freight transportation volumes, as compared to 72.4% in the corresponding period in 2020. Of the Group's total dry cargoes, transit shipments accounted for 46.8% of the Group's total dry cargo transportation volumes in the year ended 31 December 2020, as compared to 45.2% and 35.1% of the Group's total dry cargo transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, transit shipments accounted for 46.8% of total dry cargo transportation volumes, as compared to 51.4% in the corresponding period in 2020. Liquid cargoes accounted for 27.5% of the Group's total freight transportation volumes in the year ended 31 December 2020, as compared to 28.3% and 31.4% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, liquid cargoes accounted for 37.3% of the Group's total freight transportation volumes, as compared to 27.6% in the corresponding period in 2020. Of the Group's total liquid cargoes, transit shipments accounted for 58.8% of the Group's total liquid cargoes in the year ended 31 December 2020, as compared to 56.7% and 56.0% of the Group's total liquid cargoes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, transit shipments accounted for 77.3% of total liquid cargoes, as compared to 62.8% in the corresponding period in 2020.

For details of the freight volumes transported by the Group, see "*Description of the Group's Business—Freight SBU—Freight Composition*".

Main Trading Partners

In 2020, approximately 50% of the total freight volumes transported by the Group were from Kazakhstan, Azerbaijan, Turkmenistan and Russia.

The table below sets forth details of Group's freight transportation volumes, by country, for the years indicated:

	2017	2018	2019	2020
		(million tonnes)		
Kazakhstan	1.4	0.7	0.5	0.5
Russia	1.1	1.4	2.0	1.6
Turkmenistan	0.7	0.7	0.7	1.5
Azerbaijan	1.7	1.6	1.7	1.9

Key drivers of freight traffic

Georgia is a regional transport link for freight traffic and the Group is neither dependent on domestic demand nor domestic production in order to maintain its freight traffic levels.

Dry cargo

The major factors driving transportation of dry cargo in the region are general economic conditions, construction activity and specific industrial projects in the region. In particular, the volumes of agricultural products transported by the Group are affected by general demographic trends and consumption levels while construction material volumes are driven by construction cycles and the general economic environment. Transport of ferrous metals, scrap, ores and chemicals and fertilisers is impacted by the international market prices for these commodities. Investments in current infrastructure along the corridor, such as at the Black Sea ports, are also expected to affect the volumes of dry cargo transported by rail. The Kulevi port currently does not handle dry cargo and the substantial majority of cargo handled at the Batumi port is liquid cargo.

A future further driver in the transportation of dry cargoes is expected to be the completion of the Baku-Tbilisi-Kars line and the commencement of traffic flows over this new rail link.

Liquid cargo

One of the key drivers of freight traffic in the region is the production of oil and oil products in the Caspian region. The Caspian region has large oil reserves and growing production. The majority of crude oil is transported through Georgia via pipelines, with the Group transporting only minimal quantities of crude oil in recent years. Transportation of oil products is a second important driver of freight volumes in the region. Oil products drive rail transport, in particular, as they cannot be transported through pipelines. There are three refineries in Kazakhstan and two large refineries in Baku, Azerbaijan. In recent years, volumes of oil products transported from Turkmenistan have increased as a proportion of total volumes.

Containerised cargo

Containerisation is expected to continue to be a growing source for dry cargo traffic in the Caucasus corridor. The increased containerisation of the corridor contributes to the diversity of dry cargo that can be transported by the Group, including for example, cotton products, grains, ferrous metals and scrap, and refrigerated products. Container traffic has significant value for freight operators, as container transportation services are much cheaper than regular wagons. In 2020, the COVID-19 pandemic had a significant effect on the volume of containers transported via Georgian ports, with volumes at such ports decreasing by approximately 24%, as compared to 2019. The volume of containerised cargo transported by the Group, however, increased by approximately 3.3% in 2020, as compared to 2019.

Recent Infrastructure Developments

As the Group forms part of the Caucasus corridor, the development of infrastructure in the region also drives freight traffic.

Modernisation Project

The Group is in the process of completing its Modernisation Project. The Modernisation Project can be divided into two parts; the first, which concentrates on the improvement of the rail lines along the Group's main line; and the second, which is focused on debottlenecking the line and, thereby, increasing its capacity. See "*Description of the Group's Business—Projects—Modernisation Project*".

Baku-Tbilisi-Kars Project

The Baku-Tbilisi-Kars railway line, which is currently in test mode and expected to become fully-operational in 2022, is expected to be a key driver of freight volumes in the future. The line establishes a 178 km new railway route from China to Europe through Georgia and Turkey, and the Group aims to capitalise on increased trade volumes in these jurisdictions. In 2020, approximately

15% of China's total trade was with the EU, and approximately 9% of Turkish imports originated from China. The capacity of the line is expected to be 5.0 million tonnes per year (with transportation of 0.5 million tonnes per year already in effect during the testing of the line). The first train passed through the line in 2018, and in 2020, the Group transported 1,788 TEU from and to China via the Baku-Tbilisi-Kars route. The freight service from Istanbul to Xi'an is now a regular route on the Group's timetables. The first China-bound train from Turkey departed on 4 December 2020. This service is expected to run twice a month.

Additional Feeders in Caspian Sea and Black Sea

The Group has constructed an additional feeder in the Caspian sea, connecting Kazakhstan and Azerbaijan, with the aim of increasing container transportation through the Caucasus corridor. This feeder, which has been operational since April 2019, has a capacity of 225 TEU and operates between Batumi and Constanta in Romania.

An additional feeder was added by the Group on the Black Sea, connecting Poti port with Odessa in Ukraine, to encourage container transportation through Georgia to Europe. This feeder, which has been operational since October 2019, has a capacity of 1,200 TEU.

Organisation of China – Kazakhstan – Turkey Container Service

In June 2015, Georgia became a founding member of the Asian Infrastructure Investment Bank ("**AIIB**"), a multilateral development bank focused on developing Asia but with projects and members world-wide. The founding members of the AIIB have agreed to work towards increasing containerised traffic to Europe via the launch of an international transit route connecting China, Kazakhstan, Azerbaijan, Georgia and Turkey. This route is expected provide subsidised transportation from the Jiangsu Province to Istanbul, through the Caucasus corridor, with a single applicable tariff. The transit time currently takes 14 days, but active steps are being taken to improve this service and to further decrease the transportation time. These steps are expected to provide a significant advantage over transportation by sea, which takes approximately 45 days.

Increasing Container Transportation through Poti

Poti Port is the largest sea port in Georgia and acts as a gateway for international trade between Europe and Georgia, Armenia and Azerbaijan, and is connected by railway to key cities in Georgia.

In 2020, API Terminals Poti, an international terminal company based in the Netherlands, presented a plan to the Government to expand Poti Port in two phases: (i) the construction of a multipurpose quay able to handle dry bulk cargo and with a berth capacious enough to accommodate container vessels of up to 9,000 TEU; and (ii) construction of a 300 metre container quay which would double the annual container capacity at Poti Port to over 1 million TEU. According to information published by API Terminals Poti, it expects to invest U.S.$250 million to finance the first stage of the Poti Project, which, subject to receipt of required permits, is expected to be completed by the second quarter of 2022. An environmental impact study will then be conducted in respect of the second stage of the project.

Construction of a Deep-Sea Port in Anaklia

In 2016, the Government and the Anaklia Deep-Sea Consortium signed an investment agreement for the construction and operation of the Anaklia Deep-Sea Port. Under this agreement, the Anaklia Development Consortium was granted the investment area (340 hectares of land area and 225 hectares of sea area) for 52 years. The cost of the Anaklia Deep-Sea Port Project was estimated at approximately U.S.$2.5 billion.

In 2017, the construction of the Anaklia Deep-Sea Port began. In 2020, the Government cancelled the agreement with the Anaklia Development Consortium due to the failure of the consortium to meet its contractual obligations. The Government is currently taking active steps to identify new project partners.

Once new partners are found and the project is completed, the Anaklia Deep-Sea Port is expected to have a throughput of 100 million tonnes *per annum*, and be able to handle 7 million tonnes of cargo *per annum*. Once completed, the Anaklia Deep Sea Port is intended to be one of the main logistical centres in the South Caucasus and a major maritime gateway for Georgia.

Regional Macroeconomic Factors

A driver of freight traffic in the Caucasus corridor is the trade flows of commodities such as crude oil, oil products, ores and grains, and construction materials within the region. Specifically, freight transit volumes are affected by trade between and among Europe and members of the TRACECA corridor. Freight volumes in relation to intra-territorial cargoes are affected by economic activity within Georgia.

The impact of the COVID-19 pandemic has negatively impacted levels of trade and economic activity in Europe in particular,

and in several TRACECA members, including Georgia, and consequently trade undertaken among and between these countries declined and industrial activity slowed within Georgia. However, despite the impact of the COVID-19 pandemic, the Group's revenue from freight traffic increased in 2020, primarily driven by strong results in the first quarter of 2020 following the adjustments of certain freight tariffs to make them more attractive to customers, as well as the ability to continue operations throughout 2020 unhindered by pandemic-related restrictions imposed on road and air transportation.

In recent years economic growth has been slow across the region, including in Georgia, for several reasons. These include a number of geopolitical developments, such as: (i) low oil prices (a consequence of reduced import demand from Russia, the largest economy in the region, following the recession in Russia); (ii) Russia being subject to international sanctions; (iii) conflict situations in eastern Ukraine and Crimea; (iv) the armed conflict between Azerbaijan and Armenia in 2020; and (v) the recent depreciation of the Russian Rouble and other currencies in the region.

The following table sets forth details of Georgia's GDP growth, inflation rate, external trade turnover and exports and imports for the years indicated:

	2015	**2016**	**2017**	**2018**	**2019**	**2020**[(1)]
GDP at current prices (*GEL millions*)	33,935.0	35,836.0	40,761.7	44,599.3	49,252.7	49,407.3
Real GDP growth (*%*)	3.0	2.9	4.8	4.8	5.0	(6.2)
Inflation rate (*consumer price index)*	4.0	2.1	6.0	2.6	4.9	5.2
External trade turnover (*U.S.$ millions*)	9,508.4	9,459.0	10,802.4	12,741.3	13,315.4	11,373.0
Exports (FOB) (*U.S.$ millions*)	2,204.2	2,117.1	2,745.7	3,379.7	3,798.4	3,342.1
Imports (CIF) (*U.S.$ millions*)	7,304.2	7,341.9	8,056.6	9,361.6	9,516.9	8,030.9

Note:
(1) Figures are based on preliminary data.

Source: Geostat.

The following table sets forth details of Georgia's and neighbouring countries' real GDP growth, as published by the IMF, for each of the years indicated:

	2015	**2016**	**2017**	**2018**	**2019**	**2020**[(1)]
Georgia	3.0	2.9	4.8	4.8	5.0	(6.1)
Armenia	3.3	0.2	7.5	5.2	7.6	(7.6)
Azerbaijan	1.0	(3.1)	0.2	1.5	2.2	(4.3)
Kazakhstan	1.2	1.1	4.1	4.1	4.5	(2.6)
Russia	(2.0)	0.2	1.8	2.8	2.0	(3.1)
Turkey[(1)]	6.1	3.3	7.5	3.0	0.9	1.8
Turkmenistan	6.5	6.2	6.4	6.2	6.3	0.8

Note:
(1) IMF Staff estimates.

Source: International Monetary Fund, World Economic Outlook Database, April 2021.

Passenger Traffic Overview

Passenger transportation is comprised of both domestic and international transportation services. Domestic travel is segmented between regional and long-distance travel. Long distance traffic accounts for the large majority of the Group's passenger traffic, while the regional services, particularly the suburban component, typically serve the low-income sections of the community and, accordingly, low fares apply to such journeys. This international service comprises the short haul services between Tbilisi and the Azerbaijan and Armenian borders, as well as the seasonal service from Armenia to Batumi. See "*Description of the Group's Business—Passenger SBU—Passenger Customers*".

Key drivers of passenger traffic

The key drivers of passenger traffic numbers, and, accordingly, the Passenger SBU's revenue, are:

- demographic trends and disposable income of the population in the region, particularly in relation to the more profitable market segment of international travel;
- the level of service provided in terms of journey times, frequency and reliability;
- the quality of service provided;
- the standard of rolling stock in terms of cleanliness and comfort;
- the level of crowding and seat availability on trains;
- the perceived value for money of the service; and
- the competitiveness of rail transportation as opposed to other modes of transportation in terms of journey times, proximity of stations and accessibility.

In 2020 and the three months ended 31 March 2021, passenger numbers transported by the Group were impacted by the COVID-19 pandemic. In line with Government regulations, passenger transportation was ceased from the second half of March 2020 until 15 June 2020 and, subject to certain limited exceptions, from 28 November 2020 until 27 February 2021. See "*Description of the Group's Business—Impact of COVID-19*" and "*Description of the Group's Business—Passenger SBU—Passenger Customers*".

Tourism

In recent years, tourism in Georgia has, and is expected to continue to, positively impacted passenger transportation numbers. According to estimates by the Georgian National Tourism Administration, tourist arrivals for the three months ended 31 March 2021 were 0.1 million, as compared to 1.3 million for the three months ended 31 March 2020. Tourist arrivals in 2020 were 1.6 million, as compared to 9.4 million in 2019 and 8.7 million in 2018, according to the same source.

While tourism fell in 2020 as a result of COVID-19 restrictions on travel. Following the lifting of such restrictions, tourist arrivals are expected to have a positive impact on passenger transportation numbers, including for mainline trains and international travel, which attract higher ticket prices.

In addition, the construction of the Baku-Tbilisi-Kars line, which is expected to be fully completed in 2022, is also expected to increase passenger numbers. See "*Description of the Group's Business—Strategy—Continue to grow its freight service business, while increasing geographic diversification*".

For additional information about the Group's passenger services, and its strategy to transform the Passenger SBU into a profitable operation, see "*Description of the Group's Business—Business Operations—Passenger SBU*". See also "*Risk Factors—Risks Related to the Group's Business—The Group's passenger services have historically generated net losses*".

DESCRIPTION OF THE GROUP'S BUSINESS

Overview

JSC Georgian Railway is, by statute, Georgia's only vertically-integrated railway company. It principally provides freight services, transhipping a variety of cargo, including oil, oil products, ores, grains and other cargo, which principally originate in the east, from the Caspian Sea and Central Asia across Georgia to the Black Sea. The Group also provides passenger services and freight forwarding services. It has a vertically-integrated business model, owning and operating the tracks, stations, other infrastructure and rolling stock comprising Georgia's entire national railway system, as well as the land adjoining the tracks. Currently, the Group sets its own tariffs without the need to obtain governmental approval.

The Group's mainline rail network, together with that of Azerbaijan Railway, forms the Caucasus railway corridor, a key segment of the TRACECA corridor. The Group's mainline rail network is thus a key link in the shortest route from the Caspian Sea and Central Asia to the Black Sea and the Mediterranean basin. As a key link in the transportation chain between Europe and Central Asia, the Group believes that it is uniquely positioned to capitalise on trade between Europe and the Caspian Region and Central Asia. Three of the Group's lines terminate at the Black Sea, at the Georgian port cities of Batumi, Kulevi and Poti. Access to these ports allows easy on-shipment of transit cargo to the Mediterranean basin and Europe.

The map below sets out the principal railway lines, major road networks and ports in Georgia and neighbouring Azerbaijan (the Caucasus railway corridor), as well as the wider TRACECA corridor in neighbouring countries.

The Group operates the national railway system through three strategic business units, or SBUs: the Freight SBU, which consists of freight traffic (transportation and handling) and freight car rental services; the Passenger SBU, which primarily transports passengers within Georgia; and the Infrastructure SBU, which operates, maintains and manages the Group's principal infrastructure assets. The Infrastructure SBU provides services only to the Freight SBU and the Passenger SBU and does not conduct business with third-party customers. For the year ended 31 December 2020, the Group transported 11.1 million tonnes of freight and carried 0.9 million passengers. For the three months ended 31 March 2021, the Group transported 3.0 million tonnes of freight and carried 53,000 passengers. The three SBUs are supported by the Company's subsidiaries, which are principally engaged in freight forwarding and handling and property management. For IFRS reporting purposes, however, the Group has two reportable segments, the freight transportation segment and the passenger transportation segment. The freight transportation segment accounted for 94.7%, 91.6% and 91.5%, of the Group's total revenue for the years ended 31 December 2020, 2019 and 2018, respectively. In the three months ended 31 March 2021, the freight transportation segment accounted for 98.3% of the Group's consolidated revenue, as compared to 94.6% in the corresponding period in 2020.

The freight transportation segment accounted for 94.7% of the Group's total revenue in 2020 and 98.3% of the Group's total revenue in the three months ended 31 March 2021. The Group transports both dry cargoes and liquid cargoes (primarily oil products), with dry cargoes accounting for 72.5% of the Group's total freight transportation volumes in the year ended 31

December 2020, as compared to 71.7% and 68.6% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, dry cargoes accounted for 62.7% of freight transportation volumes, as compared to 72.4% in the corresponding period in 2020. Liquid cargoes accounted for 27.5% of the Group's total freight transportation volumes in the year ended 31 December 2020, as compared to 28.3% and 31.4% of the Group's total freight transportation volumes in the years ended 31 December 2019 and 2018, respectively. In the three months ended 31 March 2021, liquid cargoes accounted for 37.3% of the Group's total freight transportation volumes, as compared to 27.6% in the corresponding period in 2020. A significant percentage of oil products transported by the Group (approximately 76% in the year ended 31 December 2020) originates in Azerbaijan.

For the year ended 31 December 2020, the Group had consolidated revenue of GEL 489.4 million, loss and total comprehensive loss of GEL 164.6 million and Adjusted EBITDA of GEL 219.0 million, as compared to consolidated revenue of GEL 491.0 million, loss and total comprehensive loss of GEL 5.6 million and Adjusted EBITDA of GEL 223.2 million for the year ended 31 December 2019, and consolidated revenue of GEL 424.6 million, loss and total comprehensive loss of GEL 716.5 million and Adjusted EBITDA of GEL 172.3 million for the year ended 31 December 2018. For the three months ended 31 March 2021, the Group had consolidated revenue of GEL 127.9 million, loss and total comprehensive loss of GEL 54.4 million and Adjusted EBITDA of GEL 57.6 million, as compared to consolidated revenue of GEL 122.0 million, loss and total comprehensive loss of GEL 182.6 million and Adjusted EBITDA of GEL 58.1 million for the corresponding period in 2020.

Strengths

The Group believes that it has a number of key competitive strengths that will enable it to capitalise on its leading position in the Georgian and Caucasus transportation markets in the future.

Strategic asset for the Georgian economy with strong State support

The Group is considered to be a strategic partner in national and economic development, acting as a systemically important infrastructure operator facilitating development in other industrial sectors (*i.e.,* locomotive construction, railcar repair, concrete sleeper production, etc.) and playing a key role in maintaining strong economic relations between Georgia and its partner countries. In particular, the Government has indicated that the development of the country's infrastructure is one of its highest priorities, with the aim of Georgia becoming a large transportation hub, and that the Group's railway network is a critical component of that infrastructure. Moreover, the Group's provision of key passenger transportation services at affordable prices is considered akin to a public service obligation and enables the Government to promote regional development. The Group is a major taxpayer and a significant contributor to Georgia's GDP. According to figures published by Geostat, the Group's consolidated revenue represented 1.1% of GDP in 2020, as compared to 1.1% in 2019 and 1.0% in 2018. The Group is also one of the largest corporate employers in Georgia, whose business also supports other employment opportunities in Georgia, as well as one of the largest tax payers in the country.

The Group's tariff policies are not subject to Government regulation, and the Group sets its own freight tariff policy independently and without Government approval, despite being a statutory monopoly. In addition, the Group benefits from the strong support of the Government, which is its indirect sole shareholder (through the state-owned Partnership Fund). The Group believes that the Government considers it to be a strategically important national asset.

The Government has shown strong support for the Group's initiatives over the years, including the contribution of land and other assets for the Group's Capital Expenditure projects (in particular, the Modernisation Project and the Tbilisi Bypass Project (as defined below)), the exemption of linear infrastructure (such as, railroads and transmission lines) from property tax in Georgia and the agreement to the restriction on dividend payments under the Group's existing Eurobonds (and as set out in the Terms and Conditions of the Notes). Given the strong alignment of interests between the Group and Georgia, management believes that the Government will continue supporting the Group's operations.

In addition, pursuant to Georgia's obligations to implement certain EU legislation under the Association Agreement, the Government has an obligation under the EU Social Market Economy principle to compensate the Group for its loss-making passenger transportation business and to subsidise certain of the activities of the Infrastructure SBU. In accordance with the principle set out in the EU Passenger Transportation Regulation for passenger transportation subsidies and prohibition of cross subsidies from freight transportation, in 2020, Parliament adopted an amendment to the Railway Code recognising railway passenger transportation services as a public service obligation. Accordingly, the Company and the Government are expected to enter into a public service contract for compensation of the losses of the Passenger SBU with effect from 2022 or 2023. The Government is expected to adopt a resolution regarding the detailed terms and conditions of this contract by the end of 2021. This contract is expected to define certain passenger rail routes and set out the conditions for the agreement of costs for such routes between the Company and the Government or relevant competent authority, as well as the compensation to be granted to the Company for operating non-profitable passenger routes. This is expected to have a positive impact on the Group's revenues, although the exact quantum will not be known until the terms and conditions of the contract have been agreed. See "*—Passenger SBU*" and "*—Regulation*".

Unique strategic location and strong customer relations

The Group benefits from its strategic location within the Caucasus region. The Group's railway network comprises a key part of the Caucasus corridor, which is the shortest route from the Caspian Sea to the Black Sea and the Mediterranean basin. The Caucasus corridor is itself part of the TRACECA corridor, an international transportation network involving the EU and 12 states in Eastern Europe, the Caucasus and Central Asia, aimed at economic development of regional emerging market economies through the promotion of international trade flows. As a link in the transportation chain between Europe and Central Asia, the Group believes it is a key beneficiary of the growing trade between these regions.

The Group believes that its strategic location will enable it to capitalise on increasing trade between Europe and the Caspian Region and Central Asia, as well as the increasing demand for oil and oil products from Central Asia. By way of example, in 2020, the volumes of products from Turkmenistan transported by the Group increased by 109%, as compared to 2019. Notwithstanding the recent impact of COVID-19, the Caucasus region, including Georgia, has experienced and is expected to continue experiencing strong GDP growth. GDP growth is an indicator of freight transportation volumes, and the IMF forecasts Georgia's real GDP to grow by 3.5% in 2021. Management believes that future GDP growth in Georgia and other TRACECA member states will further drive demand for commodities, construction materials and ores, in turn, driving freight volumes travelling through the Caucasus corridor. Given its strategic location, as producers seek to diversify their transportation options, the Caucasus corridor should capture a relatively stable share of oil products transported in the region, management believes that future GDP growth in Georgia and other TRACECA member states will further drive demand for commodities, construction materials and ores, which, in turn, will drive freight volumes travelling through the Caucasus corridor.

Management believes that the Group has developed strong relationships with its key customers. A substantial majority of revenues is from freight services to freight forwarding companies, which tend to have a diversified customer base of freight owners, thereby increasing demand for the transport of various types of cargo and multiplying the diversity of the Group's indirect freight-owner customer base. Management believes that the Group's well-established relationships with freight forwarders help foster long-term relationships between the Group and the owners of the cargo. Moreover, several key cargo owners have invested in port infrastructure in Georgia, including at the ports of Batumi (KMG), Kulevi (SOCAR) and Poti (APM Terminals, a unit of Maersk), all served by the Group's rail lines, which increases visibility over the need for the Group's freight transportation services in the future. The Group believes that its strong relationship with key customers, assisted by the measured approach of its flexible pricing policy, is a key competitive advantage.

Integrated freight and transportation company

The Company is, by statute, Georgia's only vertically-integrated railway company. The Group believes that its future growth is well supported by its own existing and planned infrastructure and asset base. As at 31 December 2020, the Group's railway network was comprised of 1,436 km of track, which is 97% electrified, including a 527 km electrified mainline from the Azerbaijan and Armenian borders to the Black Sea. During the three years ended 31 December 2020, the Group paid GEL 273 million to acquire property, plant and equipment, including rolling stock and equipment, and to rehabilitate and modernise important infrastructure assets, including rail tracks, electric power supply lines and bridges and tunnels. This includes amounts spent on the Modernisation Project. See "*—Modernisation Project*".

The Group is undertaking the Modernisation Project in order to increase further operational efficiencies. The Company has invested GEL 878 million in the Modernisation Project, which is expected to improve transportation capacity by 78% and to reduce operating costs by 10% by 2022. Based on current estimates, it is expected that the Modernisation Project will be completed in 2023 (and the portion of works being conducted by the external contractor is expected to be completed in 2022). See "*—Projects—Modernisation Project* "See "*—Modernisation Project*".

As at 31 March 2021, the Group had 4,409 active (7,633 working and 8,586 serviceable) freight railcars, as compared to 4,407 active (7,632 working and 8,622 serviceable) freight railcars as at 31 December 2020. The Group believes that its railcar fleet provides capacity for future growth. The Group intends to purchase 100 additional open box cars (wagons) in 2021. The Group has adopted a flexible policy in respect of its rolling stock, which includes refurbishment and works to extend the lifetime of existing rolling stock, as well as both the leasing of tank cars and the selective acquisition of new railcars, locomotives and wagons when there is demand. The Group's Capital Expenditure requirements are reduced by the fact that, as a transit railway, a large portion of the cargo transported by the Group is transported using third-party rolling stock (approximately 49% in 2020). In the next few years, the Group expects that its principal investments will be aimed at increasing the Group's supply of rolling stock, when such increases are supported by expected increases in volumes to be transported. The Group prepares an annual renovation and repair programme in respect of its rolling stock, with the aim of ensuring the availability of sufficient locomotives and rail cars to service its ongoing operations.

Strong margins and a solid cash flow generation profile backed by foreign currency-denominated revenue

A significant portion of the Group's operating expenses is fixed and denominated in Lari, which has resulted in relatively stable operating expenditures in recent years, while revenues (primarily denominated in U.S. Dollars) have increased, resulting in an increased Adjusted EBITDA Margin. For the year ended 31 December 2020, the Group had Adjusted EBITDA of GEL 219.0 million and an Adjusted EBITDA Margin of 44.74%, as compared to Adjusted EBITDA of GEL 223.1 million and an Adjusted EBITDA Margin of 45.45% for the year ended 31 December 2019. Management believes its Adjusted EBITDA Margin represents a leading position, as compared to the Group's regional peers.

The Group's tariff policies are not subject to Government regulation, and the Group sets its own freight tariff policy independently and without Government approval. This allows the Group to react flexibly in response to market changes and demand. In recent years, management has also made efforts to promote the containerisation of the Caucasus corridor and increase the revenue derived from its logistics services. As a result, revenue from logistics services (which, for accounting purposes are classified as part of the freight transportation segment revenues) have become a significant portion of the Group's total revenue, accounting for GEL 54.1 million, or 11.1%, and GEL 48.8 million, or 9.9%, respectively, of the Group's total revenue for the years ended 31 December 2020 and 2019. In the three months ended 31 March 2021, revenue from logistics services accounted for GEL 17.7 million, or 13.8% of the Group's total revenue, as compared to GEL 13.1 million, or 10.7% of the Group's total revenue, in the corresponding period in 2020. The Group aims to increase logistics services' contribution to total revenue to 25% by the end of 2026. Management expects such efforts to support the Group's future growth and financial position.

A continuous focus on sustainable development

Since its incorporation in mid 1990s, the Group's railway network has been an electrified (fully-electrified in terms of the Company's mainline and 97% electrified over the whole network), environmentally friendly mode of transport. The Group operates both freight and passenger transportation using electric locomotives and EMUs and using diesel locomotives only for shunting operations and on non-electrified sidings. The Group is devoted to avoiding, minimising and mitigating the environmental impact caused by its activities and to improving its overall environmental performance. Effective measures are carried out to protect the environment, which is reflected in the implementation of long-term plans and effective emergency response measures. The Group acts with the slogan "Green is our choice" and contributes to State environmental policy. In addition, the Group has a waste management plan in order to properly utilise and dispose of the waste generated during its operations, with hazardous waste transferred for disposal or remediation on an annual basis.

Through its operation of non-profitable passenger transportation routes, the Company provides an important social function in Georgia by providing affordable domestic passenger transportation.

The Group is the largest employer in Georgia, with 12,373 employees as at 31 March 2021, and offers its employees a range of employee benefits and support systems. By way of example, the Group offers medical insurance to its employees and their family members and finances certain healthcare expenditure not covered by insurance. In 2020, the amount spent on employees' healthcare expenses, over insurance costs, amounted to GEL 350,000 as compared to GEL 262,000 in 2019. In 2020, the amount spent on employees' healthcare expenses, including insurance expenses, amounted to GEL 7.7 million.

In order to meet the needs of the public and the State in the field of railway transport, in 2015, the Company, the Ministry of Education and Science and the Georgian Technical University established the Railway Transportation College. The Railway Transportation College was granted vocational education status for six years in 2016 and started running classes in 2018. The objectives of the Railway Transportation College are to develop a dual vocational education method in the railway sector and to improve the railway labour market.

Management considers its continued focus on the above and other sustainable development matters to be a competitive advantage.

See "—*Business Operations—Passenger SBU*", "—*Business Operations—Freight Competition*", "—*Regulation—Directive 34*" and "—*Employees and Pensions*".

Strategy

The Group's strategic objective is to achieve a sustainable future. The key elements of its strategy are as follows.

Continue to grow its freight service business, while increasing geographic diversification

The Group is upgrading its infrastructure and rolling stock and selectively invests in new capacities to benefit from expected increases in freight volumes in its core markets. Management is focused on capturing volume growth through further diversification of the Group's freight mix, particularly dry cargo. In 2020, revenue generated from the category of dry cargo

named "other dry cargo" (*i.e.,* comprising those types of cargo not historically transported by the Group in large quantities and demonstrating this diversification) has increased to GEL 93.5 million compared to GEL 75.6 million in 2019 and GEL 56.8 million in 2018.

To capture these increased volumes, the Group also plans to continue to adapt its fleet to the transportation of containers. In 2009, the Group established GR Logistics and Terminals to promote the containerisation of the corridor. Its corporate objective is to help strengthen the Group's presence in the container transportation market, primarily by creating the necessary infrastructure, such as container terminals. Recently, GR Logistics and Terminals also became involved in cargo forwarding through the corridor. Volumes of containerised cargo increased by 3.3% in 2020, as compared to 2019 and by 34.0% in 2019, as compared to 2018. The number of customers has also increased compared to previous years.

The Baku-Tbilisi-Kars route, which is expected to be completed in 2022 will provide a new rail-only corridor from the Caspian Sea to Europe via Turkey. The Group intends to capture volume growth through longer-term expansion to this new geographic trading flow. The capacity of the line is expected to be 5.0 million tonnes per year (with a capacity of 0.5 million tonnes per year in effect during the phase for the line). To date, there are several trains from China that have used the line, and Management expects the route to be loaded to its optimal rate upon completion of the testing procedures. In 2020, the Group transported 1,788 TEU from and to China via the Baku-Tbilisi-Kars route, and the freight service from Istanbul to Xi'an is now a regular route on the Group's timetables. The first China-bound train from Turkey departed on 4 December 2020. This service is expected to run twice a month.

In addition, a new route from China to Georgia and through Georgia to Turkey, Europe and the countries of the Mediterranean Basin, is under development. This route provides an alternative to the existing sea route and creates the possibility of attracting cargo from new markets. A new and unique rail freight service has been launched from Xi'an in China to Prague, which enables cargo to be transported between the two endpoints within one month. The service is operational for further freight transportation and runs uninterrupted from Baku to Europe, thanks to its passage though the Marmaray Tunnel. This tunnel was previously only open to passenger trains.

In 2016, the Group and representatives of the Iranian and Azerbaijani railway companies developed a special tariff policy for goods to be transported from India via Iran, Azerbaijan and Georgia to the Black Sea ports of Georgia, and through which freight would be transported on to Europe.

The Group may also consider leveraging the industry expertise, best-practices and extensive know-how of its management to establish strategic cross-border partnerships with railway and infrastructure companies.

Maintain strong customer relations through a flexible tariff policy

The Group believes that its high service levels and flexible tariff policy allow it to both foster long-term partnerships with existing freight customers and attract new customers. The Group continuously analyses demand to maintain a tariff system designed to foster the long-term attractiveness of the Caucasus corridor in a manner consistent with the Group's competitive position. The Group also engages in an ongoing dialogue with its customers to help them find transportation solutions within the Caucasus corridor, including managing relationships with neighbouring railways. The Group believes that its measured approach to tariff setting and the other benefits it offers to customers provides them with predictability over their costs. This predictability, in turn, encourages many customers to invest in infrastructure linked to the railway network, thereby reinforcing commercial relationships. The Group also believes that this measured approach to tariff setting also enhances the longer-term predictability for management of the Group's operations and strengthens the competitive position of the corridor through Georgia, as compared to alternative routes. The Group intends to continue these measures to maintain and further improve the attractiveness of transportation through Georgia, as well as its efficiency and customer service.

In recent years, the Group has faced increased competition to the business of its Freight SBU from trucking companies, as transportation can in certain situations, and particularly for smaller cargo loads transported domestically, be a more efficient option for the customer. In response, the Group is seeking to market its railway transportation services as a more eco-friendly and socially responsible choice, in terms of lower carbon dioxide emissions, decreased risk of traffic delays and a decreased risk of accidents *en route*, as well as requiring less Government maintenance and repair costs, as compared to the maintenance and investment required in Georgia's road network. See "*—Business Operations—Freight Competition*".

In addition, the Group is investing in an ongoing project to digitalise its information exchange systems, in order to minimise the time that trains spend idle on the tracks waiting for documents to be processed. For example, the Group is participating in a project to create a digital corridor on the Trans-Caspian International Transport Route, by introducing artificial intelligence in consignment recognition. The Group has already digitalised its information exchange system for local cargo transportation processes, and plans to finalise the same system for international freight logistics by the end of 2021. The digital information exchange system reduces the need for the manual processing of documents and minimises the risk of human error, increasing the reliability of the process, optimising documentation processing time and increasing freight traffic capacity, accordingly, the competitiveness of the Group.

Develop and modernise existing infrastructure

Management plans to continue increasing the efficiency of the use of its assets, including by continuing to make investments to further develop and modernise its infrastructure. At its peak in the late 1980s, the portion of the Transcaucasian Railway in Georgia carried more than triple the freight volume and four times the passenger volume than it does today. Accordingly, the Group believes that it has substantial capacity for future growth and that its railway network will support such additional traffic with limited need for further investment.

Aside from maintenance Capital Expenditure incurred in the ordinary course of business, the Group does not expect any Capital Expenditure to be required in respect of the mainline in the medium-term, although the Group is undertaking the Modernisation Project in order to increase further operational efficiencies. One of the key aims of the Modernisation Project is decreasing the track gradient in the gorge section. Management believes that a flatter gradient will reduce wear and tear on wheels and tracks, decreasing the need for extra locomotives in that section, and reducing extra stops to cool the brakes on the trains. In addition, the Group plans to make improvements to tunnels, bridges and level crossings and procure new rolling stock. As a result of the Modernisation Project, the Group expects diminished maintenance costs and an extended life-cycle of certain of its infrastructure assets, and management estimates that completion of the Modernisation Project may result in savings in operating costs of up to 10%, as compared to total operating costs in the areas affected by the Modernisation Project. Based on current estimates, it is expected that the Modernisation Project will be completed in 2023 (and the portion of works being conducted by the external contractor is expected to be completed in 2022). As a result of the Modernisation Project, the Group expects reduced maintenance and operating costs and an extended useful life for certain of its infrastructure assets. The Group's objectives are to match the development of its rail network infrastructure with its planned volume growth and to match investments in rolling stock with evolving volume development. In this respect, following completion of the Modernisation Project, the capacity of the Group's mainline is expected to increase to 48 million tonnes *per annum* and, in 2021, the Group plans to procure 100 wagons. See "—*Projects—Modernisation Project*".

In its continuing efforts to develop and modernise its existing infrastructure, the Company will also continue to focus on the safety of its operations.

Increase containerisation of freight transportation

One of the key strategic objectives of the Group is to achieve greater effectiveness in terms of its costs and core operations, thus the Group is keen to increase containerisation rates in the Caucasus railway corridor. Container traffic has significant value for freight operators, as container transportation services are much cheaper than regular wagons. In 2020, the COVID-19 pandemic had a significant effect on the volume of containers transported via Georgian ports, with volumes at such ports decreasing by approximately 24%, as compared to 2019. The volume of containerised cargo transported by the Group, however, increased by approximately 3.3% in 2020, as compared to 2019. Management believes that this indicates high levels of demand for the Group's services and that the current level of containerisation is low, leaving significant room for improvement.

In order to boost containerisation, the Company founded GR Logistics and Terminals in 2009, the main aim of which was to create and develop the necessary container infrastructure along the Black Sea and Central Asian route. The subsidiary has created container terminals in port cities on the Black Sea and a container terminal in Tbilisi. In 2014, the Group purchased 480 containers for moving cargo through the Georgian corridor, especially considering that sea carriers' transportation of containers to Central Asia is limited, which it continues to hold and utilise. Management believes that the availability of sufficient infrastructure would boost containerisation rates and potentially bring completely new cargo to the corridor. In addition, the Group is launching a new business line, a rail-road transportation (contrailer) service. Two platforms are currently planned for construction (one in Rustavi and one in Batumi), which will permit trucks to be loaded onto platform wagons and to be transported via the rail network. Construction of the platforms is currently on hold as a result of the COVID-19 pandemic and is expected to resume in due course once the impact of the pandemic, and corresponding restrictions, decreases.

In support of containerisation efforts, the Group has constructed two feeders: (i) one on the Caspian sea, connecting Kazakhstan and Azerbaijan, which has been operational since April 2019, has a capacity of 225 TEU and operates between Batumi and Constanta in Romania; and (ii) one on the Black Sea, connecting Poti port with Odessa in Ukraine, which has been operational since October 2019 and has a capacity of 1,200 TEU. See "*Industry—Freight Traffic Overview—Recent Infrastructure Developments—Additional Feeders in Caspian Sea and Black Sea*".

Increase the share of premium passenger services

One of the Group's medium-term strategic objectives is to optimise the expenses, and increase the revenue of, the Passenger SBU by increasing the number of passengers and achieving increased revenue per passenger through increasing the share of premium passenger services. To achieve this, the Group aims to introduce a higher level of service by investing in new railcars, or improving existing railcars, in order to provide improved speed and comfort when using the Group's passenger transportation services. The Group aims to do so by taking, *inter alia*, the following measures: (i) adjusting passenger train timetables to

optimise utilisation; (ii) providing substantial discounts on tickets; (iii) easing the accessibility of tickets via different sales channels; and (iv) launching a marketing campaign to attract potential customers.

In undertaking these measures, the Group aims to attract higher-income commuters and other passengers who might otherwise travel by car. Examples of the implementation of these measures to date include: (i) the purchase of two double-decker EMUs in July 2016 and the purchase of two further EMUs in 2017, with such EMUs in compliance with European safety standards and adjusted for the needs of physically-disabled persons; (ii) adjustment of train timetables to add additional trains when demand is at its highest; (iii) commencing a project to rehabilitate its existing railway station near Kutaisi International Airport and to run shuttles to the airport; (iv) the rehabilitation of three passenger rail stations in 2019 and 2020; (v) the introduction of certain discounts for tickets for various types of passengers (including veterans, students and Group employees); and (vi) the introduction of several online platforms for ticket sales. The Group is also taking active steps in response to COVID-19, in order to ensure the safety and comfort of its customers.

In addition, the Group intends to continue to attract tourists and new passengers by marketing and increasing consumer awareness of the benefits of transport by railway compared to transport via road. See "*—Business Operations—Freight Competition*". In conjunction with these measures, the Company plans to extend the number of passenger services it is able to offer consumers and to continue to improve the quality of the services offered.

Impact of COVID-19

The revenue generated by, and passenger numbers transported by, the Passenger SBU were materially adversely impacted in 2020, and to date in 2021, by the impact of the COVID-19 pandemic. In response to the COVID-19 restrictions imposed by the Government, the Group temporarily reduced its passenger transportation services from the second half of March 2020 until 15 June 2020 and, subject to certain limited exceptions, from 28 November 2020 until 27 February 2021. As a result, passenger transportation services accounted for 2.3% of the Group's total revenue for the year ended 31 December 2020, as compared to 6.3% for the year ended 31 December 2019. Despite the decrease in passenger transportation revenues, the Group has not initiated any staff redundancies as a result of the impact of the COVID-19 pandemic.

Despite decreasing freight volumes in recent years, the Group was able to increase its freight transportation market share in 2020, principally aided by strong results in the first quarter of 2020, following the adjustment to certain freight tariffs to make them more attractive to customers, as well as the ability to continue operations throughout 2020 unhindered by pandemic-related restrictions imposed on road and air transportation.

Despite the limitations imposed by Government regulations, the Modernisation Project has continued during the COVID-19 pandemic, although there was some slowing of construction works, and there was no suspension of the Group's ongoing repairs of rolling stock. Work in relation to the upgrade of the Kopitnari railway station, however, was postponed due to a combination of a change in the conceptual decision on how to link the station with the airport and that the project was directly linked to increased international air passengers, which have been limited since the outbreak of the COVID-19 pandemic. An agreement for completion of the Kopitnari railway station upgrade was signed in March 2021. See "*—Projects—Kutaisi Airport Connection Project*".

As a result of the measures taken by management, no support from the Government has been requested or required in response to the COVID-19 pandemic.

Notwithstanding that COVID-19 regulations imposed by the Government were applicable mainly to the Passenger SBU operations, the Group undertook additional measures to help combat the spread of the virus. Following the recommendations of the Interagency Coordination Council of the Prime Minister regarding the Coronavirus of 13 March 2020, the Group passed a resolution on the transition to temporary home working. Employees in high-risk groups (*i.e.,* pregnant women, people with acute chronic disease and people of retirement age) were switched to full remote working. In addition, in May 2020, the Board of Directors issued an instruction on "*Measures to be taken temporarily to prevent the spread of the new coronavirus (COVID-19) in the workplace*" (Resolution № 16/19), which defines high, medium and low risk of infection, and containing workplace and employee access rules across workspaces. An "*Emergency Action Plan*" was also developed and approved, which sets out immediate measures to be taken by employees and relevant officials in the event of the detection of risk of, or the actual detection of, a new COVID-19 strain. In addition, the Group has provided staff with special workplace facilities, passenger carriages, and high- and medium-risk workplaces, which are frequently disinfected. The Group transports employees between their work-locations via special vehicles, pursuant to regulations and recommendations set out by the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia (the "**MoHSA**") and the Group's internal rules issued in accordance with the MoHSA regulations. Compliance with the developed rules is monitored by the Group's Control, Monitoring and Inspection Department, together with the Medical Service and the Human Resources Management and Development Service. In addition, employees are subject to appropriate disciplinary measures if they violate applicable rules. The Group has defined the category of employees whose remote work would not interfere with its normal activities, being: (i) employees who are less able to work in an office environment, by reason of disability, age or illness; and (ii) those who are able to carry out their responsibilities to the same performance standard when working remotely, and such employees are still

continuing to perform their duties remotely. For the safety of customers, spaces are frequently treated with disinfectant, customers are only able to access wagons or service areas after thermo-screening, must use hand sanitiser prior to boarding trains and wear face-coverings whilst on all the Group's trains, COVID-19 information posters are posted in all properties owned by the Group and employees are trained on a regular basis in customer service and protection against COVID-19.

See "*Risk Factors—Factors that may affect the Group's ability to fulfil its obligations under, or in connection with, the Notes—Operational Risks relating to the Group and its Business—The Group faces risks related to the adverse impact of the COVID-19 pandemic*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Group's Results of Operations—COVID-19*".

Relationship with the Government

The Company is indirectly wholly-owned by the Partnership Fund, a wholly state-owned company. See "*Sole Shareholder and Management*" and "*Risk Factors—Factors that may affect the Group's ability to fulfil its obligations under, or in connection with, the Notes—Operational Risks relating to the Group and its Business—The Company is indirectly wholly-owned by the State which could act inconsistently with the best interests of the Noteholders*".

Management believes that the Government considers the Group to be a strategically important national asset and that the Group's railway network forms an important part of Georgia's economic and social infrastructure.

The Government established the State Transportation Committee with the objective of discussing all major transport issues within the country, and to make strategic decisions concerning the development of the transportation industry, including the national railway. This Committee is headed by the Prime Minister; its other members include the Minister of Finance, the Minister of Economy and Sustainable Development, the Minister of Infrastructural Development, the Chief Executive Officer of the Company, the Head of the Roads Department and representatives of Black Sea port operators. While the State Transportation Committee is currently not active, in areas of the Company's business that do not require formal Government consent or approval, the Government may advise on decisions of the Company's management through the policies of the State Transportation Committee if this committee is restored or renewed. Moreover, Article 3 of the Constitution of Georgia provides that the railways fall within the "exclusive competence" of the highest State bodies of Georgia. See "*Risk Factors—Factors that may affect the Group's ability to fulfil its obligations under, or in connection with, the Notes—Operational Risks relating to the Group and its Business—The Government has the power to start establishing tariffs and could otherwise require the Group to operate on a non-commercial basis*" and "*Risk Factors—Factors that may affect the Group's ability to fulfil its obligations under, or in connection with, the Notes—Operational Risks relating to the Group and its Business—The Group is indirectly wholly-owned by the State which could act inconsistently with the best interests of the Noteholders*".

History of the Company

In 1865, the Transcaucasian Railway Company, headquartered in Tbilisi, began construction of its railway network, a portion of which comprised the Company's predecessor network. In 1871, the Transcaucasian Railway, which ran through Georgia, Armenia and Azerbaijan, commenced operations. By 1883, a connection was made between Tbilisi and Baku. In the 1890s, a tunnel was constructed, which allowed the rail transportation of oil from Azerbaijan through Georgia. The Transcaucasian Railway ultimately became part of the much larger Soviet rail network, which was a core transportation component of the Soviet economy. The Soviet rail network functioned as part of a command economy emphasising regional specialisation and interdependence in production, rather than the immediate local transportation needs of the economy. At its peak in the late 1980s, the portion of the Transcaucasian Railway in Georgia carried more than triple the freight volume and four times the passenger volume than it does today. Accordingly, the Company believes that it has substantial capacity for future growth.

Following the dissolution of the Soviet Union in 1991, the assets of the Transcaucasian Railway Company were allocated to the national railroad companies of Georgia, Armenia and Azerbaijan, and the independent Georgian railway was formed in 1992. In 1993, the Georgian railway network was a founding member of TRACECA, an agreement to provide EU technical assistance to develop an east-west corridor from Europe, across the Black Sea through the Caucasus and the Caspian Sea to Central Asia.

The Company was established as a limited liability company on 21 December 1998 pursuant to the *Law on Entrepreneurs,* Georgia's basic companies law.

The Group launched a restructuring programme in 2005 based on the proposals of an independent consultant. The restructuring programme was completed in 2008 and: resulted in the separation of the Group's operations into the three SBUs, each with separate reporting functions; reorganised the corporate and management systems of the Group; disposed of substantially all of the Group's non-core and non-performing assets in order to realign the Group's asset base; invested in the refurbishment of its assets, particularly rolling stock and track; and conducted efforts to increase the profitability and cash-generating potential of the Group.

In July 2010, the Company issued its U.S.$250 million 9.875% notes due 2015. The Company repurchased approximately U.S.$222.5 million of these notes in 2012 and the remainder matured in 2015.

Pursuant to Government Resolution № 230 of 2 June 2011 "*On Approval of JSC Partnership Fund Charter and Capital Formation*", on 25 October 2011, the Government transferred 24.0% of its shares in the Company, by way of capital contribution, to the Partnership Fund.

The Company changed its corporate form from that of a limited liability company and was re-registered as a joint stock company under the *Law on Entrepreneurs* on 12 April 2012 pursuant to Order № 1-3/269 of the Enterprise Management Agency (the "**EMA**") dated 12 April 2012, approving the Charter and the consent of the Partnership Fund dated 12 April 2012 and the Ministry of Economy and Sustainable Development (the "**MESD**") dated 12 April 2012.

Pursuant to Government Resolution №789 of 30 April 2012 on "*Contributing the Shares of JSC "Georgian Railway" owned by the State into the capital of JSC Partnership Fund"*, on 3 May 2012 the State transferred additional shares in the Company representing 1.5% of the Company's capital, by way of capital contribution, to the Partnership Fund.

On 27 June 2012, the Company issued the 2012 Notes, which are admitted to the Official List of the FCA and to trading on the London Stock Exchange. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Borrowings—2012 Notes*".

On 6 August 2012, the State transferred all of its remaining shares in the Company (comprising the 74.5% of the Company's share capital that was directly held by the State and controlled by the Enterprise Management Agency, an agency of the MESD) to the Partnership Fund. Following this transfer, the Partnership Fund held, and continues to hold, 100% of the share capital of the Company.

In April 2013, the Company entered the freight forwarding business through the establishment of its wholly-owned subsidiary, Georgia Transit LLC.

In 2015, the first transit train from the Chinese port terminal of Lianyungang arrived in Tbilisi, heralding the official opening of "The Silk Road". The Company also attained the international certificate of quality management (ISO 9001:2008).

In 2016, the ISO 9001:2015 certificate was awarded to the Passenger SBU, which recognises the Group's dedication to quality management systems.

On 28 October 2017, testing procedures began on the Baku-Tbilisi-Kars railway line. The line is expected to be fully operational in 2022. The Baku-Tbilisi-Kars railway line directly connects Azerbaijan, Georgia and Turkey. In 2018, the first train passed through the line.

In 2019, the Company initiated new feeder transportation in the Black and Caspian Seas to increase container flows in the region. The Company's container ship completed its first trip from Pivdennyi, in Ukraine, to Poti in October 2019. This project aims to minimise transit time between Georgia and EU. For example, the journey by container ship between Georgian and Ukrainian ports in both directions previously took an average of 8-12 days, which has been reduced by the project to an average of two days. However, the COVID-19 pandemic has had a substantial impact on the project, and the container ship, which was operated by Maersk A/S, the Danish integrated shipping company, has temporarily suspended transportation. Resumption of transportation will depend on demand and market conditions, including the currently ongoing impact of the COVID-19 pandemic.

The Rail System

As Georgia's only vertically-integrated railway operator, the Group owns and operates the national freight and passenger railway network, including the tracks, terminals, other infrastructure and rolling stock, as well as the land adjoining the tracks. As at 31 December 2020, the rail assets of the Group included:

- a railway network of 1,436 km, of which 97% was electrified, including a 527 km fully-electrified mainline from the Azerbaijan and Armenian borders to the Black Sea (of which 296 km was double-track line);
- 99 freight stations within Georgia, 45 of which are used for commercial purposes; since 2016 ten freight stations have been closed to increase effectiveness;
- 31 passenger stations with 51 ticket booths; and

- significant rolling stock, including 26 EMUs, 153 working locomotives (of which 90 were electric and 63 were diesel locomotives), four working passenger locomotives, 7,632 working freight cars (of which 4,407 were active) and 39 working passenger railcars.

The Group's mainline railway network comprises a key segment of the TRACECA corridor, forming a critical link in the shortest route from the Caspian Sea and Central Asia to the Black Sea and the Mediterranean basin. Three of the Group's lines terminate at the Black Sea, at the Georgian ports of Batumi, Kulevi and Poti. Access to these ports allows easy on-shipment of transit cargo to the Mediterranean basin and Europe.

The Group's operations are governed by the Railway Code, which sets forth the rights, obligations and responsibilities of parties involved in railway transportation in Georgia, including the Group, although the Group sets its own tariffs. See "—*Regulation*".

Business Operations

The Group provides principally freight, as well as passenger, services. It also operates its own infrastructure services. Since 2013, the Group has also been engaged in freight forwarding services through its subsidiaries. The Group's main operations are organised into three strategic business units:

- *Freight SBU*: the Freight SBU consists of freight traffic (transportation and handling) and freight cross border charges;
- *Passenger SBU*: the Passenger SBU primarily transports passengers within Georgia; and
- *Infrastructure SBU:* the Infrastructure SBU operates, maintains and manages the Group's principal infrastructure assets.

Each SBU is managed by a separate member of the Board of Directors, who is responsible for the performance of the relevant SBU and who reports directly to the Chief Executive Officer/General Director of the Company. Each of the SBUs, in turn, maintains its own administrative divisions, and the Freight SBU and Passenger SBU each have their own financial managers. The SBUs are also supported by the Company's subsidiaries.

For the year ended 31 December 2020, the freight transportation segment and the passenger transportation segment accounted for 94.7% and 2.3%, respectively, of the Group's total revenue of GEL 489.4 million, as compared to 91.6% and 6.3%, respectively, of the Group's total revenue of GEL 491.0 million for the year ended 31 December 2019. The Infrastructure SBU is a cost centre providing services only to the Freight SBU and the Passenger SBU. It does not conduct business with third-party customers. The Group also generates revenue by selling scrap metal from ongoing maintenance and repair and by leasing real estate to third parties, including at the Central Tbilisi Station.

For the three months ended 31 March 2021, the freight transportation segment and the passenger transportation segment accounted for 98.3% and 0.6%, respectively, of the Group's total revenue of GEL 127.9 million, as compared to 94.6% and 3.9%, respectively, of the Company's total revenue of GEL 122.0 million in the corresponding period in 2020.

In 2009, the Company established GR Logistics and Terminals to promote the containerisation of the Caucasus corridor. Its corporate objective is to help strengthen the Group's presence in the container transportation market, primarily by creating the necessary infrastructure, including container terminals. Recently, GR Logistics and Terminals also became involved in cargo forwarding through the corridor. As a result, revenue from logistics services (which, for accounting purposes are classified as part of the freight transportation segment revenues) have become a significant portion of the Group's total revenue, accounting for GEL 54.1 million, or 11.1%, and GEL 48.8 million, or 9.9%, respectively, of the Group's total revenue for the years ended 31 December 2019 and 2020. In the three months ended 31 March 2021, revenue from logistics services accounted for GEL 17.7 million, or 13.8% of the Group's total revenue, as compared to GEL 13.1 million, or 10.7% of the Group's total revenue, in the corresponding period in 2020.

The Group aims to increase logistics services' contribution to total revenue to 25% by the end of 2026.

The Group may be required to effect certain changes to its corporate organisation and structure in order to comply with certain elements of Directive 34. See "*—Regulation—Directive 34*".

Freight SBU

The Company's Freight SBU generates revenue from three main sources: freight transportation, freight handling and freight car cross-border charges. The freight transportation segment is the principal source of the Group's revenue, with freight traffic services accounting for 94.7% of the Group's total revenue and for the year ended 31 December 2020. Freight transportation services encompass the transportation for customers of cargoes along the Group's railway network. Freight handling services, including railcar marshalling and delivering freight to and from customer facilities, are provided at stations that provide

commercial freight services. Freight car cross-border charge revenue is generated by allowing other countries' railways to use the Group's railcars for their own transportation.

Responsibility for train dispatching, one of the key operations in a railway business, lies with the Freight SBU. Dispatch personnel schedule and, in the event of a delay, reschedule all freight and passenger trains. Although dispatching covers both freight and passenger services, management believes that placing the dispatching function within the Freight SBU promotes efficiency given the importance of freight transportation to the Group.

Freight Composition

The Freight SBU transports both dry and liquid cargoes. The Freight SBU transports various dry cargoes, including ores, construction freight, grains, ferrous metals and scrap, chemicals and fertilisers and other dry cargoes, with no major concentration on any single type of freight. Other dry cargo includes cement, sugar, and industrial freight. Dry cargo is more diversified than liquid cargo among local, export, import and transit shipments, although, as is the case with liquid cargoes, transit shipments are also the largest component of dry cargo transportation volumes, accounting for 33.9% and 32.4% in the years ended 31 December 2020 and 2019, respectively. In the three months ended 31 March 2021, transit shipments accounted for 46.8% of total dry cargoes, as compared to 51.4% in the corresponding period in 2020. Construction materials transported by the Group mostly originate in Georgia and are transported within Georgia, and also to Uzbekistan, Armenia and Azerbaijan. Ores transported by the Group originate principally in Georgia and are transported to other regions of Georgia, China, Cyprus and Bulgaria. Grain and grain products transported by the Group are mainly imports into Georgia and Georgian exports to Armenia, as well as, to a lesser degree, transit shipments. Sugar transported by the Group mostly originates from Brazil and is transported to Azerbaijan, Georgia and Armenia. Metals transported by the Group include aluminium, bauxite and other aluminium products, and their regional trade is driven principally by the requirements and output of various industries.

Liquid cargoes, which are primarily oil products (including, *inter alia*, petrol, bitumen, diesel, fuel and liquid natural gas) and small quantities of crude oil, accounted for 27.5% and 28.4% of the Group's total freight transportation volumes in the years ended 31 December 2020 and 2019, respectively. Liquid cargoes accounted for 37.3% of the Group's total freight transportation volumes in the three months ended 31 March 2021, as compared to 27.6% in the corresponding period in 2020. Crude oil transported by the Group principally originates in Azerbaijan and Georgia, while a significant percentage of oil products (approximately 76% in the year ended 31 December 2020) originates in Azerbaijan, Turkmenistan and Russia. Management believes that a significant percentage of transit oil products that it ships west-bound is destined for European markets. The Group also transports higher-grade oil products from European markets to Georgia, Azerbaijan and Armenia. Transit of crude oil across the Group's rail network, although not a significant portion of the Group's total liquid cargoes, is an alternative to oil pipelines. Of the Group's liquid cargoes, transit shipments accounted for 58.8% and 56.7% in the years ended 31 December 2020 and 2019, respectively, and 77.3% and 62.8% in the three months ended 31 March 2021 and 2020, respectively.

The following tables set forth the breakdown of the Freight SBU's freight transportation volumes by thousand tonnes and turnover (in thousand tonne-kilometres), by type of freight transported, for the periods indicated:

	For the three months ended 31 March			
	2021		2020	
	(thousand tonnes)	*(thousand tonne-kilometres)*	*(thousand tonnes)*	*(thousand tonne-kilometres*
Liquid cargoes	**1,113**	**366,706**	**767**	**230,997**
Crude oil	*1*	*424*	*5*	*1,816*
Oil products[(1)]	*1,112*	*366,283*	*762*	*229,181*
Dry cargoes	**1,868**	**472,460**	**2,007**	**540,939**
Ores	*387*	*61,836*	*463*	*103,902*
Construction freight	*204*	*30,551*	*182*	*31,096*
Grain	*41*	*7,645*	*53*	*9,272*
Ferrous metals and scrap	*130*	*28,341*	*160*	*42,023*
Chemicals and fertilisers	*338*	*111,709*	*364*	*119,885*
Cement	*9*	*2,232*	*17*	*4,127*
Sugar	*105*	*40,100*	*1*	*81*
Industrial freight	*74*	*16,420*	*93*	*16,089*
Other	*579*	*173,627*	*674*	*214,464*
Total	**2,981**	**839,167**	**2,774**	**771,937**

Note:

(1) Oil products primarily include products such as petrol, bitumen, diesel fuel and liquefied natural gas (LNG).

	For the year ended 31 December					
	2020		**2019**		**2018**	
	(thousand tonnes)	*(thousand tonne-kilometres)*	*(thousand tonnes)*	*(thousand tonne-kilometres)*	*(thousand tonnes)*	*(thousand tonne-kilometres)*
Liquid cargoes	**3,046**	**884,935**	**3,077**	**896,564**	**3,140**	**922,967**
Crude oil	*6*	*1,998*	*14*	*3,772*	*168*	*65,692*
Oil products[(1)]	*3,040*	*882,937*	*3,063*	*892,792*	*2,972*	*857,275*
Dry cargoes	**8,018**	**2,010,357**	**7,784**	**2,012,422**	**6,865**	**1,648,141**
Ores	*1,878*	*326,505*	*2,020*	*506,208*	*1,578*	*326,705*
Construction freight	*909*	*141,685*	*1,027*	*155,397*	*1,170*	*163,622*
Grain	*308*	*71,992*	*424*	*98,032*	*475*	*102,750*
Ferrous metals and scrap	*535*	*129,996*	*525*	*120,668*	*550*	*119,026*
Chemicals and fertilisers	*940*	*308,651*	*719*	*220,786*	*552*	*193,969*
Cement	*46*	*11,467*	*113*	*27,628*	*119*	*25,406*
Sugar	*285*	*98,207*	*327*	*120,193*	*356*	*128,532*
Industrial freight	*365*	*63,095*	*458*	*89,513*	*410*	*65,840*
Other	*2,751*	*858,760*	*2,171*	*673,997*	*1,655*	*522,290*
Total	**11,063**	**2,895,292**	**10,861**	**2,908,986**	**10,005**	**2,571,108**

Note:
(1) Oil products primarily include products such as petrol, light fuel, diesel fuel and liquefied natural gas (LNG).

For further information in respect of the Freight SBU's freight transportation volumes, by type of freight transported, see "*Management's Discussion and Analysis of Results of Operations and Financial Condition*; *Current Trading and Prospects; Trends—Trends in Freight Volumes*."

The following table sets forth the primary direction of certain cargo transported by the Freight SBU:

Liquid cargoes	
Crude oil	From Azerbaijan and Georgia to Black Sea ports and Georgia
Oil products	From Azerbaijan, Turkmenistan, Russia and Kazakhstan to Black Sea ports and Georgia; from Black Sea ports to Afghanistan, Georgia and Armenia
Dry cargoes	
Ores	From Georgia, Armenia and Russia to Black Sea ports and Georgia
Construction freight	From Georgia and Azerbaijan to Georgia
Ferrous metals and scrap	From Georgia, China and Ukraine to Black Sea ports
Grain	From Russia to Georgia and Armenia
Chemicals and fertilisers	From Georgia and Turkmenistan to Black Sea ports
Cement	Domestic
Industrial freight	From Azerbaijan and Georgia to Georgia, from Turkey to Azerbaijan
Sugar	From Black Sea ports to Azerbaijan, Georgia and Armenia

The following tables sets forth the breakdown of the Freight SBU's freight transportation volumes by destination of freight transported for the periods indicated:

	For the three months ended 31 March			
	2021		2020	
	(thousand tonnes)	*(thousand tonne-kilometres)*	*(thousand tonnes)*	*(thousand tonne-kilometres*
Liquid cargoes	**1,113**	**366,706**	**767**	**230,997**
Local	*16*	*3,044*	*33*	*7,635*
Export	*5*	*1,876*	*2*	*830*
Import	*231*	*38,879*	*250*	*40,811*
Transit	*860*	*322,908*	*482*	*181,722*
Dry cargoes	**1,868**	**472,460**	**2,007**	**540,939**
Local	*404*	*30,169*	*307*	*27,967*
Export	*319*	*84,654*	*314*	*87,089*
Import	*269*	*47,851*	*354*	*58,702*
Transit	*875*	*309,787*	*1,032*	*367,182*
Total	**2,981**	**839,167**	**2,774**	**771,937**

	For the year ended 31 December					
	2020		2019		2018	
	(thousand tonnes)	*(thousand tonne-kilometres)*	*(thousand tonnes)*	*(thousand tonne-kilometres)*	*(thousand tonnes)*	*(thousand tonne-kilometres)*
Liquid cargoes	**3,046**	**884,935**	**3,077**	**896,564**	**3,140**	**922,967**
Local	*143*	*28,983*	*208*	*40,976*	*200*	*42,119*
Export	*10*	*3,660*	*18*	*6,160*	*21*	*7,512*
Import	*1,102*	*178,134*	*1,105*	*193,457*	*1,161*	*208,274*
Transit	*1,791*	*674,157*	*1,746*	*655,971*	*1,760*	*665,062*
Dry cargoes	**8,018**	**2,010,357**	**7,784**	**2,012,422**	**6,865**	**1,648,141**
Local	*1,760*	*140,151*	*1,515*	*171,107*	*1,604*	*191,830*
Export	*1,085*	*294,409*	*1,255*	*326,854*	*1,145*	*314,568*
Import	*1,422*	*234,471*	*1,499*	*231,063*	*1,708*	*257,750*
Transit	*3,751*	*1,341,326*	*3,515*	*1,283,398*	*2,407*	*883,993*
Total	**11,063**	**2,895,292**	**10,861**	**2,908,986**	**10,005**	**2,571,108**

Management is seeking to increase the Group's profitability by further diversifying the types of cargoes that the Group transports internationally and within Georgia. In this respect, the Group has entered into and renewed contracts with other participants in the TRACEA corridor, including the national railway companies of Azerbaijan, Kazakhstan, Turkey and Ukraine, as well as with the Caspian and Black Sea ports and carriers. As a result of these contracts, the Group has been able to offer uniform shipping conditions to customers, which is important for a transit corridor in which a single shipping chain consists of many carriers. This format includes both container and wagon shipments.

The Group enhances container and multimodal shipping services. Accordingly, regular container platforms are in operation on the following routes: (i) China-Europe (the connecting line between the Black Sea ports and Turkey); (ii) Black Sea ports-Azerbaijan; (iii) Black Sea Ports-Armenia; and (iv) Black Sea Ports-Tbilisi.

The following table sets forth information in respect of the volumes of freight transported in containers for the periods indicated:

	For the three months ended 31 March		For the year ended 31 December		
	2021	**2020**	**2020**	**2019**	**2018**
	(thousand tonnes, except as noted)				
Liquid cargoes	**1,113**	**767**	**3,046**	**3,077**	**3,140**
Dry cargoes	**1,868**	**2,007**	**8,018**	**7,784**	**6,865**
of which:					
Container cargoes[1]	*305*	*299*	*1,318*	*1,275*	*952*
Total cargoes	**2,981**	**2,774**	**11,063**	**10,861**	**10,005**
Container as % of total cargoes *(%)*	*10.2*	*10.8*	*11.9*	*11.7*	*9.5*
Container as % of dry cargoes *(%)*	*16.3*	*14.9*	*16.4*	*16.4*	*13.9*

Note:

(1) For the three months ended 31 March 2021, ferrous metal and scrap and ores accounted for approximately 14.0% and 12.9 %, respectively, of container cargoes transported. For the year ended 31 December 2020, ferrous metal and scrap and ores accounted for approximately 13.0% and 13.0%, respectively, of container cargoes transported.

To foster containerisation, GR Logistics and Terminals, the Company's wholly-owned subsidiary (see "—*Subsidiaries and Affiliates*"), has built and currently operates the Tbilisi Container Terminal (capacity: 25,000 TEU).

GR Logistics and Terminals has also established container terminals in port cities on the Black Sea and Central Asian route. In 2014, the Company and its subsidiaries purchased 480 containers for moving cargo through the Georgian corridor, which it continues to hold and utilise. The Company believes that the availability of sufficient infrastructure would boost containerisation rates and potentially bring completely new cargo to the corridor.

Freight Car Rental

The Group has its own freight railcars and locomotive fleet and is, therefore, able to offer its clients wagons for rental. Accordingly, the Group generates revenue from freight car rental to its customers, including foreign railway companies who may choose to utilise the Group's railcars on freight routes through their countries, and leasing locomotives to other railway companies outside Georgia. Payment for these services is based on agreement with the relevant railways and carriers.

Station Services

The Group also provides a cargo/railcar delivery service to and from private stations via locomotives owned by the Group. In addition, the Group has the ability to provide terminal services through its subsidiaries.

Freight Rolling Stock, Repair and Maintenance

The Freight SBU manages the freight rolling stock in use on the Group's network. Customers can use Group-owned railcars, as well as either their own railcars or third-party railcars, which can be connected to Group-owned locomotives. A significant proportion of the Group's freight volumes (49% in 2020) was transported on rolling stock owned by other companies or customers.

The following table sets forth the Group's active, working and serviceable rolling stock assets as at the dates indicated.

	As at 31 March			**As at 31 December**								
	2021			**2020**			**2019**			**2018**		
	active[1]	*working*[2]	*serviceable*[3]	*active*[1]	*working*[2]	*serviceable*[3]	*active*[1]	*working*[2]	*serviceable*[3]	*active*[1]	*working*[2]	*serviceable*[3]
Locomotives[4]	—	152	195	—	**153**	**195**	—	**153**	**190**	—	**170**	**208**
of which:												
Diesel[5]	—	63	84	—	63	84	—	57	78	—	65	88
Electric	—	89	111	—	90	111	—	96	112	—	105	120
Railcars[4]	**4,409**	**7,633**	**8,586**	**4,407**	**7,632**	**8,622**	**4,939**	**7,755**	**8,675**	**5,001**	**7,856**	**9,180**
of which:												
Open top box car	518	1,871	2,270	554	1,867	2,304	1,041	1,974	2,348	1,304	2,074	2,392
Box car	1,045	1,868	1,943	1,027	1,870	1,944	1,045	1,873	1,944	826	1,874	2,206
Tank car	1,054	1,422	1,463	1,038	1,422	1,463	980	1,429	1,470	1,020	1,429	1,507
Grain hopper	1,385	1,390	1,407	1,378	1,390	1,407	1,386	1,393	1,409	1,349	1,393	1,417
Platform car	182	319	534	189	320	535	202	322	535	221	322	568
Cement hopper	38	369	400	34	369	400	77	369	400	103	369	481
Refrigerator car	81	208	228	81	208	228	90	209	229	90	211	235
Other	106	186	341	106	186	341	118	186	340	88	184	374
Total	**4,409**	**7,785**	**8,781**	**4,407**	**7,785**	**8,817**	**4,939**	**7,908**	**8,865**	**5,001**	**8,026**	**9,388**

Notes:

(1) The Group does not maintain specific records of the breakdown of "active" locomotives.

(2) "Working" rolling stock is rolling stock that can be used to transport freight either immediately or following minor repairs that can be done by the Group's maintenance staff before it can be put into service.

(3) Serviceable rolling stock includes, in addition to working rolling stock, locomotives and railcars that require capital repairs in order to be returned to "working" status.

(4) Does not include locomotives and railcars being scrapped or undergoing capital repairs. Scrap consists of locomotives and railcars that have reached the end of their useful lives, for which no further life extensions are possible, or which are damaged beyond repair or for which repair would not be economically feasible.

(5) Diesel locomotives are used mainly for shunting.

The following table sets forth the percentages of the Group's freight volumes transported on the Group's own fleet and that of third parties for the periods indicated:

	For the three months ended 31 March		**For the year ended 31 December**		
	2021	**2020**	**2020**	**2019**	**2018**
			(%)		
Group's fleet	51	51	51	52	53
Third-party owned[1]	49	49	49	48	47

Note:

(1) In 2020 and 2019, approximately 28% and 28% of the volumes were transported in privately-owned railcars that belonged to owners in Georgia, Azerbaijan, Kazakhstan and Russia.

Management believes that its current rolling stock allows it to operate efficiently, provided that the required maintenance and capital repairs are performed. Management also believes that utilising existing rolling stock is significantly more cost-efficient than purchasing new rolling stock or leasing more modern equipment, as management estimates that the cost of capital repairs to extend the useful life of the Group's existing rolling stock is approximately one-third of the cost of acquiring new rolling stock. Given the spare capacity of its rolling stock fleet, management does not intend to aggressively expand the Group's fleet. When the Group experiences a shortage of specific railcar types, it typically addresses this shortage through a combination of capital repairs of rolling stock from inventory and selective acquisition of new railcars.

The Group has entered into a number of wagon and container leasing agreements since 2015 with Ref Trans Ltd, Rail Trans Holding, Trans Optima Group Ltd and Rail Services Group. Such agreements, certain of which are subject to extensions, range in duration from one year to four years.

As a result of the availability to the Group of an increased supply of tank cars, the Group expects liquid cargo transported by the Group to increase, which, in turn, it expects to have a positive impact on the Group's revenue from freight traffic. The Group also expects its revenue from freight car rental to increase for the same reason. The Group expects such benefits to outweigh the costs of the leasing arrangements.

As at 31 December 2020, the average age of the Freight SBU's working railcars was 34 years, as compared to 33 years as at 31 December 2019. Most of the Freight SBU's locomotives date from the Soviet period, having been commissioned by the Group's predecessor prior to 1991.

The following tables set forth the distribution of the Freight SBU's working railcars and locomotives, respectively, by age, as at 31 December 2020:

Age	Total Workforce
	(%)
Less than 21 years	13
21 – 25 years	5
26 – 30 years	6
31 – 35 years	34
More than 35 years	43

Age	Electric Locomotives	Diesel Locomotives
	(%)	
12 – 24 years	1	0
24 – 36 years	33	56
36 – 48 years	56	37
More than 48 years	10	8

Management believes that the age of its working railcar and locomotive fleet is not representative of the quality or state of these assets, as the technical life of a railcar is extendable through capital repairs.

The following table sets forth the distribution of the Freight SBU's working locomotives, by the number of expected remaining operating years, as at 31 December 2020:

Operating years remaining	Diesel locomotives	Electric locomotives
Less than 7 years	60	83
8 – 10 years	3	0
11 – 13 years	0	7
Total	**63**	**90**

The following table sets forth the distribution of the Freight SBU's working railcar fleet, by the expected remaining number of operating years, as at 31 December 2020:

Operating years remaining	*(%)*
Less than 7 years	71
8 – 10 years	7
More than 11 years	23

Management estimates that the utilisation rate for working freight railcars was 34.0% for the year ended 31 December 2020. The utilisation rate is calculated as the total number of days that railcars were available compared to the number of days they generated revenue. Based on data for the year ended 31 December 2020, management estimates that the utilisation rate for tank cars was approximately 40.0% and approximately 27.0% for grain hoppers. The most utilised railcars were box cars, with a utilisation rate of approximately 48.0% while platform cars and refrigerator cars were the most under-utilised railcars in 2020, with a utilisation rate of approximately 12.0%.

The Group's rolling stock undergoes regular maintenance and repair. The Group's maintenance and repair work falls into two main categories: (i) scheduled repairs carried out according to current technical standards in the region and applicable regulations; and (ii) unscheduled repairs carried out according to the condition of railcars. Scheduled repairs are carried out on the basis of either the period of operation or the mileage of operation. The Group's rolling stock is generally inspected on a regular basis before loading, after unloading and during transportation through freight stations.

Under Group procedures, the Group's maintenance staff performs routine depot repairs once every one to three years on average after manufacturing (depending on the class, the usage and condition of the railcar) and, thereafter, once every two years. In the middle of the useful life of a railcar, the Group performs capital depot repairs. After the end of its initially expected useful life, the Group currently uses third-party providers to perform capital repairs with life extensions (generally, by approximately 150-200% of the expected useful life). Routine depot repairs are still performed after life-extensions. After this extension ends, it is possible to make a similar extension with third-party providers a second time. When the second extended useful life ends, the Group may yet make two further life extensions of five years each.

Unscheduled repairs are driven by the technical condition of the railcar and are directly related to the term and intensity of operation. In addition, the Group's railcars receive routine technical inspections, as a result of which minor repairs are performed at repair shops throughout the Group's network.

The Group prepares an annual renovation and repair programme in respect of its rolling stock, with the aim of ensuring the availability of sufficient locomotives and rail cars to service its ongoing operations.

The following table sets forth the distribution of the Freight SBU's working railcar fleet, by the remaining number of operating years, if capital repairs with life extensions were to be made to the fleet, as at 31 December 2020:

Operating years remaining	*(%)*
Less than 16 years	28
16 – 20 years	14
21 – 25 years	15
26 – 30 years	14
More than 30 years	30

Freight Tariffs

Although rail transportation in Georgia is a statutory monopoly, the Group's pricing policies are not subject to direct Government regulation. Under the Railway Code, the Government has the power to establish tariff policies through a Rail Transport Authority. To date, however, the Government has not established any such authority and, accordingly, the Group is not currently subject to any mandatory tariffs. Instead, pursuant to the Railway Code, it sets its own tariff policy independently for all types of services, including tariffs for freight transportation, freight transportation-related services and passenger services. See "—*Regulation*".

Georgia is in the process of implementing certain legislation and regulation equivalent to EU legislation in accordance with the provisions of the Association Agreement, including Directive 34, by 2022. Directive 34 requires, among other things, the establishment of a regulatory body responsible for overseeing tariff policy in the railway sector to prevent discrimination and anti-competitiveness. Accordingly, there can be no assurance that the Group will not be subject to mandatory tariffs or tariff review in the future. See "*—Regulation—Directive 34*".

The Group has a written tariff policy specifying methods and formulas for determining the various tariffs applicable to its services. The Group publishes this policy on its website. The Group provides various services, with each activity having its own tariff, including:

- transportation tariffs, based on transportation from one station to another within Georgia;
- a station charge, which is for providing services, railcars or locomotives to support the loading or unloading of cargo at the relevant station, as well as for services such as documentation, rolling stock usage and rail-track occupation if third party railcars are used; and
- additional station charges, such as:
    - storage fees, incurred in 24-hour increments, referred to as "demurrage", if customers fail to unload a railcar within 24 hours of arrival at its agreed destination;
    - fees for providing additional diesel locomotives for manoeuvring if necessary for cargo loading/unloading; and
    - fees for cargo loading and unloading operations.

The tariff policy is reviewed and modified annually in light of changes in the Group's strategic goals, market environment and industry developments, as well as domestic and global economic developments.

Tariffs for freight transportation are based on the International Rail Transit Tariff agreed by the signatories to the Tariff Agreement, although base tariffs established under the Tariff Agreement are not binding, and the parties may vary them during the year. In addition to the Group, parties to the Tariff Agreement include the railway companies of Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan, as well as the railway companies of Lithuania, Latvia and Estonia. The parties to the Tariff Agreement hold conferences each autumn, at which they present their tariff plans for the next year. The Group's final tariffs are based on various factors, including the type and weight of the cargo, the distance over which the cargo is carried and any discounts that may be applied at the Group's discretion.

Although freight tariffs are set in U.S. Dollars under Georgian law, Georgian-resident companies must pay in Lari. To the extent that the Group agrees a prepayment system with a client, the relevant client will prepay at a rate of exchange as determined by the Group on a daily basis. This exchange rate is generally several points higher than the official exchange rate set by the National Bank of Georgia on that day. The rate is published on the Company's website.

Unlike Georgian-resident companies, non-resident companies may either pay in foreign currency or in Lari. Regardless of the currency of payment, payments due from clients are quoted in U.S. Dollars. Customers are required to pay all amounts billed for transportation and station services before the Group provides the related services, except that fees for demurrage are not, by definition, paid in advance.

The following table sets forth information in respect of the Group's freight tariffs, by type of freight, for the periods indicated:

	For the year ended 31 December				
	2020	**2019**	**Change 2020 vs. 2019**	**2018**	**Change 2019 vs. 2018**
	(U.S.$)		*(%)*	*(U.S.$)*	*(%)*
Average Tariffs[1]					
Crude oil	3.85	4.27	(12.0)	2.37	80.2
Oil products	4.42	5.02	(9.8)	4.46	12.6
Dry cargo	3.12	3.20	(2.5)	3.39	(5.6)

Note:

(1) Average tariffs are calculated as freight traffic revenue (not including any handling charges) per thousand tonne-kilometre. The Group uses a detailed formula for each individual transportation order that takes into consideration factors including the type and weight of freight and the distance over which the cargo is carried. Amounts stated are U.S. Dollars per 1,000 tonne-kilometre, unless otherwise indicated.

The increase in average tariffs for crude oil in 2019, as compared to 2018, is primarily due to the combination of transportation directions (with some directions being cheaper, and some more expensive, than others).

The Group offers a 15% discount on its freight tariffs to customers who transport cargo with their own railcars and use the Group's services for infrastructure and locomotives. The Group is actively considering offering other discounted tariffs to its customers who provide guaranteed volumes for railcar and container transportation.

Freight Customers

The Freight SBU accepts freight from both direct customers and freight forwarders. The Freight SBU works with freight forwarders in order to expand its marketing reach and to increase and diversify its customer base. As the Freight SBU does not generally enter into long-term contracts with customers it serves through freight forwarders, it is able to maintain operational flexibility and change the prices in accordance with market conditions. All of the Freight SBU's customers, whether direct or through freight forwarders, are required to pay for transportation and station services in advance, except that payments for demurrage are not, by definition, paid in advance. In order to provide a better service to its customers and to increase its competitiveness, the Group entered into the freight forwarding business in 2013.

As these companies often need to transport cargo through several countries using different modes of transportation, many of them prefer to use freight forwarders. Freight forwarders provide end-to-end transportation services across various transport routes and contract with the Group on such companies' behalf. In 2020, for liquid cargo, the top five customers accounted for 54.5% of total liquid cargo transported and, in terms of dry cargo, the top five customers accounted for 44.0% of total dry cargo transportation. Management believes that, in the case of potential distress or default by a freight forwarding Group, the cargo transported by that forwarder on behalf of its customers can generally be easily absorbed by its competitors or through direct contracts with the Group at no loss to the Group.

The Group generally does not enter into long-term contracts with its customers and does not have long-term contracts with the ultimate owners whose cargo is aggregated by freight forwarders. The Group usually enters into short-term standard form contracts with its freight forwarders and direct freight owner customers for the transportation of cargo. These contracts typically

state the amount of cargo to be transported and the tariffs applied, which are based on the Group's general tariff policy. The contracts generally permit either party to terminate the contract on one month's prior written notice and are typically concluded for a period of one year. In 2006, however, the Group entered into a long-term framework agreement with a freight forwarder in relation to the transportation of oil and oil products. Since the expiration of the contract in 2016, the Group has concluded one-year contracts annually, with the most recent signed in December 2020 for the shipment of 1.1 million tonnes of cargo for the period of one year.

On 26 December 2019, the Group approved the rules of procedure for concluding a freight forwarding contract. According to these rules, with effect from 1 January 2020, forwarding contracts with counterparties that have not transported cargo with the Group for two calendar years are deemed to have been terminated prematurely. Pursuant to these rules, contracts with freight forwarders are to be concluded for one-year periods. If a shipment is made during such year, the contract is automatically extended for the subsequent calendar year. See "*Risk Factors—Factors that may affect the Group's ability to fulfil its obligations under, or in connection with, the Notes—Operational Risks relating to the Group and its Business—The Group provides its freight services to a limited number of customers*".

The following table sets forth the volumes of liquid cargo transported, by principal customers, for the periods indicated:

	For the year ended 31 December					
	2020		2019		2018	
	(thousand tonnes)	*(%)*	*(thousand tonnes)*	*(%)*	*(thousand tonnes)*	*(%)*
Alliance Logistics	681	22.4	783	25.5	633	20.1
Black Sea S.A.	350	11.5	273	8.9	139	4.4
SOCAR Georgia Petroleum	302	9.9	290	9.4	288	9.2
Sunoil Georgia	173	5.7	214	7.0	216	6.9
AZ Trans Rail	152	5.0	110	3.6	0	0.0
WISSOL Petroleum Georgia	149	4.9	153	5.0	124	4.0
DTL	139	4.6	163	5.3	132	4.2
Rompetrol Georgia	112	3.7	125	4.1	123	3.9
Caucasian railway networks	90	2.9	105	3.4	62	2.0
Others	898	29.5	860	28.0	1,423	45.3
Total	**3,046**	**100.0**	**3,077**	**100.0%**	**3,140**	**100.0**

The following table sets forth the volumes of dry cargo products transported, by principal customers, for the periods indicated:

	For the year ended 31 December					
	2020		2019		2018	
	(thousand tonnes)	*(%)*	*(thousand tonnes)*	*(%)*	*(thousand tonnes)*	*(%)*
Georgian Manganese	1,016	12.7	613	7.9	640	9.3
Saqcementi(1)	888	11.1	1,141	14.7	1,135	16.5
Pace Trans	696	8.7	340	4.4	320	4.7
Rustavi Azoti	469	5.8	470	6.0	500	7.3
Apaven LTD	455	5.7	495	6.4	414	6.0
Alliance Logistics	423	5.3	593	7.6	298	4.3
Pace Georgia	392	4.9	137	1.8	50	0.7
Access Trans Georgia	337	4.2	336	4.3	385	5.6
Ztrans Group LLC	161	2.0	164	2.1	145	2.1
Others	3,180	39.7	3,494	44.9	2,978	43.4
Total	**8,018**	**100.0**	**7,784**	**100.0**	**6,865**	**100.0**

Note:

(1) A subsidiary of Heidelberg Cement.

Freight Customer Relations, Sales and Marketing

The Group's main customer relations, sales and marketing activity in its freight business consists of on-going dialogues with freight forwarding companies and neighbouring railways to ensure competitive pricing for the TRACECA corridor. In turn, freight forwarding companies market the Group's services to potential customers.

The Freight SBU's Commercial Department is responsible for billing and other customer paperwork, and therefore tends to interact more regularly with customers than other departments. As a result, the Commercial Department generally acts as a link to customers and manages day-to-day customer relations. Senior representatives of the Freight SBU and, in some cases, the

Group's management may oversee client relations with some larger customers. In addition, the Group has regular discussions with various cargo owners to promote the rail corridor, discuss any customer-specific issues that owners may have and gain an understanding of expected volumes of transportation.

Freight Competition

Although the Group has a statutory monopoly on rail transportation in Georgia, it faces competition in respect of its freight transportation services from alternative means and routes of transportation. The substantial majority of oil produced in the Caspian Basin is transported via the pipeline network, and, in recent years, the volumes of crude oil transported by the Group has become immaterial, with almost all crude oil transported through oil pipelines. This network is dominated by the BTC Pipeline and the CPC Pipeline and supplemented by a number of smaller pipelines and the share of the Russian pipeline system made available to Caspian Basin oil production. However, this pipeline competition only applies to crude oil, which is not currently a significant portion of the Group's total freight volumes. The transportation of oil products, which comprises the vast majority of the Group's liquid cargoes volumes cannot be transported by pipeline.

In respect of the liquid and dry cargoes that the Group transports, within the region, freight transportation competition is generated from alternative railway routes provided through Russia and Iran. In the transportation of dry cargo, railway transportation of freight also faces competition from road container transportation.

Competition from alternative rail routes

Railway routes, which provide alternatives to the Group's rail network, include the north route through Russia to the Baltic Sea and Northern Europe, the south route through Russia to Novorossiysk and the railway routes through Iran and through Armenia (which route, however, also runs through Georgia, and is mainly used by the Group to transport oil products to Armenia). These include routes providing access or onward transportation to Aktau port in Kazakhstan, Turkmenbashi port in Turkmenistan, Makhachkala and Novorossiysk port in Russia, Bandar Anzali port in Iran and the Sea of Azov ports in Ukraine.

The Group believes that these alternative railway routes do not pose significant competition to it for the following reasons:

- The railroad adjacent to the Novorossiysk port is typically frozen in winter, thus hindering traffic by railway for part of the year.

- The rail routes through Russia and through Iran are significantly longer than through Georgia, which increases costs, risk and transportation time.

- The implementation of the Modernisation Project is expected to increase the Group's competitiveness against Russian routes and to increase transportation speed, safety and service quality, which is expected to provide the Group with an opportunity to attract new customers.

- The railway routes running through Iran may be less attractive than the Group's railway routes due to the strained political relations between Iran and western jurisdictions.

Competition from other methods of transport

Competition from road transportation is generally only relevant in relation to container transportation. As in most countries, railway transportation is usually cheaper than road transportation only if the cargo is transported in bulk and for long distances. In Georgia, which is a relatively small country, local transportation of non-bulk cargo is usually cheaper by road.

The Group experiences ongoing competition from trucking companies, particularly when oil prices fall. Trucking companies are able to transport smaller freight quantities more efficiently across Georgia compared to rail transportation. In order to react to the increased levels of competition from trucking companies, the Group plans to market transport by rail as a more eco-friendly and socially responsible choice, in terms of lower carbon dioxide emissions, decreased risk of traffic delays and a decreased risk of accidents *en route*, as well as requiring less Government maintenance and repair costs, as compared to the maintenance and investment required in Georgia's road network. Further, in 2017, the Group changed its tariffs for its domestic trains from U.S. Dollars to Lari, which matches the charging currency of domestic trucking companies.

The Group plans to promote the containerisation of the Caucasus corridor by making strategic investments such as in its subsidiary, GR Logistics and Terminals, which built and operates the Tbilisi Container Terminal. The Group expects that containerisation can attract new customers and expand the range of cargoes transported. In 2014, the Group also purchased a fleet of containers, which is another important step towards increasing the overall competitiveness of the corridor. The Management believes that containerisation can attract new customers and expand the range of transported cargo. See "—*Strategy*" and "—*Subsidiaries and Affiliates*".

Passenger SBU

The Passenger SBU's primary activity is the transportation of passengers and, to a limited extent, unaccompanied luggage within Georgia and on international routes, connecting Georgia with Azerbaijan and Armenia. The passenger transportation segment accounted for 2.3% of the Group's total revenue for the year ended 31 December 2020. The Passenger SBU transported 0.9 million passengers in 2020, as compared to 3.0 million passengers in 2019 and 2.9 million passengers in 2018. In the three months ended 31 March 2021, the Passenger SBU transported 53,000 passengers, as compared to 0.6 million passengers in the corresponding period in 2020. One of the Group's medium-term strategic objectives is to optimise the expenses and increase the revenue of the Passenger SBU by increasing the number of passengers and achieving increased revenue per passenger. To achieve this, the Group aims to introduce a higher level of service by investing in new railcars, or improving existing railcars, in order to provide improved speed and comfort when using the Group's passenger transportation services. The Group aims to do so by taking, *inter alia*, the following measures:

- adjusting passenger train timetables to optimise utilisation;
- providing substantial discounts on tickets;
- easing the accessibility of tickets via different sales channels; and
- launching a marketing campaign to attract potential customers.

In undertaking these measures, the Group aims to attract higher-income commuters and other passengers who might otherwise travel by car.

Examples of the implementation of these measures to date include: (i) the purchase of two double-decker EMUs in July 2016 and the purchase of two further EMUs in 2017, with such EMUs in compliance with European safety standards and adjusted for the needs of physically-disabled persons; (ii) adjustment of train timetables to add additional trains when demand is at its highest; (iii) commencing a project to rehabilitate its existing railway station near Kutaisi International Airport and to run shuttles to the airport; (iv) the rehabilitation of three passenger rail stations in 2019 and 2020; (v) the introduction of certain discounts for tickets for various types of passengers (including veterans, students and Group employees); and (vi) the introduction of several online platforms for ticket sales. The Group is also taking active steps in response to COVID-19, in order to ensure the safety and comfort of its customers.

Pursuant to Georgia's obligations to implement certain EU legislation under the Association Agreement, the Government has an obligation under the EU Social Market Economy principle to compensate the Group for its loss-making passenger transportation business and to subsidise certain of the activities of the Infrastructure SBU. In accordance with the principle set out in the EU Passenger Transportation Regulation for passenger transportation subsidies and prohibition of cross subsidies from freight transportation, in 2020, Parliament adopted an amendment to the Railway Code recognising railway passenger transportation services as a public service obligation. Accordingly, the Company and the Government are expected to enter into a public service contract for compensation of the losses of the Passenger SBU with effect from 2022 or 2023. This contract is expected to define certain passenger rail routes and set out the conditions for the agreement of costs for such routes between the Company and the Government or relevant competent authority, as well as the compensation to be granted to the Company for operating non-profitable passenger routes. This is expected to have a positive impact on the Group's revenues, although the exact quantum will not be known until the terms and conditions of the contract have been agreed. See "—*Regulation*".

In line with Government regulations, passenger transportation was ceased from the second half of March 2020 until 15 June 2020 and, subject to certain limited exceptions, from 28 November 2020 until 27 February 2021. The Group's passenger services are run in accordance with the Government's COVID-19 regulations, including the requirement for passengers to undergo thermal screening and to use hand sanitiser prior to boarding trains, and the requirements for passengers to wear face coverings while on the Group's trains. In addition, response plans have been developed for the passengers of magistral and suburban trains, developed in accordance with the recommendations and guidelines of the World Health Organization and international railway organisations. These response plans include requirements for boarding to be performed 45 minutes prior to departure, measures to limit the distribution of paper copies of press and journals, encouragement of the cashless purchase of tickets and the provision of staff with personal means of protection, including gloves and face masks.

Passenger Rolling Stock, Repair and Maintenance

The following table sets forth the working and serviceable rolling stock assets of the Passenger SBU as at the dates indicated.

	As at 31 March 2021		**As at 31 December**			
			2020		**2019**	
	working	*serviceable*	*working*	*serviceable*	*working*	*serviceable*
Locomotives[1]	**20**	**21**	**20**	**21**	**18**	**20**
Diesel	3	4	3	4	3	4
Electric	17	*17*	17	17	15	16
EMUs	**9**	9	**9**	**9**	**9**	**9**
Railcars[1]	39	41	39	41	40	42
Total	**68**	**71**	**68**	**71**	**67**	**71**

Note:

(1) Does not include locomotives, EMUs and railcars being scrapped or intended for sale. Scrap consists of locomotives and railcars and EMUs that have reached the end of their useful lives; for which no further life extensions are possible; or which are damaged beyond repair or for which repair would not be economically feasible.

The Passenger SBU's Railcar Repair Depot conducts all routine maintenance repairs of the Group's passenger railcars in-house. Third-party providers carry out almost all capital repairs.

Passenger Tariffs

As in the case of freight transportation tariffs, the Group is not subject to Government regulation in establishing prices for passenger transportation and luggage services. In many cases, however, passenger transportation tariffs are not determined by market forces due to the significant social importance to the State of providing affordable passenger transportation services.

The following table sets forth information in respect of the Group's passenger tariffs for the periods indicated:

	For the three months ended 31 March		**For the year ended 31 December**		
	2021	**2020**	**2020**	**2019**	**2018**
	(tetri per passenger-kilometre)				
Average Tariff[1]	4.5	4.1	4.5	4.6	4.3

Note:

(1) Average tariffs are calculated as passenger traffic revenue per passenger-kilometre.

Tariffs for domestic transportation of passengers and luggage are approved by the Company's Board of Directors and are denominated in Lari. Tariffs for international transportation of passengers and luggage services within the CIS are determined at the CIS Rail Transport Tariffs Conference and are denominated in Swiss Francs.

The Group offers three classes of passenger service, and tariffs are further differentiated between travel on modern or older trains. Tickets in the lowest class of rail service are generally less expensive than bus transportation. It is management's intention that any increases to tariffs will be made in line with the improvements in the Group's services, the provision of new trains and inflation and to make the Group's tariffs competitive with those for bus transportation and other passenger transportation services in Georgia, such as mini-buses. In respect of regional passenger traffic, where the majority of the passengers are from low-income households and are sensitive to price increases, it is management's intention to consider price increases only when new modern trains have been commissioned by the Group and for such tariffs to be in line with alternative travelling costs. See "—*Passenger Competition*".

Passenger Customers

The Passenger SBU transported 0.9 million passengers in 2020, as compared to 3.0 million passengers and 2.9 million passengers in 2019 and 2018, respectively. The decrease in 2020 was due to the temporary suspension of the Group's passenger transportation services for a part of 2020 due to Government regulations relating to the COVID-19 pandemic. In the three months ended 31 March 2021, the Passenger SBU transported 53,000 passengers, as compared to 0.6 million passengers in the corresponding period in 2020, due to the temporary suspension of the Group's passenger transportation services due to COVID-19-related Government restrictions.

The table below sets forth information in respect of the Group's passengers, by type of journey, for the periods indicated:

	For the three months ended 31 March		For the year ended 31 December		
	2021	2020	2020	2019	2018
	(passengers, thousands)				
Domestic	53	531	917	2854	2684
International	0	22	22	173	143
Total	**53**	**553**	**939**	**3,027**	**2,827**

Management also uses the number of passenger kilometres (the total number of kilometres travelled by all passengers during a given period) as a measure of volumes.

The following table sets forth the number of passenger kilometres for the periods indicated:

	For the three months ended 31 March		For the year ended 31 December		
	2021	2020	2020	2019	2018
	(passenger kilometres, thousands)				
Domestic	17,086	113,450	245,502	653,970	613,224
International	0	1,436	1,436	22,674	20,389
Total	**17,086**	**114,886**	**246,938**	**676,644**	**633,613**

Passenger Customer Relations, Sales and Marketing

The primary customer relations, sales and marketing activity in the Group's passenger business are points of sale for tickets. Passengers can buy tickets directly at the station before travel, aboard certain trains, through tourist agencies or via the internet. However, because a relatively small percentage of the Georgian population use the credit cards necessary to make internet purchases, the Group has also established points of sales, known as "Pay Boxes", where customers can buy tickets and locate detailed information about prices, availability and classes of travel. In addition, the Group has installed ticket machines on certain trains.

The Group also has a customer call centre that handles approximately 11,100 calls per month.

Passenger Competition

The passenger railway transportation services offered by the Group faces competition from other modes of domestic transportation, principally buses, mini-vans and passenger automobiles, as well as, to a lesser degree, airplanes.

The types of transportation used by passengers in Georgia is generally determined based on their levels of income and general wealth, and it is common for members of higher-income families to prefer to drive rather than travel on the railway or use other forms of passenger transportation.

An inherent advantage of transportation by road, whether by bus or mini-bus, over rail transportation is that it is often more direct and may be faster as the routes offered are not restricted by the location of railway tracks or stations. Since fares for bus and mini-van travel are similar to passenger train fares, the passenger's choice is dictated largely by personal travel preferences and unique needs rather than factors within the control of the Group.

Infrastructure SBU

The Infrastructure SBU operates, maintains and manages the Group's principal infrastructure assets, including its track, embankments, signalling, land, electric power lines and equipment. The Infrastructure SBU is a cost centre providing services only to the Freight SBU and the Passenger SBU. It does not conduct business with third-party customers, and management has no current intention for it to do so.

The principal aims of the Infrastructure SBU are to ensure safety and promote the efficient use of the Group's infrastructure assets and to control maintenance costs. The Infrastructure SBU promotes safety by setting speed and loading limitations on lines and at stations and by controlling signalling and blocking systems.

Infrastructure Assets

The main infrastructure assets of the Group as at 31 December 2020 included:

- railway network of 1,436 km of track, of which 97% is electrified, including a 527 km electrified mainline from the Azerbaijan and Armenian borders to the Black Sea;

- infrastructure assets, comprised of 40 railroad tunnels, 26 railroads and 1,323 bridges of various functions; and

- signal equipment and other assets related to ensuring the safety of its operations.

The Group also had 99 freight stations as at 31 December 2020, although station management is the responsibility of the Freight SBU rather than the Infrastructure SBU.

As at 31 December 2020, the principal design characteristics of the railway network are as follows:

- the track gauge on the main lines was 1,520 mm and one small tourist branch line had a track gauge of 912 mm (see "—*Subsidiaries and Affiliates*");

- the design axle load on the main lines was 23.5 tonnes, while small branch lines had a lower limit per railcar (as the traction is based on electricity); and

- the main-line tracks accommodated speeds of up to 80 km per hour for passenger trains and 60 km per hour for freight trains. In the gorge region, top speeds for both passenger and freight trains were significantly lower depending on the specific terrain but averaged approximately 45 km per hour.

Infrastructure Services

The Infrastructure SBU focuses on maintaining the Group's infrastructure assets in good condition. Capacity varies across the Group's different lines. As at 31 December 2020, the estimated capacity of the gorge section, which is the main bottleneck of the main line of the network, was 27 million tonnes of cargo annually. In 2020, in connection with the Modernisation Project, the Infrastructure SBU made capital repairs (not including minor, non-technical repairs) to, or renovated, approximately 3 km of track, as compared to capital repairs or renovations of approximately 3.6 km in 2019. During the three years ended 31 December 2020, approximately 14.6 km of the track repaired or renovated were repaired or renovated in connection with the Modernisation Project. Aside from the Modernisation Project, 10.7 km and 10.4 km of railway were repaired in 2019 and 2020, respectively. During the year ended 31 December 2020, the Group paid GEL 55.9 million for the acquisition of property, plant and equipment, including rolling stock and equipment and to rehabilitate important infrastructure assets, including rail tracks, electric power supply lines and bridges and tunnels, as compared to GEL 112.2 million and GEL 104.7 million, respectively, for the years ended 31 December 2019 and 31 December 2018. This amount includes amounts spent on the Modernisation Project. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Capital Expenditures"*.

Rail Safety

The Group operates under a "self-regulation" policy in respect of rail safety. The Railway Code delegates safety regulation to the Group. Accordingly, the Group has developed and implemented its own safety policies. See also "—*Environment*". In connection with the implementation of Directive 34, an independent safety authority, is expected to be established to oversee safety matters in the railway sector and to issue safety certificates and authorisations to railway undertakings and infrastructure managers, such as the Group. See "—*Regulation—Directive 34*".

The Group experiences minor derailments from time to time, often due to technical faults in the rolling stock (sometimes owned by other railway companies). These derailments occasionally result in damage to the rail track or cargo spillages, which, particularly in the case of oil spills, can cause environmental damage in the area proximate to the derailment. All such derailments are reported to the appropriate governmental authorities. In 2020, the Group did not experience any freight train derailments. See "*Risk Factors—Factors that may affect the Group's ability to fulfil its obligations under, or in connection with, the Notes—Operational Risks relating to the Group and its Business—A major accident, derailment or other incident could result in loss of the Group's rolling stock, disruption to services, environmental remediation costs and damage to the Group's reputation*" and "*—Environment*".

The following table sets forth details of train crashes for the periods indicated:

	For the year ended 31 December		
	2020	2019	2018
Human	14	17	21
Automobile	10	8	20
Animal	102	119	80
Total	**126**	**144**	**121**

The following table sets out details of accidents for the periods indicated:

	For the year ended 31 December		
	2020	2019	2018
Number of employees injured due to accidents	7	5	5
Lost time injury frequency rate[1]	0.27	0.19	0.19
Compensation paid for injured employees (*thousands of GEL*)	0	0	0
Number of fatalities of employees from accidents	5	1	1
Compensation paid for employee fatalities (*thousands of GEL*)	15	0	0

Note:

(1) Lost time injury frequency rate is defined as total injury multiplied by one million and divided by total working hours.

In 2020, the Group experienced five employee fatalities, all of which have been investigated in accordance with current legislative requirements by the Group's health, safety and environmental protection division (the "**HSE Division**"). The results of the investigations have been reported to the MoHSA and, as appropriate, under the Group's relevant insurance policies. In all cases, the reason for the fatality was determined to be a Group safety policy violation on the part of the employee concerned. Compensation was received by the estate of the employee concerned in two cases, on 11 September 2020 (in an amount of GEL 5,000) and 17 September 2020 (in an amount of GEL 10,000).

The Group provides compensation or alternative benefits for losses suffered due to accidents, to the affected employees or their families. In 2020, the Group did not experience any derailments. In order to help prevent future employee fatalities, the Group is providing training to employees, as well as first aid kits, and introduced an Occupational Health, Safety and Environment Policy in February 2020, which, *inter alia,* introduces procedures for the investigation of incidents, produces quarterly trend reports, promotes employee and contractor awareness of safety issues and ways to avoid, minimise and mitigate the Group's environmental impact and sets forth long-term plans and emergency response measures One of the key objectives of the Modernisation Project is to improve the Group's operational and social safety. Special employee training sessions are held, introducing new methods of increasing safety standards to contractors

Subsidiaries and Affiliates

The Company carries out its other activities through its freight forwarding and handling subsidiaries and its property management subsidiary:

- *GR Logistics and Terminals LLC (formerly Railway TransContainer LLC*): is a Georgian limited liability company, wholly-owned by the Company and established in October 2009. Its corporate objective is to help strengthen the Company's presence in the container transportation market, primarily through the creation of necessary infrastructure, such as container terminals, and to promote the containerisation of the Caucasus corridor. To foster this containerisation, GR Logistics and Terminals has built and currently operates the Tbilisi Container Terminal. Recently, GR Logistics and Terminals also became involved in cargo forwarding through the corridor.

- *GR Trans-Shipment LLC*: is a Georgian limited liability company, wholly-owned by the Company, established in 2015. GR Trans-Shipment LLC manages the terminal operator VIBRO DIAGNOSTIK, which operates oil terminals in Batumi Port.

- *Georgia Transit LLC, GR Transit LLC and GR Transit Line LLC:* In recent years, the Company has taken important steps to cover logistical services. In 2013, the Company acquired Georgia Transit LLC and established Georgian Transit LLC (later renamed GR Transit LLC) in 2015. These subsidiaries are freight forwarders and serve crude oil and oil products transportation mainly from Azerbaijan, Kazakhstan and Turkmenistan. In 2014, the Company established GR Transit Line, another freight forwarder that carries oil products mainly transported in the direction of Azerbaijan and Armenia. The share of revenue from logistical services in total revenue amounted to 11.1% in 2020 (as compared to 9.9% in 2019).

- *GR Property Management LLC (formerly Railway Property Management LLC)*: GR Property Management LLC is a Georgian limited liability company, wholly-owned by the Company, established in July 2009 to define the best use of railway-related assets such as land, depots and stations, to utilise non-core assets and to ensure the commercialisation of such assets.

- *Borjomi Bakuriani Railway LLC*: Borjomi Bakuriani Railway LLC is a subsidiary of GR Property Management LLC. It owns a narrow-gauge tourist branch line that runs between two resort towns and uses a different gauge than the Company's other rail tracks.

Projects

The Group is involved in a number of large-scale projects, certain of which are commercial projects (such as, the Modernisation Project) and certain of which are socio-commercial projects (such as, the Kutaisi Airport Connection Project).

Modernisation Project

The Company engaged SYSTRA and SNCFI in early 2010 to prepare a full-scale feasibility study and an initial design study for the Modernisation Project. Based on the results of these studies, the Group launched and began incurring costs for the project in September 2010. The key objectives of the Modernisation Project are:

- optimising freight and passenger traffic;
- optimising stations, depots and infrastructure;
- optimising freight and passenger rolling stock;
- reducing operational expenses;
- improving operational safety;
- improving social and environmental safety;
- increasing train speeds; and
- introducing a clear and defined maintenance programme.

The Modernisation Project can be divided into two parts; the first of which concentrates on the improvement of the rail lines along the Group's main line; and the second of which is focused on debottlenecking the line and thereby increasing its capacity.

The Modernisation Project focuses primarily on the mainline that runs from Tbilisi to the Black Sea, in particular to the terminals at Poti and Batumi. As part of the project, the Group intends to modernise the railroad and electric supply infrastructure between Tbilisi and Batumi (315 km), including the 64 km mountainous gorge region in Central Georgia. Following completion of this section, the speed of the passenger train is expected to increase from 80 km/h to 120 km/h, and at the crossing area, from 50 km/h to 80 km/h. The speed of freight trains is expected increase from 60 km/h to 80 km/h, and at the crossroads, from 40 km/h to 80 km/h. The direct tunnel through the gorge is also expected to increase throughput capacity from 27 million tonnes of cargo per annum to 48 million tonnes *per annum*, with the possibility of further expansion to a potential 100 million *per annum* with relatively small Capital Expenditure.

One of the key aims of the Modernisation Project is decreasing the track gradient in the gorge section. Management believes that a flatter gradient will reduce wear and tear on wheels and tracks, decreasing the need for extra locomotives in that section,

and reducing extra stops to cool the brakes on the trains. In addition, the Group plans to make improvements to tunnels, bridges and level crossings and procure new rolling stock. As a result of the Modernisation Project, the Group expects diminished maintenance costs and an extended life-cycle of certain of its infrastructure assets, and management estimates that completion of the Modernisation Project may result in savings in operating costs of up to 10%, as compared to total operating costs in the areas affected by the Modernisation Project.

The Modernisation Project is substantially complete. In particular, the contractor has completed approximately 96% of the works (which includes the construction of all six planned tunnels, three out of the six planned bridges, 81% of the planned artificial structures (which includes bridges, culverts and water ditches) and 67% of the subgrade work), as compared to 93% as at 31 December 2020 and 88% as 31 December 2019. Since the beginning of 2021, the Group has also started conducting a part of the works using its own personnel for railway track construction, signalling centralisation and blocking, power and electric traction lines.

The Modernisation Project had an initial contractual Capital Expenditure of GEL 659.9 million. As of 31 December 2020, GEL 878 million had been incurred in total (including costs related to capitalised interest, the payment of salaries and the fees of construction consultants, as well as GEL 594.9 million incurred in relation to the cost of works performed by the construction contractors). During 2020, GEL 21.1 million was spent on the project, as compared to GEL 93.8 million in 2019. Based on current estimates, it is expected that the Modernisation Project will be completed in 2023 (and the portion of works being conducted by the external contractor is expected to be completed in 2022).

Kutaisi Airport Connection Project

In 2017, the Group took responsibility for the construction of a new passenger rail station and access bridge near Kutaisi International Airport, with the aim of providing more comfortable travel to passengers traveling to and from the airport. The project is considered to be a socio-commercial project, facilitating travel and profitable for the Group due to the ability to carry increased passenger numbers. In 2016, an initial feasibility study was conducted by an external consultant. In 2018, the decision was taken to update this study, and, in 2019, the feasibility study was revised. The feasibility study considered four options and offered a short-term solution of a shuttle bus connection between Kutaisi International Airport Passenger Terminal and Kopitnari Railway Station, with the railway station requiring refurbishment (of buildings and platforms).

Work in relation to the upgrade of the Kopitnari railway station was postponed due to a combination of a change in the conceptual decision on how to link the station with the airport and that the project was directly linked to increased international air passengers, which have been limited since the outbreak of the COVID-19 pandemic. Following the change in design of the project, in March 2021, the Group entered into an agreement with a construction company for the completion of the upgrade works. The project is estimated to cost approximately U.S.$0.4 million and is expected to be completed within 15 weeks of the signing of the agreement.

Tbilisi Bypass Project

In late 2008, the Municipality of Tbilisi (the "**Municipality**") proposed the Tbilisi Bypass Project (the "**Tbilisi Bypass Project**") to the Group, through which certain railway infrastructure components would be moved from the centre of Tbilisi to the northern part of the city, so that freight and passenger trains would no longer transit through central Tbilisi. The Municipality believed that its proposal would provide a number of benefits to the Municipality, including helping alleviate future environmental and safety concerns and, because the move would make available commercially valuable land in central Tbilisi, fostering economic improvements and job growth in the city.

After studying the proposal, the Group agreed to undertake the Tbilisi Bypass Project, as the Group believed the project would also provide it with a number of benefits. These benefits included the receipt of proceeds from potential sales of land in central Tbilisi and re-routing operations that raise potential environmental and health and safety concerns away from the densely-populated city centre.

In June 2013, the Group announced its decision to redesign the Tbilisi Bypass Project. The Group held negotiations with the Government 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.

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

During 2015 and 2016, the Group was in discussions with the Municipality and the Government about various scenarios for the completion of the project. One such scenario under discussion included an option envisaging a change to the original bypass location, which would possibly render the existing bypass infrastructure redundant. The alternative scenarios included the determination of the future use of the existing infrastructure, should it become redundant. The options put forward for future use

of the infrastructure included a bypass automobile road, light rail/extension of the Tbilisi Metro System and the construction of a freight depot. However, as at 31 March 2021, no decision had been made by the Government about the redesign of the Tbilisi Bypass Project. In June 2010, the Company entered into a construction agreement which obliges the construction company to finalise the project within 18 months of recommencement of the works, if recommenced.

Due to significant uncertainties associated with either the continuation of the existing project or the implementation of any other scenarios envisaging change to 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, mainly representing land. In addition, in 2012, the Company declared dividends of GEL 231,592 thousand, and it was agreed with the Government that the declared dividend amount would represent a consideration due from the Government for the future sale of the land plots in accordance with the Tbilisi Bypass Project memorandum. As a result, the dividend amount was classified as an advance received from the Government for the sale of land. There has been no decision by the Government on the advance and no indication that the amount is due on demand, and no transfer of the land plots to the Government has taken place.

Regulation

The Constitution gives special rights to the Government with respect to the railway. The railway is regarded as an asset of state importance and is expressly subject to special governance rules by the State authorities.

Railway Code

The primary legislative act concerning rail transport in Georgia is the Railway Code. The Railway Code sets forth the economic, legal, organisational and technological basis for the Group's activities and determines its status and role in the economy of Georgia. The Railway Code also determines the rules and conditions of provision of public passenger transport services and the terms related to conclusion of public service contracts. The Railway Code provides that the Company is Georgia's only railway operator and owns the land underlying its rail track and the related infrastructure.

The Railway Code regulates the transportation of cargo, luggage, passengers and mail by railway and establishes the responsibilities, rights and obligations of participants in the industry. The Railway Code requires the Group to provide its customers with relevant information about its services and tariffs. The Railway Code also requires the Group to undertake transportation of cargo and passengers in line with existing technical standards of service set in accordance with certain policies of the Group, as well as international agreements to which the Group is a party. The Group must transport cargo based on bills of lading, and the Railway Code permits the Group to inspect cargo to ensure that information contained in the bill of lading is correct.

The Railway Code further regulates provision of public passenger transport services, which are the services of general economic interest provided to the public on a non-discriminatory and continuous basis. The purpose of the Railway Code is to guarantee the provision of services of general interest at a higher quality and a lower cost. To serve this purpose, the competent authority (the MOESD, or any other authority determined by the Government from time to time) is entitled to conclude the public service contract with the railway operator in relation to granting exclusive rights to operate certain public passenger transport services on a particular route or network or in a particular area in exchange of the compensation. The Railway Code envisages competitive tendering procedure and the exclusions when public service contracts are to be concluded via a direct award. Since the Group is the owner of the railway infrastructure on which such public services shall be provided, it qualifies for an exclusion for the direct award of a public service contract. The Government has not concluded the public service contract with the Company. See "—*Passenger SBU*".

Although the Railway Code addresses various matters concerning rail transport in Georgia, in many areas it delegates to the Group the authority to determine technical and operational details through its internal policies and regulations. The Railway Code does contain an internal dispute resolution mechanism which, usually for Georgian legislation, places an obligation on each prospective claimant to attempt to resolve any dispute with the Group in the first instance before filing a claim in the courts. In addition, the Railway Code refers to the fact that the Georgian railway industry is subject to international agreements and treaties ratified by Georgia, as well as relevant provisions of the Constitution.

Pricing and Tariffs

Under the Railway Code, the Government has the power to establish tariff policies through the Rail Transport Authority. The Rail Transport Authority has not yet been established and the Company is not aware of any plans of the Government to do so. Accordingly, as at the date of this Prospectus, the Group is not subject to any mandatory tariffs. Instead, pursuant to the Railway Code, it sets its own tariff policy independently for all types of services, including, but not limited to, tariffs for freight transportation and freight transportation-related services, passenger services and luggage transportation. According to the Group's tariff policy, the Group may increase its tariffs and the discounts applied to its tariffs upon one month's notice to customers. Any decrease to the Group's tariffs may enter into force immediately. In addition, pursuant to Directive 34, Georgia is required to establish a single national regulatory body for the railway sector, which shall be a stand-alone authority and shall comply with a number of independence criteria. No such regulatory body has yet been established, and the Group does not currently expect that the new regulatory body will have tariff setting powers for its freight transportation services, but there can be no assurance that, in common with many EU countries, there will not be changes to how the Group's tariffs are determined in the future. See "*—Directive 34—New Regulatory Body and Tariffs*".

Tariffs for freight transportation are based on the International Rail Transit Tariff, which is decided among the signatories to the Tariff Agreement. In addition to the Company, parties to the Tariff Agreement include the railway companies of other CIS member states including Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan, as well as the railway companies of Lithuania, Latvia and Estonia. The parties to the Tariff Agreement hold conferences each autumn, at which they present their tariff plans for the next year. Base tariffs established under the Tariff Agreement are not binding and the parties may vary them during the year. The Group's final tariffs are based on various factors, including the type and weight of the cargo, the distance over which the cargo is carried and any discounts that may be applied at the Group's discretion.

Further, once the public service contract is concluded with the Government, the compensation for such public passenger transport services will be determined in accordance with the state budget and the respective service contract. See "*—Passenger SBU*".

Environmental Law and Regulation

Environmental matters are governed by the Constitution, under the Law of Georgia on Protection of the Environment № 519, dated 10 December 1996 (as amended) and the Environmental Assessment Code of Georgia № 890-IIs, dated 1 June 2017 (as amended) (the "**Environmental Code**"), as well as other applicable legislation and regulations.

These laws establish the requirements for the protection of the environment. They impose specific obligations on all entities operating hazardous or polluting facilities, including requirements with respect to emissions and discharges, regular inventory maintenance and self-monitoring and reporting obligations. Operators of hazardous facilities, including the Group, may be liable for any damage caused by hazardous substances to human health, the environment and biodiversity, objects of cultural significance and other property or economic interests, regardless of fault.

The Environmental Code lists certain activities that have an impact on the environment and that are subject to mandatory environmental impact assessment. Such activities may be commenced only after obtaining an environmental decision which is issued by the Ministry of Environmental Protection and Agriculture (the "**MoEPA**"). Construction of railway lines is subject to mandatory environmental impact assessment and construction permits may only be issued after obtaining the respective environmental decisions. Under the Environmental Code, operators in the transport industry including the Group may be subject to certain strategic documents adopted by the relevant administrative bodies. The strategic documents must be approved by the MoEPA and the MoHSA. The Environmental Code also includes special procedures for assessment of transboundary environmental impacts.

Pursuant to applicable Georgian environmental laws, the Group is required to remedy any environmental damage caused by its operations though clean-up and rehabilitation processes (*e.g.*, through the repair of damaged assets). In case of failure to comply with environmental laws, the Group may be required to compensate for damages or may be subject to administrative fines or criminal liability. Under the Law of Georgia on Environmental Liability № 244-IVms-Xmp dated 2 March 2021, further liabilities related to significant harm caused to the environment and stricter rules related to compensation of damages (which includes the obligation of the responsible party to cover certain costs related to recommendations on remedying the damages, deposit 2% of the funds required for remedial action plan to the Government budget, etc.) caused to the environment will enter into force on 1 July 2022. This law also introduces the concept of preventive action plans, which includes the company obligation to notify the relevant authority in advance, if it is evident that damaging the environment is inevitable, and propose the mitigation measures. From 1 July 2023, operators who carry out activities which pose extremely high risk to the environment, such as transportation of hazardous cargo, will be required to secure such risks through insurance or bank guarantee.

Health and Safety Law and Regulation

Pursuant to Article 60 of the Railway Code, the Group is under an obligation to ensure the safety of its activities with reference to applicable standards and principles, including: (i) putting into place a systematic approach towards planning and the management of fire safety and transportation services; (ii) the compliance with technological methods and transportation processes with applicable normative acts; (iii) the protection of legal interests of persons and the railway while ensuring transportation safety; and (iv) the mutual responsibility of persons responsible for safety and the railway itself.

Further, the operations of the Group may be considered "hazardous" under the Georgian Code on Safety and Free Movement of Goods, adopted pursuant to the Law of Georgia № 6157-Is dated 8 May 2012. This is because such operations involve buildings, facilities, substances, technical equipment and machinery with significant risk to human life, health, property and the environment as a result of potential demolition, explosions, emissions or exposure to toxic substances. Certain aspects of the Group's facilities, including hydroelectric facilities, waste disposal sites, and facilities operating cargo lifting equipment and boilers are subject to periodic and *ad hoc* inspections by the relevant authorities. If the inspecting authorities conclude that any part of the Group's operations is not in compliance with the applicable requirements, the Group may be subject to certain measures ranging from mandatory remediation orders and administrative penalties to suspension of operations.

Matters of occupational health and safety are governed by the Constitution, the Labour Code of Georgia № 4113-rs dated 17 December 2010, the Law of Georgia on Healthcare № 1139 dated 10 December 1997, the Law of Georgia on Labor Safety № 4283-IIs dated 4 March 2019 and certain other laws, including international agreements, as well as rules and regulations promulgated thereunder.

These laws require that, among other matters, employers provide their employees with adequate information regarding the risks related to labour safety, including rules regarding the use of hazardous equipment, implement safety and emergency procedures and preventive measures designed to ensure safe operations of facilities and equip their employees with protective equipment. Along with technological progress, employers shall in a timely manner replace hazardous equipment with safe or less hazardous equipment, as well as take all other reasonable steps for the health and safety of their employees. An employer may be liable to fully compensate their employees for damages resulting from the performance of work duties if such damages are incurred as a result of the employer's fault.

In addition, where a building is associated with the production, storage or supply of energy, or power, or inflammable, explosive, poisonous or toxic substances or is otherwise considered excessively dangerous, the Civil Code of Georgia № 786 dated 26 June 1997 (as amended) (the "**Civil Code**") in certain cases imposes strict liability due to the increased danger. Those undertaking such activities are required to pay compensation if a potential hazard materialises and results in death, injury or disability of an individual or damage to a thing. The same liability is imposed on possessors of inflammable, explosive, poisonous, toxic or other hazardous substances when there is an increased danger associated with these substances. Such liability is imposed regardless of fault on the part of the possessor of such substances or activities. This liability is not triggered if the damage occurred as a result of a force majeure except in cases where the damage was as a result of an accident involving electricity transmission lines (cables) or damage to oil, gas and water supply systems.

In addition, the Civil Code provides that the possessor of transportation facilities used in the carriage of passengers or cargo are obliged to pay compensation if the operation of such transportation assets results in the death, bodily injury or disability of an individual, or damage to a thing, except in cases where the damage occurred as a result of a force majeure. This stricter liability is envisaged in respect of the operators of aircraft, which may be held liable even for damages outside their control.

Procurement

As a general rule, the procurement of goods and services by companies that are more than 50% owned by the State, including the Company, is subject to the supervision of the State Procurement Agency in accordance with the Law of Georgia on State Procurement № 1388 dated 20 April 2005 (as amended) (the "**Law on State Procurement**") and other applicable regulations. The Government has the authority to adopt special procurement rules for state-owned companies permitting such companies to deviate from the general procurement rules set out in the Law on State Procurement. The Law on State Procurement does not apply to selection of public passenger transport service operator and conclusion of public service contract with such operator. Currently, by virtue of Resolution № 814 of the Government on Approval of Special Rules on Procurement of Services and Goods for Georgian Railway LLC and its Subsidiaries dated 30 December 2020 (as amended) (the "**Procurement Regulation**), the activities of the Company are subject to special procurement rules. The Procurement Regulation, if not extended further, will expire on 31 December 2021.

Procurement rules under the Procurement Regulation

Under the Procurement Regulation, the Company shall purchase goods and services in accordance with the annual budget approved by the Board of Directors. As a general rule, the procurement shall be carried out by means of electronic tender. Goods and services may also be procured based on negotiations with a single supplier if: (i) there is an emergency which threatens the

operations of the Company and may cause significant harm to the interests or the property of the Company and which could not have been foreseen or is not caused by the actions of the Company; (ii) procurement is necessary for the maintenance of quality and use of goods, or to contract with the same supplier or subcontractor for goods, unless the anticipated price is more than the price initially paid; and (iii) procurement of such services is essential for business interests of the Company.

Tenders are to be conducted by a tender commission, which is created by the manager of the Company. Members of the tender commission are the employees of the Company. Specialists and experts of certain fields may also be invited as the members of the tender commission. According to the Procurement Regulation, the participants of the tender are required to submit a performance guarantee the amount of which shall be: (i) at least 5% of the total contract price; or (ii) in case the procurement provides for advance payment, performance guarantee shall be equal to the advance payment. Further, if the goods or services are purchased based on negotiations with a single supplier, it is mandatory for such supplier to submit performance guarantee if the value of the contract exceeds GEL 100,000. The Procurement Regulation is annexed by the list of goods and services specific to the Company's sphere of business. In the case of a procurement of goods or services where the Company is required to incur expenditure over more than one year, the Company is required to obtain the approval of the Supervisory Board.

Procurement rules under the Law on State Procurement

The Law on State Procurement provides that the primary modes of state procurement is via electronic tender. State procurement may also be performed by a simplified procurement procedure which is only applicable in certain limited circumstances, for example: (i) the delivery of goods or services is an exclusive competence of one person and there is no alternative; (ii) there is an emergency, in which case the goods or services procured shall not exceed the volumes necessary for dealing with the state of emergency; (iii) in order to maintain the quality and use of the goods and services it is necessary to contract with the same provider, unless the anticipated price is more than the price of initial delivery; (iv) procurements determined by respective acts of the Government for unimpeded implementation of events having social and state significance; or (v) the procurement is related to State representation.

The Procurement Regulation grants a degree of flexibility to the Group throughout the procurement process as negotiations with one person are not considered to be procurement by the Law on State Procurement and based on the Procurement Regulation, the Board of Directors can exercise wide discretion throughout the process of choosing the mode of procurement.

Disposal of Fixed Assets

As the State is the majority shareholder of the Company, the Company must comply with Order № 1-1/50 of the MESD dated 1 February 2019 (the "**Disposal Rules**"), which regulates the disposal of fixed assets in the capital, or on the balance sheet, of companies which are more than 50% owned by the State, including the Company. Under the Disposal Rules, fixed assets can be disposed of through one of the following methods: (a) a write-off from the balance sheet; (b) the transfer under "temporary charged possession" or gratuitous transfer under temporary possession (for example: rental); (c) sale; (d) a withdrawal of fixed assets from the capital of a company or the contribution of such assets to the capital of another entity; (e) exchange; or (f) transfer under right to build in exchange of compensation. Management is also entitled to use other methods of disposal as provided for in the Civil Code of Georgia, provided that the prior approval of the Board of Directors (acting based on the approval of the Supervisory Board) and LEPL National Agency of State Property (the "**NASP**") are obtained.

A write-off of assets is executed by management through the internal commission of the Company except in cases where: (i) immovable property is written off, and (ii) the value of the residual balance of the written-off assets exceeds 10% of the value of the residual balance of the Company's overall fixed assets, which requires the approval of the NASP.

A transfer of fixed assets under "temporary charged possession" is executed through an auction based on a decision of the management except in cases where: (i) the area of the immovable property exceeds 50 sq/m and/or 10% of the entire area; and (ii) the value of the residual balance of the movable assets exceeds 5% of the value of the entire residual balance of the Company's assets, which require the approval of the NASP. The consent of the NASP is also necessary in cases of a direct transfer under possession of fixed assets if any auction is not held.

A sale (through or without auction), "temporary gratuitous transfer" (*i.e.*, transfers to a third party for no remuneration) and withdrawal from or contribution of the fixed assets to the capital of another entity requires the approval of the NASP. The rules regarding the disposal of fixed assets through an auction (public and electronic), which are applicable to State property are equally applicable to the disposal of the fixed assets of the Company.

Exchange of property or transfer under right requires approval of the Board of Directors (acting on the approval of the Supervisory Board). In case of exchange of property, value of exchanged properties shall be determined by audit (expert) report and in case of difference, the recipient of the property with a higher value shall compensate by paying a difference or transferring additional property. As regards the transfer of property under right to build, it may be carried out with or without the auction.

Electricity Supply

The Electricity Agreement is due to expire in September 2021 and, as of July 2021, the Group will have to purchase electricity on the open market, pursuant to structural changes made to the Georgian electricity market under Resolution № 46 of 2020 of the Georgian National Energy and Water Supply Regulatory Commission on Approving Electricity Market Rules.

The Company is a qualified user entitled to participate in the wholesale trade of electricity in accordance with the Law of Georgia on Energy and Water Supply № 5646-rs dated 20 December 2019 (as amended, the "**Law on Energy**") and Resolution № 246 of the Government of Georgia on Approval of Electricity Market Concept dated 16 April 2020 (the "**Market Concept**").

The main purpose of the Law on Energy is to: (i) create conditions for a full opening of the electricity market based on the principles of competitiveness, transparency and non-discrimination; and (ii) establish common rules for the organisation and functioning of the electricity market. The Law on Energy establishes a general legal framework for the generation, transmission, distribution, supply and trade of electricity. The Market Concept establishes governing principles for the organisation and functioning of an electricity wholesale market in Georgia. From 1 July 2021, the Market Concept envisages the establishment of a free market where the market participants enjoy equal, non-discriminatory conditions and competitive pricing. During the transition period, Electricity System Commercial Operator will undertake the following functions: (i) register wholesale market participants; (ii) maintain united records; (iii) trade of balancing energy; (iv) trade of guaranteed power; and (v) perform any other functions established under the Georgian legislation.

See "*Risk Factors—Operational Risks relating to the Group and its Business—The Group's energy costs could increase*".

Communications

The Company holds a licence to use numeric resources and is subject to regulation by the Georgian National Communications Commission in accordance with the Law of Georgia on Electronic Communications № 1514 dated 2 June 2005 (as amended).

Natural Resources

Activities relating to the exploration and extraction of minerals are subject to licensing. Licences may be issued for either: (i) the extraction of minerals; or (ii) the exploration and extraction of minerals (a "combined license" on exploration and extraction). These licences are issued through a public auction organised by the Agency of Mines, a legal entity of public law existing under the MESD. The Group holds a number of mineral use licences and is responsible for compliance with their respective conditions as enforced by the Agency of Mines.

Directive 34

Under the terms of the Association Agreement, Georgia has undertaken to gradually align its legislation to a number of European legislative and international instruments within stipulated timeframes. In particular, Georgia has undertaken to implement certain provisions of Directive 34.

Directive 34 sets out: (i) the rules applicable to the management of railway infrastructure and rail transport activities of railway undertakings (such as the Group); (ii) the criteria applicable to the issuing, renewal or amendment of licences intended for railway undertakings; and (iii) the principles and procedures applicable to the setting and collecting of railway infrastructure charges and the allocation of railway infrastructure capacity. According to the Association Agreement, the deadline for implementation of Directive 34 is August 2022.

Under the Association Agreement, Articles 10 to 15 of Directive 34 are excluded from the provisions to be implemented in Georgian law. Such excluded articles relate, *inter alia,* to open market access, cross border agreements and EU monitoring,

Management of Railway Infrastructure

Directive 34 sets out various requirements for the management of railway infrastructure that, once implemented, could have an impact on how the corporate structure of the Group and how it manages its various business units. In particular, Directive 34 requires:

- management independence through independent railway undertakings and infrastructure managers (with assets, budgets and accounts separate from each other and from those of the State) and management of railway undertakings according to commercial principles;

- separation of infrastructure management and transport operations and of different types of transport operations (through the separation of accounts and the independence of the essential functions of an infrastructure manager); and

- improvement of the financial situation (through the subsidising of the infrastructure management by the State and transparent debt relief).

In October 2018, MC Mobility Consultants GmbH ("**MC Mobility**") released the final draft of the paper titled "Policy Paper on the Future Georgian Railway Sector Considering the Transposition of the EU Legislation According to the Association Agreement" (the "**Policy Paper**") and the roadmap for the restructuring of the Georgian railway sector and the Group in light of the requirements of Directive 34 (the "**Roadmap**"). The Policy Paper stated the intention to "*transform [the Company] into a financially sustainable and business-oriented internationally acting multi-modal transport operator that will be able to compete in the future with other transport service providers…*". The Roadmap examined various options for the "unbundling" of infrastructure and transport providing services in order to achieve compatibility with the requirements of Directive 34. The Roadmap also examined the approach to compliance with Directive 34 taken by the EU member states.

In the short- to medium-term, the Company expects the required "unbundling" to achieve compliance with Directive 34 to take the form of the preparation of independent financial reports for each of the Company's three main SBUs and, potentially at a later date, the creation of a new holding company and the splitting of the SBUs into separate wholly-owned subsidiaries (consisting of an infrastructure management company, a passenger company, a freight company and a tariff establishing and path allocation company). No final decision has been taken with respect to the form of "unbundling" or other structural reorganisation that will be required under the Georgian law implementing Directive 34 or the timing of any such reorganisation or other requirements.

In March 2021, an EU-funded "Twinning" project began, which aims to facilitate Georgia's successful implementation of the relevant EU legislation and regulation in the railway sector, including Directive 34, involving representatives of the MOESD, the Company and representatives of Poland (as the "twined" nation). The final decision with respect to the form of "unbundling" or other structural reorganisation that will be required under the Georgian law implementing Directive 34 or other requirements stemming from Directive 34 will be made within the framework of the twinning project, taking into account the existing Roadmap.

Licencing of Railway Companies

Directive 34 also requires that a licensing authority be established to issue licences to railway undertakings (such as, the Group). At present, the Group is not required to have a licence to operate its business, and there is no licensing authority in Georgia. After the successful implementation of Directive 34, all railway undertakings including the Group are expected to be required to apply for a licence from the Licensing Authority and evidence its ability to comply with the relevant requirements regarding good repute, financial fitness, professional competence and civil liability cover.

New Regulatory Body and Tariffs

Pursuant to Directive 34, Georgia is required to establish a single national regulatory body for the railway sector, which shall be a stand-alone authority and shall comply with a number of independence criteria. As of the date of this Prospectus, no such regulatory body has been established in Georgia and no final decision has been taken as to the scope of such authority's activities or powers. The Group does not currently expect that the new regulatory body will have tariff setting powers for its freight transportation services, although there can be no assurance that, in common with many EU countries, there will not be changes to how the Group's tariffs are determined in the future.

Following implementation of Directive 34, the Group expects its infrastructure charges to be subject to external setting, and for infrastructure expenses to be subsidised by the State in accordance with EU practice. Given the proportion of its business accounted for by infrastructure services, however, the Group does not expect such a change to have a significant adverse effect on the Group's finances or results of operations.

Property

The Group has a number of real estate assets, including buildings and land, related to the infrastructure required to operate the railway. The Group has entered into a contract with a state-owned security service company that provides security services throughout the Group's network, including at stations, tunnels and bridges and on its trains.

The Company has a designated property management unit (the "**Property Management Unit**") under the Corporate Governance Department and headed by the Chief Operating Officer. The Property Management Unit, aside from its general functions related to property management, has responsibility for recording, analysing and selecting certain of the Company's commercial or non-operative assets for further realisation. In addition, the Company is in the process of identifying certain assets for disposal by auction, with the first such asset already disposed of. The Company is also planning an asset collection project.

The Company also has a subsidiary company, GR Property Management LLC, which owns certain stations it then leases to the Company and other parties, and is responsible for selling assets on behalf of the Company.

Buildings

As at 31 December 2020, the Group owned 2,914 structures, approximately 2,066 of which were stand-alone buildings and the remainder of which were other constructions, such as platforms. As at the same date, of the stand-alone buildings, approximately 31 passenger stations with 51 ticket booths, 458 were passenger support structures (such as open-air shelters and retail shops), 227 were for luggage or freight storage and 419 were administrative or residential buildings. In particular, the Company owns its headquarters building in central Tbilisi, which has a total area of approximately 17,520 square metres.

The Group generates some revenue from leasing space to third parties. The Group has built and currently operates the Batumi terminal, which has a total area of approximately 42,100 square metres.

Land

As at 31 December 2020, the Group held title to 5,300 hectares of land, comprising all of the Group's total land in use, principally in, and immediately around, its right-of-ways.

Other Procurement

Aside from electricity, the Group's principal purchases are fuel, metal, principally in the form of steel for rails, and freight locomotives and rolling stock.

The Group purchases its fuel (principally diesel fuel for its locomotives) at spot rates from the successful bidder of the Group's annual tender for fuel suppliers.

In 2010, the Company signed a long-term contract for the purchase of rails, which management estimates will account for nearly all the rails needed for the Modernisation Project. The price for the rails was a fixed spot price that enabled the Group to mitigate the risk of price increases for what is one of the largest cost components of the Modernisation Project.

The Group purchases its freight locomotives and rolling stock largely from domestic factories. In addition, there are a number of non-Georgian suppliers in the industry from whom the Group believes it could acquire rolling stock. Following the completion of a tender process, the Group's passenger trains are to be supplied by a Chinese manufacturer, CSR Narjing Puzhen Rolling Stock Co. Ltd.

Employees and Pensions

The following table sets forth the distribution of the Group's employees, by business unit, as at the dates indicated:

	As at 31 December		
	2020	**2019**	**2018**
Head Office	636	630	640
Infrastructure SBU	4,806	4,961	4,880
Freight SBU	5,262	5,375	5,491
Passenger SBU	1,195	1,242	1,233
Subsidiaries	470	461	383
Total	**12,369**	**12,669**	**12,627**

Notes:

(1) In 2020, 0.2% of the Group's employees were aged under 20 years, 6.8% were aged between 21 and 30 years, 17.9% were aged between 31 and 40 years, 22.3% were aged between 41 and 50 years, 29.2% were aged between 51 and 60 years and 23.7% were aged over 60 years.

(2) As at 31 December 2021, approximately 16% of the Company's employees were female and approximately 84% of the Company's employees were male.

(3) The Group's employee turnover rate was 6% in 2018, 5% in 2019 and 6% in 2020.

The Group is one of the largest corporate employers in Georgia and creates additional employment in related industries, such as railcar manufacturing. Employees may join a trade union if they wish. As at 31 December 2020, approximately 61% of the Group's employees were a member of one of two labour unions (the NNLE Union and the Trade Union of Georgian Railways Employees). The Group does not have any collective bargaining agreements with its employees or a trade union, although the Group has in the past been party to arrangements with certain unions. In addition, pursuant to requirements of Georgian law, if 20 or more employees raise a single dispute, this become an employee collective dispute, which requires the Group to hold roundtable meetings between the Group and the trade unions. See "*Risk Factors—Operational Risks relating to the Group and its Business—The Group's business may be adversely affected by strikes, lockouts and labour legislation*".

The average monthly salary (including bonuses paid) of the Group's employees was GEL 1,135 for the year ended 31 December 2020, GEL 1,058 for the year ended 31 December 2019 and GEL 1,016 for the year ended 31 December 2018. The Group has a bonus system, according to which bonuses are distributed to employees, on an annual basis, based on their performance evaluation. Under the Mediation Agreement, the NNLE Union agreed to suspend its strike until June 2021, and the Group undertook the obligation to hold annual negotiations with the NNLE Union to reconsider employee remuneration from June 2021. This is not, however, expected to have a material impact on the Group's cost structures.

The Group offers medical insurance to its employees together with their family members and finances certain healthcare expenditure not covered by insurance. In 2020, the amount spent on employees' healthcare expenses totalled GEL 350,000, as compared to GEL 262,000 in 2019. In 2020, the amount spent on employees' healthcare expenses, including insurance expenses, amounted to GEL 7.7 million. The Group also offers other financial bonuses for occasions such as the birth of a child and a child's first day at school, and offers other bonuses to employees for certain holidays, events, and special occasions.

The Group does not maintain a private pension fund and, accordingly, has no unfunded or other pension liabilities. Although private pension funds are permitted in Georgia, there is also a Government pension scheme (the "**Government Pension Scheme**") of which the Group's employees are members. The Group withholds 20% of each employee's salary as a personal income tax, part of which is apportioned by the Government to fund the Government Pension Scheme. Pensions are then paid directly by the Government to the relevant employees. Further, the Law of Georgia on Funded Pensions was introduced in 2018, which is implemented independently of the Government Pension Scheme. Effective from 1 January 2019, up to 6% of an individual's gross income is contributed to a personal pension account, with 2% contributed by each of the employee and the employer, with an additional state-contribution that varies depending on the relevant employee. At present, the Government contributes 2% of an individual's taxable income of a person whose total yearly income does not exceed GEL 24,000 in favour of participants of the Government Pension Scheme. The Government contributes 1% if the individual's annual taxable income is between GEL 24,000 and GEL 60,000, and no Government contribution is made if an individual's annual taxable income exceeds GEL 60,000. The scheme is mandatory for all individuals, except: (i) men over the age of 60; (ii) women over the age of 55; and (iii) self-employed individuals.

The Group offers education and training programmes to its employees. In 2020, the Group spent more than GEL 10,000 on training and education, as compared to GEL 151,000 in 2019. The decrease in 2020 was due to the diversion of Company resources as a result of the COVID-19 pandemic.

In 2015, the Company, the Ministry of Education and Science and the Georgian Technical University established the Railway Transportation College. The Railway Transportation College was granted vocational education status for six years in 2016 and started running classes in 2018. The objectives of the Railway Transportation College are to develop a dual vocational education method in the railway sector and to improve the railway labour market. The college is financed by the Company, the Ministry of Education and Science of Georgia and the Georgian Technical University and also received a grant of approximately U.S.$2.3 million from the U.S. Millennium Challenge Account. In 2019, a machine operator vocational training programme was implemented at the college.

The Railway Transportation College building has recently been renovated and adapted to the necessary standards for inclusive learning, in order to better accommodate students with a range of disabilities, as well as to provide the Railway Transportation College with the necessary training inventories, computer equipment and locomotive simulators. Management believes that a common understanding at all levels of the organisation of the strategic objectives and business principles of the Company is essential for the smooth implementation of the Modernisation Project. To achieve this, the Company promotes business education among its mid-level technical staff and engages lower-level managers in the decision-making process, while incentivising employees through its group-wide, value-creation oriented bonus scheme.

See "*—Impact of COVID-19*" for details of the employee-related measures taken in response to the COVID-19 pandemic and "*Sole Shareholder and Management*" for further details relating to the Company's management.

Information Technology

The Group operates by means of advanced information technology systems and software to ensure the smooth functioning of its sophisticated logistics, dispatch and rolling stock- and freight-tracking services. Most of the Group's software and information systems are developed in-house to meet the specific demands of the Group. These systems include a centralised billing and electronic document management system used for document handling for freight transportation; an automated system that monitors and controls rolling stock in real time; software designed to monitor movements of containers, railcars and trains in stations; electronic ticket sales and accounting system for passenger transportation; and a centralised multi-module software for internal bookkeeping, which improves internal processing of initial accounting documents with electronic signature authorisations, for financial and tax accounting, budgeting and treasury operations.

The Group operates enterprise resource planning software developed by the German company SAP SE ("**SAP SE**"), which incorporates key business functions comprised of fourteen modules. All the fourteen modules are fully deployed and customised in accordance with the specific requirements of the Group.

Hardware

The Group generally utilises hardware from Hewlett-Packard Enterprise, Dell Technologies, F5 Inc., Cisco Systems, Inc., and others. The Group has two geographically distributed and interconnected datacentres (the main system and a back-up system) equipped with Blade servers, data storages and network and security hardware. The distance between the datacentres is approximately 360 km. Servers are managed with a centralised VMware vCenter High Availability platform, which ensures interoperability between physical servers and the datacentres. All operations at the head office and throughout the Group are performed on a real-time basis and management estimates that there is a delay of between seven and 27 seconds in the transfer of data from the main datacentre to the backup one. Critical information from data storage systems and databases are backed-up periodically with Dell EMC Data Domain solution. In addition, should service disruption or data corruption be detected, it is possible to recover data from the back-up data centre by way of a manual process within two to three hours. Data network throughput within the Group's infrastructure is provided via 636 km of backbone optical fibre cable laid along the railway tracks, equipped with DWDM cabling. Security of the information technology networks and the services exposed outside are protected with modern Next Generation and Web Application Firewalls.

Security against cyber-attacks

The Group uses different security layers to protect its internal business processes, internal and external services and IT networks of the Group from cyber-attacks. The physical layer is made-up of a modern Next Generation Firewall, whilst the application layer is equipped with Web Application Firewalls. All of the Group's network devices undergo routine weekly updates with relevant threat and virus certificates and signatures. The Group's cyber-attack incident and alert response process is based on ITIL best practices and internal security policies. In 2014, the Group established certain information security-related activities to protect information security within the Group, including passing resolutions on the adoption of information security management, corporate network security and critical information back-up systems policies. In 2018, the Group established an information security council to oversee the adoption of new information security policies and to develop an internal framework to implement an Information Security Management System compliant with ISO/IEC standard 27001 2013/2017.

In February 2021, the Group's external internet provider, Silknet, was targeted by a cyber-attack, which resulted in a two-hour internet shortage to the Group, as a result of disruptions caused to Silknet's domestic internet distributers companies. This did not have any material impact on the Group's business operations. See "*Risk Factors—Operational Risks relating to the Group and its Business—The Group relies heavily on information technology systems to operate its business, and any failure of these systems could have a material adverse effect on the Group's operations*".

Information technology projects

The Group is currently implementing three main information technology projects, each of which is expected to be finalised by the end of 2021.

- *The Electronic Ticket Sales and Accounting System.* This project is taking place within the Passenger SBU and is intended to substitute existing internal software systems with modern systems more capable of supporting the Passenger SBU's business requirements.

- *The Telephony Project (VoIP).* The aim of this project is to replace existing telephony systems, which have been in place since 2003, and are now outdated and out of production. The Group has been assigned 2,000 new telephone numbers and holds approximately six related telecommunications licenses and authorisations, including for the leasing-out of certain technologies.

- *The DWDM network modernisation project*. This project is related to the above VoIP project and aims to develop an advanced traffic engineering protocol for the data network connecting the Group's train stations to the datacenters.

In addition, the Group is currently renovating its main datacenter.

Modernisation Project

Whilst the Group's management believes that the Group's current systems are sufficient for its current needs, a top priority of the Modernisation Project is aimed at improving and upgrading the Group's IT systems to state-of-the-art technologies in line with the Group's current and expected business activities.

Intellectual Property

The Company's name, "Georgian Railway" (in Georgian: "საქართველოს რკინიგზა"; in Latin script "Sakartvelos Rkinigza") and its logo, shown on the front cover of this Prospectus, are trademarks, which the Company has registered with "Sakpatenti", the authority with whom trademarks and patents are registered in Georgia. The Company also maintains a corporate website, and the right to this website's domain name is owned by the Company. Management believes that the Company has taken all appropriate steps to be the rightful owner of, or be entitled to use, all of the intellectual property rights necessary to conduct its core business.

Environment

The Group is subject to various environmental protection and occupational health and safety laws and regulations relating to protection of the environment and protection of human health and safety in Georgia. The Group's Environmental Protection Unit is responsible for overseeing the Group's compliance with any such applicable environmental and health and safety laws and regulations, which are promulgated by the MoEPA. This unit is also responsible for the planning, implementation, monitoring and execution of the Group's environmental strategy and any contingencies that may occur from time to time. The Labor Safety and Environmental Protection Unit of the Group, which is a sub-division of the Corporate Governance Department, is staffed by ten employees. In addition, in order to successfully implement its environmental goals, the Group has established a health, safety and environmental protection division the HSE Division, under its Corporate Governance Department headed by the Chief Operating Officer. The HSE Division implements and maintains an environmental health and safety program involving hazard identification, evaluation and control, accident and injury prevention, hazardous material and waste product management procedures, emergency preparedness systems, fire safety procedures, industrial hygiene procedures and environmental regulatory compliance.

Pursuant to applicable Georgian environmental laws and regulations imposed by the MoEPA, the Group is required to remediate, though clean-up and rehabilitation works (such as through repairing damaged assets or objects), any environmental damage caused by its operations. In order to comply with such obligations, the Group has specially designed rolling stock, known as "repairing trains", equipped to carry out environmental remediation work. In 2020, the Group did not experience any freight train derailments. As at 31 December 2020, the Group has not experienced any material claims relating to environmental pollution. In June 2015, changes were made to Georgia's environmental laws and regulations, according to which the Group had to conduct an environmental audit of the railway throughout the country by June 2017. In 2019, the Group conducted ongoing and planned environmental monitoring. The protocols on the relevant violations have been prepared and recommendations have been issued for the purpose of carrying out appropriate measures. The Group was not penalised for any environmental impact by way of its activities or the Modernisation Project in 2020.

See "*Risk Factors—Factors that may affect the Group's ability to fulfil its obligations under, or in connection with, the Notes—Operational Risks relating to the Group and its Business—Failure to comply with applicable environmental and health and safety laws and regulations may give rise to significant liabilities*" and "*Risk Factors—Factors that may affect the Group's ability to fulfil its obligations under, or in connection with, the Notes—Operational Risks relating to the Group and its Business—A major accident, derailment or other incident could result in loss of the Group's rolling stock, disruption to services, environmental remediation costs and damage to the Group's reputation*".

Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. Moreover, to the extent insurance may be available to the Group outside Georgia (if at all), based on statistics relating to past failures on the railway, the Group does not believe it would be cost-effective to purchase insurance services for its infrastructure assets and, accordingly, in common with other state-owned enterprises, the Group does not have any insurance coverage for its infrastructure and other assets, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. In addition, the Group does not maintain insurance for terrorism or war risk. The Group's customers typically purchase insurance covering the cargo transported by the Group. See "*Risk Factors—Operational Risks relating to the Group and its Business—The Group is largely self-insured*".

Legal Proceedings

The Group is, from time to time, subject to legal proceedings and other investigations in the ordinary course of its business.

Spacecom

On 24 July 2015, Spacecom AS ("**Spacecom**") filed a claim against the Company in the Tbilisi City Court relating to the lease of railway tank-wagons by the Company from Spacecom. Spacecom is an Estonian-based company specialising in tank-wagon leasing and renting solutions and was the lessor under the lease agreement with the Company. Spacecom alleged that the Company defaulted on the lease payments and breached a number of its obligations under the lease agreement. On 28 September 2015, Spacecom filed a revised claim in the Tbilisi City Court seeking payment of damages. In March 2016, the Company filed a counter-claim against Spacecom.

The Tbilisi City Court dismissed the Company's counter-claim and partially granted Spacecom's claim ordering the Company to pay: (i) U.S.$3,530,967.07 in rental payments; (ii) U.S.$383,622.76 in penalties; (iii) 0.05% penalties accrued on the sum of U.S.$3,530,967.07 for each day from 21 May 2015 until final enforcement of the court's decision; (iv) U.S.$18,000 in repair costs; (v) U.S.$4,538,610 in additional rental payments for delay of handover of the railway tank-wagons after termination of the lease agreement; and (vi) €20,256 in registration costs. The Company has made provisions in respect of this litigation in the amount of GEL 3.7 million as at 31 March 2021. There can be no assurance, however, that amounts which the Company may be required to pay to Spacecom in connection with this litigation would be limited to the amount of relevant provision.

The Company appealed the decision of the Tbilisi City Court to the Tbilisi Appellate Court. Several appellate hearings have been conducted; however, the hearings are currently postponed for an indefinite period of time. Management is of the opinion that the probability of this appeal succeeding is low.

SOLE SHAREHOLDER AND MANAGEMENT

Sole Shareholder

The sole shareholder of the Company is the Partnership Fund, a wholly state-owned investment fund.

The Partnership Fund was established in 2011 by the *Law of Georgia on JSC Partnership Fund* for the purposes of promoting investment activity and economic development and creating job opportunities in Georgia. The Prime Minister of Georgia is the Chairman of the Supervisory Board of the Partnership Fund. The other members of the Supervisory Board of the Partnership Fund are the Ministers of Justice, Finance, Economy and Sustainable Development and Environment Protection and Agriculture, as well representatives of the private sector, mainly bankers and experienced business persons. The Partnership Fund is managed by a Chief Executive Officer, who in coordination with the Partnership Fund's Chief Investment Officer and several senior investment officers, ensures implementation of the investment projects approved by the Partnership Fund's Supervisory Board. The Partnership Fund is assisted in its activities by advisory bodies. The Partnership Fund typically participates in projects as an equity investor, guarantor or through debt financing, either as a lender or as a guarantor. The Partnership Fund's charter capital mainly comprises shares and other ownership interests that it holds in state-owned companies, including the Company. The State's role in the management and operation of the Partnership Fund is limited to the functions of a shareholder as defined under the *Law of Georgia on Entrepreneurs*, the *Law of Georgia on JSC Partnership Fund* and the Partnership Fund's charter. According to the Partnership Fund's charter, the State's only obligation, as shareholder, is to ensure that initial contributions to the authorised capital of the Partnership Fund are made. The Partnership Fund is accountable for its activities to the State as its shareholder, which may also request inspections of the Partnership Fund's business activities and annual accounts in the event that it considers infringements of its charter and applicable laws to have occurred.

Overview of the Company's governing bodies

The Company's governing bodies consist of the GMS, the Supervisory Board and the Board of Directors, the last of which is responsible for the day-to-day management of the Company. A brief description of each of the GMS, the Supervisory Board and the Board of Directors is set out below.

General Meeting of Shareholders

According to the Charter, the Supervisory Board shall convene an annual GMS no later than two months following the completion of an external audit of the Company.

According to the Charter, the time, place and the agenda of the GMS shall be sent to the Company's shareholders at least 20 days prior to the date of such GMS. According to the Charter, the Supervisory Board determines the record date for the GMS. An Extraordinary GMS (an "**EGM**") shall be convened whenever the Supervisory Board or a shareholder or group of shareholders holding at least 5.0% of the shares deems such a meeting necessary.

Under Georgian law, a single shareholder holding more than 75.0% of the Company's voting shares would be entitled to pass a resolution without convening a GMS. However, such entitlement has been disapplied in the Company's Charter.

Under Georgian law and the Charter, the shareholders are authorised to pass resolutions on the following issues at a GMS:

- approving amendments to the Charter (including, without limitation, the Company's authorised capital and the Company's legal name);
- approving mergers, de-mergers or transformations, or the Company's liquidation;
- fully or partially cancelling pre-emptive rights upon an increase of authorised capital;
- approving or rejecting Supervisory Board and Board of Directors' proposals regarding the utilisation of profits, or if these bodies cannot provide a joint proposal, making a decision about the utilisation of net profits;
- electing and dismissing Supervisory Board members;
- establishing a code of conduct for Supervisory Board members;
- approving reports of the Supervisory Board and Board of Directors;
- deciding on the compensation of Supervisory Board members;

- deciding on the participation in litigation against members of the Supervisory Board and Board of Directors, including the appointment of a representative in such litigation;

- deciding on the acquisition (if such transaction falls outside the scope of routine economic activity of the Company), alienation, exchange, write-off (or such related transactions) or other encumbrance of the Company's properties, the value of which is more than 2.0% of the authorised capital of the Company;

- making investments, the value of which separately, or in the aggregate, exceeds 1.0% of the authorised capital of the Company;

- approving the Company's annual accounts;

- deciding on other issues provided by law;

- electing the auditors;

- establishing and liquidating the Company's subsidiaries and branches;

- issuing or terminating proxies;

- appointing and dismissing trade proxies (procuras) and trade representatives (procurists);

- approving the appointment and dismissal of members of the Board of Directors;

- borrowing funds in excess of 1.0% of the Company's authorised capital, as at the end of the previous calendar month; and

- securing the credit and loans taken by the Company or any other person and issuing guarantees or other kinds of collateral, the value of which exceeds 1.0% of the authorised capital of the Company.

According to the Charter, decisions on all other issues are made by the Supervisory Board and the Board of Directors within their respective capacities.

Supervisory Board

In accordance with the Charter, it is the responsibility of the Supervisory Board to supervise the activities of the Board of Directors.

The tasks and competencies of the Supervisory Board include, but are not limited to:

- supervising the activities of each of the members of the Board of Directors;

- appointing and discharging the General Director and other members of the Board of Directors, subject to approval of the candidates by the GMS in accordance with the Charter, and devising a code of conduct for the members of the Board of Directors;

- approving and amending the Company's policies and other regulatory documents;

- inspecting the Company's books and property, including, without limitation, inspecting the conditions of the Company's cash securities and goods personally or through its members or invited experts;

- requesting reports on the Company's activities from the Board of Directors (including dealings with its associated companies and subsidiaries) and reviewing the information provided by the internal audit department or as a result of external inspections;

- convening an EGM, if necessary and for the benefit of the Company;

- reviewing annual reports and proposals of the Board of Directors relating to the distribution of profits;

- approving the Company's annual budget; and

- making decisions in other cases provided by applicable laws.

The Supervisory Board has an audit committee, a nomination committee and a remuneration committee in accordance with its charter. The Supervisory Board may decide to create other committees, the composition and tasks of which will be determined by the Supervisory Board through the adoption of terms of reference. Committees report their conclusions and recommendations to the Supervisory Board.

The Supervisory Board currently consists of six members all of which are independent members. Members of the Supervisory Board may be appointed and dismissed at a GMS. Unless otherwise specified at a GMS, each member of the Supervisory Board is elected for a period of one year. There is, however, no statutory limit as to the number of occasions on which such appointment may be renewed. The Supervisory Board, as well as each holder of voting shares, is entitled to propose nominees for election to the Supervisory Board. A member of the Board of Directors may also serve as a member of the Supervisory Board simultaneously; however, members of the Board of Directors may not hold a majority of the seats on the Supervisory Board and a member of the Board of Directors cannot serve as the Chairman of the Supervisory Board. Meetings of the Supervisory Board are held at least once per quarter. Each member of the Supervisory Board has one vote and resolutions are passed by a simple majority of votes and in the case of a tie of votes, the Chairman of the Supervisory Board meeting shall have a casting vote.

The Supervisory Board shall make determinations as to the independence of the members of the Supervisory Board and shall state its reasoning if this determination is made notwithstanding certain factors regarding the independence of members listed in the Charter.

The Company's Supervisory Board consists of the following members:

Name	Age	First Appointed	Current Position
Konstantine Guntsadze..................	52	2012	Chairman of the Supervisory Board (Independent Member)
Oleg Bichiashvili...........................	71	2012	Member of the Supervisory Board (Independent Member)
Clifford Stanley Isaak.....................	64	2011	Member of the Supervisory Board (Independent Member)
Beka Injia	36	2019	Member of the Supervisory Board (Independent Member)
Partnership Fund	—	2019	Member of the Supervisory Board (Independent Member)
David Samkharashvili	37	2020	Member of the Supervisory Board (Independent Member)

Konstantine Guntsadze. Mr. Guntsadze was born in 1968 and graduated from Ivane Javakhishvili Tbilisi State University, Georgia with a Doctoral degree in Philosophy. He began his political career in 2002, when he was appointed as Chairman of the New Rights Party with the Political Union "Akhlebi", a position he held for one year. Between 2004 and 2008, Mr. Guntsadze served as a Member of the Faction "Democratic Front" of the 6th Convocation Parliament of Georgia, as a Member of the Legal Issues Committee of the 6th Convocation Parliament of Georgia, and as a Member of the 6th Convocation Parliament of Georgia. He has served as Chairman of the Supervisory Board of the Company since 2012.

Oleg Bichiashvili. Mr. Bichiashvili was born in 1950 and graduated from the Faculty of Railway Operation with a Master's degree in Railway Operation in 1973. Mr. Bichiashvili began his career in 1973 as a Station Duty Officer with Transcaucasian Railway, Avchala, a position he held until 1976. Between 1976 and 1996, Mr. Bichiashvili worked in various leadership roles in railway and transport, including as First Deputy Chairman of the Company, First Deputy Head of the Transcaucasian Railway, Deputy Head of the Transcaucasian Railway, First Deputy Head of the Transcaucasian Railway Freight Service, Head of the Tbilisi Division of the Transcaucasian Railway, First Deputy Head of the Transcaucasian Railway, Samtredia Division, First Deputy Head of Tbilisi Division of the Transcaucasian Railway and Head of the Trans-Caucasian Railway Stations. Mr. Bichiashvili began his career with the Company in 2005, when he was appointed as Inspector for Traffic Safety until 2010, and as Acting Director General from 2012 to 2013. He then served as a Director of Marabda-Kartsakhi Railway from 2013, a position he continues to hold. From 2004 to 2005, Mr. Bichiashvili served as a Director of the Georgian Railway Institute. Since 1997, Mr. Bichiashvili has served as a lecturer with the Georgian Technical University Department of Transport Economics, a position he continues to hold. From 1999 to 2012, Mr. Bichiashvili served as Commercial Director with Transfor Ltd, in 1996, having previously acted as Deputy Chairman of Economic Policy and Reforms Department of the Ministry of Transport for one year. He was appointed as a member of the Supervisory Board of the Company in 2012.

Clifford S. Isaak. Mr. Isaak was born in 1956 and graduated from Red River College, Winnipeg, Canada with a degree in Business Administration in 1978 and received a Certified General Accounting Designation in Canada in 1982. In 1981, he began his career as an accountant with a local practice in Saskatchewan, Canada, purchasing the practice in 1983 and subsequently selling it to Coopers & Lybrand, Saskatoon in 1988. He served as Vice-President of Business Administration at Briercrest Schools from 1988 to 1992, and subsequently was a Financial and Management Consultant with Isaak International from 1992-1994. From 1994 to 1995, he was a Senior Consultant with Ernst & Young and was then the Chief Financial Officer of Kyrgyz Agribusiness Company from 1995 to 1997. Mr. Isaak was the Chief of Party for a USAID accounting reform project in Kyrgyzstan from 1997 to 1999 and he subsequently worked at the World Bank as a Senior Financial Management Specialist from 1999 to 2002. From 2002 to 2004, Mr. Isaak served as a Finance and Management Consultant at CSI Management Ltd.

Mr. Isaak worked for PricewaterhouseCoopers from 2004 to 2009, first as a Managing Director and finally as the Managing Partner, Caucasus Region. Since 2016, Mr. Isaak has served as General Director at Kura Basin Operating Company, and since 2013, Mr. Isaak has served as Chief Administration Officer to CanArgo Georgia. Since 2009, he has run his own consulting and advisory business in Tbilisi. In 2011, he was appointed as an independent member of the Supervisory Board of the Company.

Beka Injia. Mr. Injia was born in 1985 and graduated from Tbilisi Ivane Javakhishvili State University with an Academic Degree of Master of Law in 2008. Mr. Injia began his career in 2006 as a Legal Adviser at the Ministry of Justice of Georgia, after which he worked as a Senior Specialist in the Legal Department of the Ministry of Finance of Georgia from 2007 to 2011. He held the position of General Counsel at LLC Meidan Group from 2011 to 2013 before serving as an advisor to the Partnership Fund from 2015 to 2016. From 2012 to 2018, Mr. Injia served as General Counsel in the Georgian Chamber of Commerce and Industry. He has held the position of Secretary General at the Georgian International Arbitration Centre since 2014. Since 2019, Mr Injia has also been a Certified Mediator at the Rustavi City Court. In 2019, he was appointed as a Consultant and as a member of the Supervisory Board of the Partnership Fund and he was appointed as an independent member of the Supervisory Board of the Company.

Partnership Fund. See "—*Sole Shareholder*". The Partnership Fund is periodically represented by different individuals on the basis of representative powers of attorney.

David Samkharashvili. Mr. Samkharashvili was born in 1984 and graduated from Tbilisi Ivane Javakhishvili State University with an Academic Degree of Master of Law in 2006. Mr. Samkharashvili began his career in 2006 as a Senior Lawyer at the Company, after which he worked as a Deputy Director from 2009 to 2010, and was later appointed as Head of the Legal Department of the Freight SBU of the Company. Mr. Samkharashvili was also a law lecturer at the Caucasus University from 2009 to 2012, served as a Deputy Director in Corporate Governance at LLC Vagonmshenebeli Company from 2012 to 2014 and was later appointed as a director of the same company from 2014 to 2020. In 2020, Mr. Samkharashvili was appointed as an independent member of the Supervisory Board of the Company.

The business address of each of the members of the Supervisory Board is the registered office of the Company at 15, Tamar Mepe Avenue, Tbilisi 0112, Georgia.

Board of Directors

The Board of Directors is an executive body, which is responsible for the day-to-day management of the Company (with the exception of the functions reserved to the GMS and the Supervisory Board), and, pursuant to the Charter, consists of the General Director and at least three additional members. The members of the Board of Directors are appointed and dismissed by the Supervisory Board with the prior approval of the GMS. The Supervisory Board approves the remuneration and other conditions of employment for each member of the Board of Directors. Certain resolutions of the Board of Directors are subject to the approval of the Supervisory Board.

The Board of Directors includes the General Director, freight transportation director, infrastructure director, passenger transportation director and financial director. The Board of Directors is quorate if at least three members are present and the decisions are adopted by approval of the majority of the members.

Responsibilities of the Board of Directors include:

- conducting and carrying out the Company's current activities;
- presenting the draft business plan of the Company for the current year to the Supervisory Board for approval, within one month of the end of the fiscal year;
- supervising the functioning of the Company's affiliates and subsidiaries and ensuring that the managers fulfil their tasks and functions;
- reviewing the information provided by the Company's internal audit department or received as a result of external inspections, reviewing reports submitted by the managers of the Company's subsidiaries and affiliates, and making appropriate decisions based on such information;
- ensuring the fulfilment of the resolutions made by the GMS and the Supervisory Board;
- developing policies, office rules and any other regulations, which are approved by the Supervisory Board and ensuring compliance with such policies, rules and regulations;
- deciding on the selection, dismissal, training and remuneration of staff;

- dealing with any other issues assigned to the Board of Directors (or its individual members) by the Supervisory Board or the GMS; and

- fulfilling the requirements set forth in the Charter and applicable laws.

In addition, the following activities may be carried out by the Board of Directors, provided that the approval of the Supervisory Board has been obtained:

- acquiring (if such transaction falls outside the scope of the routine economic activity of the Company) alienating, writing-off or encumbering real estate and property ownership rights, if the value of such transaction does not exceed 2.0% of the Company's authorised capital;

- making investments, which alone, or in the aggregate, do not exceed 1.0% of the Company's authorised capital;

- borrowing funds or credit in an amount up to 1.0% of the Company's authorised capital;

- providing collateral, guarantee(s) or any other security to support borrowing by the Company or any other person, the value of which does not exceed 1.0% of the Company's authorised capital;

- launching new activities or terminating or suspending existing activities;

- determining general principles of business strategy and the business plan of the Company and the development and approval of the annual budget and long-term liabilities;

- determining the remuneration or additional benefits of the Company's senior management (i.e., the General Director and other members of the Board of Directors, as well as any other top-level managers so selected by the Supervisory Board); and

- other activities that may be defined by applicable laws.

The Board of Directors is headed by the General Director. The General Director is responsible for chairing meetings of the Board of Directors, supervising the implementation of decisions of the Board of Directors, the Supervisory Board and the GMS, assigning tasks to the Board of Directors members and to other managers of the Company and issuing relevant orders, instructions and other directives for these purposes.

The Company's Board of Directors consists of the following members:

Name	Age	First Appointed	Position with the Company
David Peradze	40	2017	Chief Executive Officer
Irakli Titvinidze	37	2013	Chief Financial Officer
Kakhaber Gudiashvili	46	2021	Director of Freight SBU
Dachi Tsaguria	38	2018	Director of Passenger SBU
George Marukashvili	39	2020	Director of Infrastructure SBU

David Peradze. Mr Peradze was born in 1981 and graduated from the Mathematics Faculty of Ivane Javakhishvili Tbilisi State University, Georgia, with a bachelor's degree in Mechanics, from the Banking Faculty with a bachelor's degree in Finance and from the Kharkiv National University of Civil Engineering and Architecture, Ukraine with a master's degree in Finance. Mr. Peradze also holds a Professional Accountancy Certification Program (ACCA) qualification. Mr. Peradze began his career as an Officer Manager with the Center of European Languages, in the United Kingdom, from 2003 to 2004. He joined the Company, as a consultant, in 2004 working on a project with Booz Allen Hamilton and USAID, a position he held until 2007. From 2007 to 2011, Mr. Peradze held various management positions with Cartu Group, a large business holding in Georgia, comprised of companies in the financial, manufacturing, trade and service industries. Between 2014 and 2017, Mr. Peradze served as a Director with the Georgian Co-Investment Fund, Mtkvari HP LLC. He was appointed as Chief Executive Officer of the Company in 2017.

Irakli Titvinidze. Mr. Titvinidze was born in 1984 and graduated from the Caucasus Business School, Georgia with a bachelor's degree in Business Administration. Between 2006 and 2013, he worked as an expert in Customer Consultation with Ernst & Young. Mr. Titvinidze has served as Chief Financial Officer of the Company since 2013.

Kakhaber Gudiashvili. Mr. Gudiashvili was born in 1974 and graduated from Georgian Technical University with both a master's degree and a bachelor's degree in Transport. Mr. Gudiashvili also holds a PhD in Engineering Sciences. Mr. Gudiashvili

began his career with the Company in 1994 and has worked in various positions within the Company. Between 2015 and 2017, Mr. Gudiashvili acted as Deputy Infrastructure Director, before becoming Deputy Director of the Freight SBU in 2017. In 2021, Mr. Gudiashvili became a member of the Board of Directors and was appointed as Director of the Freight SBU.

Dachi Tsaguria. Mr. Tsaguria was born in 1982 and graduated from the Faculty of History, of Ivane Javakhishvili Tbilisi State University, Georgia, with a bachelor's degree and a master's degree in History. Mr. Tsaguria began his career with the Passenger SBU in 2015 as Head of Department of Stimulating Sales and Service Development, and as Deputy Director for one year from 2016. Previously, Mr. Tsaguria served as Head of the Public Relations Department of the Company. He has served as Director of the Passenger SBU since 2018.

George Marukashvili. Mr. Marukashvili was born in 1981 and graduated from the Faculty of Energy of the Georgian Technical University, Georgia, with a bachelor's degree in electrical engineering. Mr. Marukashvili began his career as a Senior Duty Electric Installer at JSC Tbilsres Electrical Workshop from 2005 to 2008. He was then a shift manager at the same company from 2008 to 2010, and later served as the Head of the Electrical Workshop of the Thermal Power Plant of the Georgian International Energy Corporation Ltd. from 2012 to 2015. From 2015 to 2017, Mr. Marukashvili was the Head of Administration and Technical Manager at Mtkvari HPP Ltd. From May to November 2019, he served as Head of the Rail Department at the Company and he served as a Deputy Director of the Infrastructure SBU between November 2019 and April 2020. Mr. Marukashvili was appointed as Director of the Infrastructure SBU in May 2020.

The business address of each of the members of the Board of Directors is the registered office of the Company at 15, Tamar Mepe Avenue, Tbilisi 0112, Georgia.

Senior Management

The senior management of the Company is comprised of the members of the Board of Directors.

Corporate Governance

Georgia has not adopted a code of corporate governance and, therefore, the Company is not subject to the requirements of any national corporate governance rules. Furthermore, as a company incorporated in Georgia, the Company is not subject to the U.K. Corporate Governance Code issued by the Financial Reporting Council.

As a matter of best practice, however, the Company has adopted and complies with certain corporate governance structures and procedures, including the appointment of independent directors to its Supervisory Board.

In September 2011, the Supervisory Board established the Audit Committee, which is an advisory body of and reports to the Supervisory Board. Currently, the only member of the Audit Committee is Clifford S. Isaak, who serves as the Chairman and is an independent member.

Also in September 2011, the Supervisory Board established the Nomination Committee and the Remuneration Committee. However, currently there are no members of either committee.

The Remuneration Committee comprises three members from among, and selected by, the Supervisory Board on the recommendation of the Nomination Committee. At least one member of the Remuneration Committee shall be an independent member of the Supervisory Board. Appointments to the Remuneration Committee shall be for a period of up to three years, which may be extended by two further three-year periods, provided the member still meets all criteria for membership. The Remuneration Committee is responsible for, among other matters:

- reviewing, considering and agreeing proposals and providing recommendations in relation to the Company's framework and policy regarding the remuneration of certain members of the Supervisory Board, Board of Directors and other senior management;

- approving the terms of any service agreement to be entered into with any member of the Supervisory Board or Board of Directors, as well as certain terms of employment and employment contracts;

- preparing remuneration reports;

- conducting certain functions in relation to any schemes of performance-related remuneration, share incentive plans, pensions, bonus and other incentive schemes; and

- other matters as contained in the Remuneration Committee's terms of reference or as referred to it by the Supervisory Board.

Other Arrangements

The Company also has its own internal audit department with its own personnel, separate from the Company's financial departments, which reports to the Audit Committee as well as directly to the Board of Directors. In addition, the Company has established a department of Control, Monitoring and Inspection, which controls, monitors and inspects the accuracy of operational activities throughout the Company. The Company has also established the HSE Division, which operates under the Corporate Management Department. The HSE Division monitors and reports on all occupational safety and environmental issues within the Company and co-ordinates with State authorities. In addition, the Company's Traffic Safety Unit monitors rail traffic safety matters.

Compensation

The aggregate amount of remuneration paid by the Company to members of its Supervisory Board, Board of Directors and its senior management for services in all capacities provided to the Company and its subsidiaries during the years ended 31 December 2020, 2019 and 2018 was GEL 0.9 million, GEL 1.0 million and GEL 1.1 million, respectively.

There are no amounts set aside or accrued by the Company or its subsidiaries to provide pension, retirement or other benefits to such persons. See "*Description of the Company's Business—Employees and Pensions*"

Interests of the Members of the Supervisory Board, the Board of Directors and Senior Management

There are no actual or potential conflicts of interest between any duties owed by members of the Supervisory Board, the Board of Directors or the Company's senior management to the Company and their private interests or other duties.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes, which, subject to amendment, will be endorsed on each Note Certificate and will (subject to the provisions thereof) apply to the Global Note.

The issue of the Notes was authorised by resolutions of the Board of Directors of JSC Georgian Railway (the "**Issuer**") passed on 13 April 2021 and 14 May 2021, by resolutions of the Supervisory Board of the Issuer passed on 16 April 2021 and 21 May 2021 and by resolutions of the Issuer's sole shareholder passed on 28 April 2021 and 21 May 2021. A fiscal agency agreement to be dated 17 June 2021 (the "**Fiscal Agency Agreement**") will be entered into in relation to the Notes between the Issuer, Citibank, N.A., London Branch, as fiscal agent and a paying and transfer agent and Citigroup Global Markets Europe AG, as registrar. The fiscal agent, the paying and transfer agents and the registrar for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Paying and Transfer Agents**" and the "**Registrar**". The expression "**Paying and Transfer Agents**" shall include the Fiscal Agent. The Fiscal Agency Agreement includes the form of the Notes. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying and Transfer Agents. The holders of Notes (the "**Noteholders**") are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

1. Form, Denomination, Title and Status

(a) **Form and denomination**: The Notes are in registered form, serially numbered and in principal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**authorised denomination**").

(b) **Title**: Title to the Notes will pass by transfer and registration as described in Condition 2 (*Registration and Transfer of Notes*). The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as appropriate) or anything written on it or on the certificate in respect of it (other than a duly executed transfer thereof)) and no person will be liable for so treating the holder. For this purpose, "holder" shall mean the person in whose name a Note is registered in the Register (as defined in Condition 2(a) (*Registration*)).

(c) **Status**: The Notes constitute direct, unconditional, general and (subject to Condition 3 (*Covenants*)) unsecured obligations of the Issuer and rank, and shall at all times rank, *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3 (*Covenants*), at all times rank equally in all respects with all other present and future unsecured obligations of the Issuer.

2. Registration and Transfer of Notes

(a) **Registration**: The Issuer will cause a register (the "**Register**") to be kept at the specified office of the Registrar outside the United Kingdom on which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and of all transfers and redemptions of Notes.

(b) **Transfer**: Notes may, subject to the terms of the Fiscal Agency Agreement and to *Conditions 2(c)* and 2*(d)*, be transferred in whole or in part in an authorised denomination by lodging the relevant Note (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying and Transfer Agent.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days (as defined in Condition6(d) (*Business day*)), in the place of the specified office of the Registrar, of any duly made application for the transfer of a Note, deliver a new Note to the transferee (and, in the case of a transfer of part only of a Note, deliver a Note for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Note by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(c) **Formalities free of charge**: Any such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(d) **Closed Periods**: Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) (i) during the period of 15 calendar days ending on and including the day immediately prior to 17 June 2028 (the "**Final Maturity Date**"); or (ii) during the period of seven calendar days ending on (and including) any Record Date (as defined in Condition 6(a) (*Method of payment*)) in respect of any payment of interest on the Notes) (each, a "**Closed Period**").

3. Covenants

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement):

(a) **Negative pledge**: The Issuer will not, and will ensure that no Material Subsidiary will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security Interest**") (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Financial Indebtedness, or any guarantee of or indemnity in respect of any Financial Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Notes (i) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders;

(b) **Reorganisation etc.**:

(i) the Issuer shall not, directly or indirectly, in a single transaction or a series of related transactions, enter into (and shall ensure that no Material Subsidiary enters into) any reorganisation (as such term may be construed for the purposes of the laws of Georgia or, in case of a Material Subsidiary, any other laws under which any such Material Subsidiary may be incorporated) by any method or procedure for reorganisation contemplated, or as may be contemplated from time to time, by the laws of Georgia or such other laws; or participate in any other type of corporate reconstruction, or sell, lease, transfer, convey or otherwise dispose of all or substantially all of the assets of the Issuer or a Material Subsidiary, (in each case, a "**Reorganisation**"), if any such Reorganisation could reasonably be expected to be materially prejudicial to the interests of the Noteholders.

(ii) Condition 3(b)(i) above shall not apply to a Permitted Reorganisation, provided that:

(A) the resulting, surviving or transferee Person, if not the Issuer, will expressly assume, by supplemental Fiscal Agency Agreement, executed and delivered to the Fiscal Agent, all the obligations of the Issuer under the Notes and the Fiscal Agency Agreement; and

(B) any Person who becomes a Material Subsidiary as a result of such Reorganisation (each, a "**Guarantor**") shall, as soon as practicable (but in any event no later than 90 calendar days), enter into a deed poll (each, a "**Guarantee**") pursuant to which it unconditionally and irrevocably guarantees the payment of all sums payable under the Notes and the Fiscal Agency Agreement; and

(C) such Reorganisation could not reasonably be expected to result in a Material Adverse Effect;

(c) **Financial statements**: (i) within 180 days of its most recent financial year-end, the Issuer shall publish on its website a copy of its audited annual consolidated financial statements for each such financial year, together with the report thereon by the Issuer's independent auditors, (ii) within 90 days of the end of the first six months of each of its financial years the Issuer shall publish on its website a copy of its unaudited interim consolidated financial statements as at, and for such six month interim period, certified by two directors of the Issuer as presenting fairly the financial position of the Issuer and its consolidated subsidiaries as at the relevant date, and the results of operations and changes in financial position of the Issuer and its consolidated subsidiaries for the relevant period then ended, each prepared and presented in accordance with International Financial Reporting Standards ("**IFRS**") (as issued by the International Accounting Standards Board), consistently applied;

(d) **Incurrence of Financial Indebtedness**: The Issuer will not, and will not permit any Subsidiary to, Incur, directly or indirectly, any Financial Indebtedness; *provided, however,* that the Issuer and any Subsidiary will be entitled to Incur Financial Indebtedness if:

(i) after giving effect to such Incurrence and the application of the proceeds thereof, on a *pro forma* basis, no Event of Default would occur or be continuing; and

(ii) the ratio of Net Financial Indebtedness of the Issuer and its Subsidiaries as of the date of such Incurrence (for this purpose "**the date of determination**"), after giving effect to such Incurrence and the application of the proceeds thereof, on a *pro forma* basis, to the aggregate amount of EBITDA for the most recent two consecutive semi-annual periods ending prior to the date of such determination for

which the Issuer's consolidated financial statements prepared in accordance with the IFRS are available (the "**Measurement Period**"), does not exceed 3.5 to 1.

For purposes of calculating the ratio described in this Condition 3(d) (*Incurrence of Financial Indebtedness*):

(i) if, since the beginning of the relevant Measurement Period, acquisitions that have been made by the Issuer or any Subsidiary, including through mergers or consolidations and including any related financing transactions (including, without limitation, any acquisition giving rise to the need to make such calculation as a result of the Incurrence of Financial Indebtedness) EBITDA for such Measurement Period shall be calculated after giving pro forma effect thereto as if such acquisition had occurred on the first day of such Measurement Period;

(ii) if, since the beginning of the relevant Measurement Period, the Issuer shall have made any Asset Disposition, EBITDA for such Measurement Period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such Measurement Period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such Measurement Period, in each case as if such Asset Disposition had occurred on the first day of such Measurement Period;

provided, however, that (x) any such pro forma EBITDA in respect of an acquisition may only be so included in the calculation of EBITDA if such pro forma EBITDA shall have been derived from financial statements of, or relating to or including, such acquired entity, and (y) such financial statements have been prepared in accordance with IFRS, U.S. GAAP or any body of accounting principles that has been determined by the EU to be equivalent to IFRS (without regard to any modification to such principles that may be required after the date of such financial statements in connection with or pursuant to such determination).

(e) **Permitted Incurrence:** Condition 3(d) (*Incurrence of Financial Indebtedness*) will not prohibit the Incurrence of any of the following items of Financial Indebtedness:

(i) refinancing (including successive refinancing) of Financial Indebtedness of the Issuer or any Subsidiary outstanding on the Issue Date (including the Notes) or permitted to be Incurred under Condition 3(d) (*Incurrence of Financial Indebtedness*) above; provided that the aggregate principal amount thereof is not thereby increased by more than the fees and expenses incurred or to be incurred by the Issuer or such Subsidiary in connection with such refinancing plus the amount of any premium paid or to be paid in connection with such refinancing;

(ii) inter-company Financial Indebtedness (A) between the Issuer and any Subsidiary and (B) between any Subsidiary and another Subsidiary; provided, however, that any subsequent issuance or transfer of any Capital Stock which results in any such Subsidiary ceasing to be a Subsidiary or any subsequent disposition, pledge or transfer of such Financial Indebtedness (other than to the Issuer or a Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Financial Indebtedness by the obligor in respect thereof;

(iii) Financial Indebtedness arising out of interest rate agreements or currency hedging agreements for the benefit of the Issuer or any Subsidiary; provided that such interest rate agreements do not exceed the aggregate principal amount of the related Financial Indebtedness and such currency hedging agreements do not increase the obligations of the Issuer or any Subsidiary other than as a result of fluctuations in interest or foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;

(iv) Financial Indebtedness in respect of all Project Financings in an aggregate amount not to exceed U.S.$15,000,000 (or its equivalent in other currencies, calculated at the time of incurrence) at any time outstanding; and

(v) all additional Financial Indebtedness, not covered by (i) to (iv) (inclusive) above, in an aggregate amount not to exceed U.S.$20,000,000 (or its equivalent in other currencies, calculated at the time of incurrence) at any time outstanding (and excluding any accrued but unpaid interest, fees and/or reimbursable expenses, which may be owing in connection therewith, whether or not added to the principal amount of such Financial Indebtedness at any one time Incurred); for the avoidance of doubt, it being understood that the Issuer or any Subsidiary may repay, prepay, redeem or otherwise retire Financial Indebtedness Incurred pursuant to this paragraph (v) at any time.

(f) **Limitation on Restricted Payments**:

(i) Subject as provided below, the Issuer will not, directly or indirectly:

(A) declare or pay any dividend, in cash or otherwise, or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital; or

(B) voluntarily purchase, redeem or otherwise retire for value any of its share capital or subordinated debt,

(any such action, a "**Restricted Payment**").

(ii) Notwithstanding the foregoing, and subject as further provided below, the Issuer may make a Restricted Payment if, at the time of the relevant declaration or payment of a dividend or making of a distribution, as the case may be (A) no Event of Default, or condition, event or act, which, with the lapse of time, the expiry of any grace period or the issue, making or giving of any notice, certification, declaration, demand, determination or request or the taking of any similar action or the fulfilment of any similar condition, would constitute an Event of Default, has occurred or would result from the making of such Restricted Payment and (B) the aggregate amount of such Restricted Payment and all (if any) other Restricted Payments made since the Issue Date would not exceed 50% of the aggregate amount of the Issuer's consolidated profit and total comprehensive income for each financial year ended since the Issue Date for which financial statements have been delivered pursuant to Condition 3(c) (*Financial Statements*), in each case, as determined by reference to the Issuer's audited consolidated financial statements prepared under IFRS for the relevant financial year and calculated on a cumulative basis for all such years.

(iii) Nothing herein shall limit the declaration or payment of any dividend or the making of any other distribution by the Issuer (A) in respect of the distribution by the Issuer to Georgia or entities owned by Georgia of any land plots provided that the distribution of such land plots has a net positive or neutral effect on the business, condition (financial or otherwise), results of operations or prospects of the Issuer and the Issuer and its Subsidiaries taken as a whole; (B) in respect of any preferred stock, which may be issued by the Issuer from time to time; or (C) in respect of any share capital of the Issuer made out of the net cash proceeds of any substantially concurrent sale of, or by issuance of, share capital of the Issuer (other than share capital issued or sold to a Subsidiary or an employee stock ownership plan or to a trust established by the Issuer or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution to the share capital of the Issuer.

(iv) The Issuer will not permit any Material Subsidiary to declare or pay any dividend, in cash or otherwise or make any other distribution as is described in paragraph (i) above in respect of any class of share capital of such Material Subsidiary unless such dividend or distribution, as the case may be, is made on a pro rata basis to holders of such class of share capital or such dividend is declared or paid or such distribution is made, as the case may be, on a basis that results in the Issuer or another Material Subsidiary receiving a greater amount by way of such dividend or other distribution, as the case may be, than it would have received if the dividend had been paid or distribution made, as the case may be, on a pro rata basis.

(v) For the purpose of this Condition 3(f) (*Limitation of Restricted Payments*), the amount of any dividend declared or paid or other distribution made, other than in cash, which is to be taken into account in any calculation required hereunder, shall be the fair market value as determined in good faith by the board of directors of the Issuer of such dividend or distribution, as the case may be, assuming (to the extent applicable in the circumstances of the relevant payment or other distribution) it was the subject of an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy.

(g) **Environmental compliance**: The Issuer shall, and shall cause its Subsidiaries to comply in all respects with all applicable Environmental Laws and obtain and maintain any Environmental Licence, save to the extent that such failure to do so would not reasonably be expected to have a material adverse effect on the business, condition (financial or otherwise), results of operations or prospects of the Issuer or the Issuer and its Subsidiaries taken as a whole.

For the purposes of these Conditions:

(i) "**Asset Disposition**" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Issuer or any Subsidiary of the Issuer, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "**disposition**"), of:

(A) any Capital Stock of a Subsidiary of the Issuer;

(B) all or substantially all the assets of any division or line of business of the Issuer or any Subsidiary of the Issuer; or

(C) any other assets of the Issuer or any Subsidiary of the Issuer outside of the ordinary course of business of the Issuer or such Subsidiary of the Issuer,

(ii) "**Available Credit Facilities**" means, as at any date of determination, the amount available to be drawn by the Issuer under any committed credit facility available to it as at such date;

(iii) "**Capital Stock**" of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity;

(iv) "**Cash**" means, as at any date of determination, the amount of cash and cash equivalents of the Issuer at such date;

(v) "**EBITDA**" means, for any period the profit before income tax for such period minus (i) net finance income, plus (ii) depreciation and amortisation and excluding (iii) impairment reversals/(losses), in each case for such period and on a consolidated basis and, to the extent provided in Condition 3(d) (*Incurrence of Financial Indebtedness*), calculated in accordance with IFRS;

(vi) "**Environment**" means living organisms including the ecological systems of which they form part and the following media:

(A) air (including air within natural or man-made structures, whether above or below ground);

(B) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and/or

(C) land (including land under water);

(vii) "**Environmental Law**" means all applicable laws and regulations of the jurisdiction in which the Issuer and/or its Subsidiaries is incorporated which:

(A) have as a purpose or effect the protection of, and/or prevention of harm or damage to, the Environment;

(B) provide remedies or compensation for harm or damage to the Environment; and

(C) relate to Hazardous Substances or health or safety matters;

(viii) "**Environmental Licence**" means any authorisation, consent, approval, resolution, licence, exemption, filing or registration required at any time under Environmental Law in order to conduct business;

(ix) "**Financial Indebtedness**" means:

(A) any present or future indebtedness for moneys borrowed or raised (whether or not evidenced by bonds, debentures, notes or other similar instruments);

(B) any amount raised under any acceptance credit facility;

(C) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(D) the amount of any liability in respect of any lease or hire purchase contract, which would in accordance with IFRS be treated as a balance sheet liability;

(E) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(F) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of borrowing, which is treated as an obligation in accordance with IFRS;

(G) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

(H) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in items (A) to (G) inclusive above;

(x) "**Hazardous Substance**" means any waste, pollutant, contaminant or other substance (including any liquid, solid, gas, ion, living organism or noise) that may be harmful to human health or other life or the Environment or a nuisance to any person;

(xi) "**Hedging Obligations**" means, with respect to the Issuer or any Material Subsidiary, the obligations of such entity pursuant to:

(A) any interest rate swap agreement, interest rate cap agreement or interest rate collar agreement or any other agreement or arrangement designed to protect such entity against fluctuations in interest rates; or

(B) any foreign currency futures contract or option agreement or any other agreement or arrangement designed to protect such entity against fluctuations in foreign currency rates;

(xii) "**Incur**" means issue, assume, guarantee, incur or otherwise become liable for; *provided, however,* that any Financial Indebtedness of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Subsidiary. The term "**Incurrence**" when used as a noun shall have the corresponding meaning. Solely for purposes of determining compliance with Condition 3(d) (*Incurrence of Financial Indebtedness*):

(A) amortisation of debt discount or the accretion of principal with respect to a non interest-bearing or other discount security;

(B) the payment of regularly scheduled interest in the form of additional Financial Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and

(C) the obligation to pay a premium in respect of Financial Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Financial Indebtedness,

will not be deemed to be the Incurrence of Financial Indebtedness;

(xiii) "**Issue Date**" means 17 June 2021;

(xiv) "**Material Adverse Effect**" means a material adverse effect on:

(A) the condition (financial or other), prospects, results of operations, assets or properties of the Issuer, any of its Material Subsidiaries or the Issuer and its Subsidiaries taken as a whole;

(B) the Issuer's ability to perform its obligations under the Notes or any Guarantor's (if any) ability to perform its obligations under the relevant Guarantee; or

(C) the validity, legality or enforceability of the Notes or a Guarantee;

(xv) "**Material Subsidiary**" means, at any time, any Subsidiary:

(A) whose total assets exceed 10% of the consolidated total assets of the Issuer; or

(B) whose total revenues exceed 10% of the consolidated total revenues of the Issuer,

save that each Guarantor shall at all times be deemed to be a Material Subsidiary.

For these purposes:

(A) all calculations shall be determined in accordance with IFRS in the preparation of:

(i) the then latest annual audited consolidated financial statements of the relevant Subsidiary (in the case of a Subsidiary preparing consolidated financial statements) or the then latest annual audited non-consolidated financial statements of the relevant Subsidiary (in the case of a Subsidiary preparing non-consolidated financial statements); and

(ii) the then latest annual audited consolidated financial statements of the Issuer;

(B) upon a Material Subsidiary transferring all or substantially all of its assets or business to another Subsidiary, the transferor shall cease to be a Material Subsidiary on the effective date of such transfer and thereupon the transferee shall be deemed to be a Material Subsidiary until the date of its next annual audited consolidated financial statements or, as the case may be, annual audited non-consolidated financial statements, after which whether it is or is not a Material Subsidiary shall be determined in accordance with paragraphs (A) and (B) above; and

(C) subject to paragraph (B) above, if, as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, a company, which satisfied either of the tests set forth in paragraphs (A) or (B) above immediately before such transfer, reconstruction,

amalgamation, reorganisation, merger or consolidation, no longer satisfies either such test immediately after such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, such company shall immediately cease to be a Material Subsidiary;

(xvi) "**Net Financial Indebtedness**" means, as at any date of determination and with respect to any Person, the aggregate amount of Financial Indebtedness less (A) Cash and (B) Available Credit Facilities, in each case of such Person and as of such date;

(xvii) "**Permitted Reorganisation**" shall mean any Reorganisation of the Issuer for the purposes of complying with the requirements of Directive 2012/34 of the European Parliament and of the Council of 21 November 2012 establishing a single European rail area (recast) and relevant implementing legislation in Georgia;

(xviii) "**Permitted Security Interest**" means:

(A) any Security Interest outstanding as of the Issue Date;

(B) any Security Interest granted in favour of the Issuer by any Material Subsidiary;

(C) any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies;

(D) any Security Interest upon assets created for the purpose of financing the acquisition of such assets;

(E) any Security Interest existing on assets at the time of their acquisition or securing Financial Indebtedness of a person existing at the time that such person is merged into or consolidated with the Issuer or becomes a Material Subsidiary, provided that such Security Interest (x) was not created in contemplation of such acquisition, merger or consolidation or event and (y) in the case of a merger or consolidation, does not extend to any assets or property of the Issuer or any Material Subsidiary, as the case may be (other than those of the person acquired and its subsidiaries (if any));

(F) any Security Interest created for the purpose of any Project Financing provided that such Security Interest is upon (x) assets which are the subject of such Project Financing and (y) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or failure to complete, or damage to, such assets;

(G) any Security Interest granted pursuant to Hedging Obligations of the Issuer or a Material Subsidiary;

(H) any right of set-off, a right to combine accounts or any analogous right, which any bank or other financial institution may have relating to any credit balance of the Issuer or any Material Subsidiary;

(I) any Security Interest incurred, or pledge and deposit in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of substantially similar nature in the ordinary course of business;

(J) any Security Interest for ad valorem, income or property taxes or assessments and similar charges, which either is not delinquent or is being contested in good faith by appropriate proceedings for which the Issuer has set aside on its books reserves to the extent required by IFRS;

(K) any easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, minor defect or irregularity in title and other similar charge or encumbrance, and any Security Interest arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Issuer or any Material Subsidiary and existing, arising or incurred in the ordinary course of business;

(L) any Security Interest not otherwise permitted by the preceding paragraphs (A) to (K) (inclusive), provided that the aggregate principal amount of the Financial Indebtedness secured by such Security Interest does not at any time exceed the greater of U.S.$30,000,000 or 5% of the consolidated total assets of the Issuer, as determined by reference to the consolidated balance sheet of the Issuer prepared in accordance with IFRS; or

(M) the renewal or extension of any Security Interest described in the preceding paragraphs (A) to (L) (inclusive), provided that (x) the principal amount of the Financial Indebtedness secured thereby is not increased, (y) such renewal or extension shall be no more restrictive than the

original Security Interest and (z) the Security Interest has not been extended to any additional assets;

(xix) "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality;

(xx) "**Preferred Stock**" of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of any other class of Capital Stock of such Person;

(xxi) "**Project Financing**" means any arrangement for the provision of funds which are to be used solely to finance the acquisition, construction, development or exploitation of any assets pursuant to which the persons providing such funds agree that the principal source of repayment of such funds will be the project and the revenues (including insurance proceeds) generated by such project;

(xxii) "**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with IFRS to be fully consolidated with those of the Issuer.

4. Interest

Each Note bears interest from and including the Issue Date at the rate of 4.00% *per annum* payable semi-annually in arrear in equal instalments of U.S.$20.00 per U.S.$1,000 in principal amount of the Notes on 17 June and 17 December in each year (each, an "**Interest Payment Date**"), commencing on 17 December 2021. Each Note will cease to bear interest from and including the due date for redemption thereof unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) up to but excluding whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (ii) the day which falls seven days after the Fiscal Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Noteholders under these Conditions).

If interest is required to be calculated for a period of less than an Interest Period (as defined below), it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. The period beginning on and including the first Interest Payment Date and ending on but excluding the second Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

5. Redemption and Purchase

(a) **Redemption**: Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on the Final Maturity Date, together (if applicable) with interest accrued and unpaid to but excluding the Final Maturity Date.

(b) **Redemption at the Option of the Issuer at Make Whole:** The Notes may be redeemed at any time prior to the date falling three months prior to the Final Maturity Date at the option of the Issuer in whole, but not in part, on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall specify the date fixed for prepayment (the "**Make Whole Optional Prepayment Date**")) at a price equal to 100% of their principal amount, plus the Make Whole Premium, plus accrued and unpaid interest, if any, to (but excluding) the Make Whole Optional Prepayment Date.

(c) **Optional Redemption at Par:** The Issuer may, at any time on or after the date three months prior to the Final Maturity Date, having given not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (which notice may be given prior to the date that is three months prior to the Final Maturity Date and shall specify the date fixed for redemption (the "**Par Optional Redemption Date**")) in accordance with Condition 13 (*Notices*), redeem the Notes in whole but not in part, at the principal amount thereof, together with interest accrued and unpaid (if any) to but excluding the Par Optional Redemption Date.

(d) **Redemption at the Option of Noteholders (Put Option)**: If a Change of Control Event (as defined below) occurs, the Issuer shall, at the option of the holder of any Note, upon the holder of such Note giving notice to the Issuer as provided in Condition 5(e) (*Change of Control Notice*) at any time during the Redemption Period, redeem such Note on the Redemption Date at its principal amount together (if applicable) with interest accrued and unpaid to but excluding the Redemption Date.

(e) **Change of Control Notice**: Immediately upon the Issuer becoming aware that a Change of Control Event has occurred, the Issuer shall give notice (a "**Change of Control Notice**") to the Noteholders in accordance with

Condition 13 (*Notices*) specifying the nature of the Change of Control Event and the procedure for exercising the put option contained in Condition 5(d) (*Redemption at the Option of Noteholders (Put Option)*).

To exercise the put option pursuant to Condition 5(d) (*Redemption at the Option of Noteholders (Put Option)*), a holder must deposit the certificate representing the Note(s) to be redeemed with the Registrar or any Paying and Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying and Transfer Agent or the Registrar within the Redemption Period. An Exercise Notice, once given, shall be irrevocable.

If 90% or more in principal amount of the Notes then outstanding has been redeemed pursuant to Condition 5(d) (*Redemption at the Option of Noteholders (Put Option)*), the Issuer may, on not less than 30 or more than 60 days' notice to the Noteholders given within 30 days after the Redemption Date, redeem, at its option, the remaining Notes as a whole at their principal amount, together with interest accrued and unpaid to but excluding the date of such redemption. Such notice to the Noteholders shall specify the date fixed for redemption, the redemption price and the manner in which redemption will be effected.

For the purpose of this Condition 5 (*Redemption and Purchase*):

(i) a "**Change of Control Event**" will be deemed to have occurred if at any time Georgia ceases to own, directly or indirectly, 100% of the issued share capital of the Issuer or otherwise ceases to control, directly or indirectly, the Issuer. For the purpose of this Condition, Georgia will be deemed to "control" the Issuer if (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) it or its government (or any entity controlled by its government) has the power to appoint and/or remove the majority of the members of the board of directors or other governing body of the Issuer or otherwise controls, or has the power to control, the affairs and policies of the Issuer;

(ii) "**Determination Agent**" means an internationally recognised financial adviser or bank which is independent of the Issuer appointed by the Issuer for the purpose of determining the Make Whole Premium;

(iii) "**Make Whole Premium**" means, with respect to a Note at any time as determined by the Determination Agent, the excess of (a) the present value of the Notes at the Make Whole Optional Prepayment Date, plus any required interest payments that would otherwise be due to be paid on such Notes from the Make Whole Optional Prepayment Date through to the date falling three months prior to the Final Maturity Date calculated using a discount rate equal to the Treasury Rate at the Make Whole Optional Prepayment Date plus 50 basis points, over (b) the outstanding aggregate principal amount of the Notes at the Make Whole Optional Prepayment Date, provided that if the value of the Make Whole Premium at any time would otherwise be less than zero, then in such circumstances, the value of the Make Whole Premium will be equal to zero, all as determined by the Determination Agent;

(iv) "**Redemption Date**" means, in respect of any Note, the date which falls 14 days after the date on which the relevant holder exercises its option in accordance with this Condition 5 (*Redemption and Purchase*);

(v) "**Redemption Period**" means the period from and including the date on which a Change of Control Event occurs (whether or not the Issuer has given a Change of Control Notice in respect of such event) to and including the date falling 60 days after the date on which such Change of Control Notice is given, provided that if no Change of Control Notice is given, the Redemption Period shall not terminate;

(vi) "**Treasury Rate**" means the average of the yields on actively traded United States Treasury Securities adjusted to constant maturity for the most recent five business days with a constant maturity most nearly equal to the period from the Make Whole Optional Prepayment Date to the date falling three months prior to the Final Maturity Date. The Determination Agent will determine such average of the yields to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 which has become publicly available closest in time but prior to the close of business on the Make Whole Optional Prepayment Date (or, if such statistical release is not so published or available, any publicly available source of similar market data selected by the Determination Agent in good faith); provided, however, that if the period from the Make Whole Optional Prepayment Date to the date falling three months prior to the Final Maturity Date is not equal to the constant maturity of a United States Treasury Security for which an average of the yields for the most recent five business days is derivable, the Treasury Rate shall be obtained by the Determination Agent by linear interpolation (calculated to the nearest one-twelfth of a year) from the average of the yields of United States Treasury Securities for the most recent five business days for which such yields are derivable, except that if the period from the Make Whole Optional Prepayment Date to the date falling three

months prior to the Final Maturity Date is less than one year, the average of the yields on actually traded United States Treasury Securities for the most recent five business days adjusted to a constant maturity of one year shall be used by the Determination Agent; and

(vii) "**United States Treasury Security**" means a security that is a direct obligation of the United States Treasury, issued other than on a discount rate basis.

(f) **Purchase**: The Issuer or any Subsidiary may at any time purchase Notes in the open market or otherwise at any price. Any Notes so purchased, while held by or on behalf of the Issuer or any Subsidiary, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders or for any other purpose pursuant to *Conditions* 8 or 11.

(g) **Cancellation**: All Notes purchased by or on behalf of the Issuer or any Subsidiary may be cancelled or held and resold, provided that any Notes so purchased, while held by or on behalf of the Issuer or any Subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders. Any Notes so purchased and cancelled may not be re-issued or resold.

6. Payments

(a) **Method of payment**: Payment of principal in respect of the Notes will be made to the persons shown in the Register at the close of business on the Record Date and subject to the surrender of the Notes at the specified office of any Paying and Transfer Agent. Payments of interest will be made to the persons shown in the Register at close of business on the relevant Record Date. For this purpose, "**Record Date**" means the seventh business day, in the place of the specified office of the Registrar, before the due date for the relevant payment. Each such payment will be made by transfer to a U.S. dollar account maintained by the payee with a bank in outside the United States.

(b) **Payments subject to fiscal laws**: All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Delay in payment**: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day or (ii) if the holder is late in surrendering (where so required) the relevant Note(s).

(d) **Business day**: In these Conditions "**business day**" means a day on which commercial banks and foreign exchange markets are open in the relevant city and (where such surrender is required by these Conditions) in the place of the specified office of the relevant Paying and Transfer Agent to whom the relevant Note is surrendered.

(e) **Paying and Transfer Agents**: The initial Registrar and Paying and Transfer Agent and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying and Transfer Agent and/or the Registrar and appoint additional or other Paying and Transfer Agents, provided that it will maintain a Registrar and a Fiscal Agent.

7. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Georgia or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) **Other connection:** to a holder, or to a third party on behalf of a holder, who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Georgia other than the mere holding of the Note; or

(b) **Provision of information:** to or on behalf of a holder who is able to avoid such taxes, duties, assessments or governmental charges in respect of such Note by providing information concerning the nationality, residence or identity of the holder or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or

(c) **Surrendered for payment more than 30 days after the Relevant Date:** surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrender of such Note for payment on the last day of such period of 30 days.

Notwithstanding anything to the contrary in the preceding paragraphs, none of the Issuer or any Paying and Transfer Agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 to 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the U.S. and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

In these Conditions "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent as provided in the Fiscal Agency Agreement on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders.

Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition 7 (*Taxation*). If the Issuer becomes subject in respect of payments of principal or interest on the Notes to any taxing jurisdiction other than (or in addition to) Georgia, references in these Conditions to Georgia shall be construed as references to such other jurisdiction.

8. Events of Default

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) **Non-payment**: the Issuer fails to pay any amount of interest or principal on any of the Notes when due and such failure continues for a period of 10 days (in the case of interest) or 7 days (in the case of principal); or

(b) **Breach of other obligations**: the Issuer does not perform or comply in any material respect with any one or more of its other obligations in the Notes, which default is incapable of remedy or if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer (with a copy to the Fiscal Agent at its specified office) by any Noteholder; or

(c) **Cross-acceleration**: (i) any Financial Indebtedness of the Issuer or any Subsidiary becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any Financial Indebtedness of the Issuer or any Subsidiary is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Financial Indebtedness of any other person, *provided that* the aggregate amount of any Financial Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or any material part of the property, assets or revenues of the Issuer or any Material Subsidiary and is not discharged or stayed within 60 days; or

(e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary over all or any material part of the property, assets or revenues of the Issuer or such Material Subsidiary, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged within 60 days; or

(f) **Insolvency:** the Issuer or any Material Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts or proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of all or a material part of its debts; or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or any Material Subsidiary; or

(g) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any Material Subsidiary, or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary; or

(h) **Performance prevented:** it is or will become unlawful for the Issuer or a Guarantor to perform or comply with any of its material obligations under or in respect of the Notes, the Fiscal Agency Agreement or a Guarantee or any of such obligations shall be or become unenforceable or invalid; or

(i) **Guarantee**: a Guarantee is not (or is claimed by the Issuer or any Guarantor, or any Person acting on behalf of the Issuer or any Guarantor, not to be) in full force and effect in accordance with its terms; or

(j) **Consents etc.:** any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to perform its material obligations under the Notes or the Fiscal Agency Agreement or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified in a manner which adversely affects any right or claim of any of the Noteholders in respect of any payment due to them pursuant to these Conditions; or

(k) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 8 (*Events of Default*),

then the holders of at least 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer at its registered office (with a copy to the Fiscal Agent), declare all the Notes to be, and whereupon they shall become, immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Fiscal Agent (acting on behalf of the Issuer) in accordance with Condition 13 (*Notices*).

9. Prescription

Claims in respect of principal and interest shall be prescribed and will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10. Replacement of Notes

If any Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent, subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

11. Meetings of Noteholders, Written Resolutions

(a) **Meetings of Noteholders**: The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including (subject to Condition 11(c) (*Written Resolutions*) below) the modification of any provision of these Conditions or the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by the Issuer or the Fiscal Agent in its discretion and shall be convened by the Issuer or the Fiscal Agent at any time upon the request in writing of holders of at least 10% of the aggregate principal amount of the outstanding Notes. For the avoidance of doubt, notwithstanding any provision contained in these Conditions, the Notes or in the Fiscal Agency Agreement, no modification or amendment of these Conditions, the Notes or the Fiscal Agency Agreement may be made without the prior written consent of the Issuer.

(b) **Quorum**: The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding or for any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of or interest on or to vary the method of calculating the rate of interest on, the Notes, (iii) to change the currency of payment of the Notes, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than 25%, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

(c) **Written Resolutions:** The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75% in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. Notwithstanding any provision contained in these

Conditions or in the Fiscal Agency Agreement, no modification or amendment of these Conditions or the Fiscal Agency Agreement may be made without the prior written consent of the Issuer.

(d) **Modification of these Conditions and the Fiscal Agency Agreement:** The **Notes, these Conditions and the provisions of the Fiscal Agency Agreement may be** amended without the consent of the Noteholders to correct a manifest error or to make any other modification of a minor or technical nature; provided that, for the avoidance of doubt, no modification or amendment of the Notes, these Conditions and the provisions of the Fiscal Agency Agreement may be made without the prior written consent of the Issuer and the Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, these Conditions, the Notes or the Fiscal Agency Agreement, if to do so could not reasonably be expected to be materially prejudicial to the interests of the Noteholders.

12. Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

*Any such further securities, even if they are treated for non-tax purposes as part of the same series as the Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the further securities may be considered to have been issued with original issue discount ("**OID**") even if the Notes had no OID. These differences may affect the market value of the Notes if the further securities are not otherwise distinguishable from the Notes.*

13. Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the London Stock Exchange plc, notices will be published in a manner which complies with the rules and regulations of the London Stock Exchange plc. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

14. Currency Indemnity

United States dollars (the "**Contractual Currency**") is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under any Note, the Issuer shall indemnify such recipient against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order, until paid in full.

15. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16. Governing Law

(a) **Governing law**: The Fiscal Agency Agreement, the Notes and any non-contractual obligations arising out of, or in connection with, them are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**: Any dispute arising out of or in connection with the Fiscal Agency Agreement and/or the Notes (including any dispute as to their existence, validity or termination or any non-contractual obligation arising out of or in connection with the Fiscal Agency Agreement, the Notes or this Condition 16 (*Governing Law*)) (a "**Dispute**") shall be referred to, and finally resolved by, arbitration under the Arbitration Rules of the London Court of International Arbitration (the "**LCIA**") (the "**Rules**") as at present in force and as modified by this Condition 16(b) (*Arbitration*), which Rules, as so modified, are deemed incorporated by reference into this Condition 16(b) (*Arbitration*). The number of arbitrators shall be three, one of whom shall be nominated by the claimant(s), one by the respondent(s) and the third of whom, who shall act as presiding arbitrator, shall be nominated by the two party-nominated arbitrators, provided that if the claimant(s) or respondents(s) fail to nominate an arbitrator within 30 days of receiving notice of the nomination of an arbitrator by the other party, or the party-nominated arbitrators fail to nominate a presiding arbitrator within 15 days of the nomination of the second party-nominated arbitrator, such arbitrator shall be appointed promptly by the LCIA Court. The seat, or legal place, of arbitration shall be London, England and the language of the arbitration shall be English. The parties exclude the jurisdiction of the courts under Sections 45 and 69 of the Arbitration Act 1996.

(c) **Agent for service of process**: The Issuer irrevocably appoints Law Debenture Corporate Services Limited of 8th Floor, 100 Bishopsgate, London EC2N 4AG as its agent in England to receive service of process in any Dispute in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer shall appoint a new agent for service of process in England and deliver to the Fiscal Agent a copy of the new agent's acceptance of that appointment within 30 days. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) **Waiver of immunity**: To the extent that the Issuer or any of its assets has (on the date of issue of the Notes), or thereafter may acquire, any right to immunity from set-off, legal proceedings, attachment prior to judgement, other attachment or execution of judgement on the grounds of sovereignty or otherwise, the Issuer, if and to the extent permitted by applicable laws, hereby irrevocably waives any such right to immunity and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever of any order, award or judgment made or given in connection with any Dispute.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM

The Global Notes

The Notes will be evidenced on issue, in the case of Unrestricted Notes, by the Unrestricted Global Note (which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg) and, in the case of Restricted Notes, by the Restricted Global Note (which will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC).

Beneficial interests in the Unrestricted Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Clearing and Settlement—Book-Entry Ownership*". By acquisition of a beneficial interest in an Unrestricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not located in the United States.

Beneficial interests in the Restricted Global Note may only be held through DTC at any time. See "*Clearing and Settlement—Book-Entry Ownership*". By acquisition of a beneficial interest in the Restricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it decides to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Fiscal Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Fiscal Agency Agreement, and with respect to Restricted Notes, as set forth in Rule 144A, and the Restricted Global Note will bear the legend set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*". A beneficial interest in the Unrestricted Global Note may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Note in denominations greater than or equal to the minimum denominations applicable to interests in the Restricted Global Note and only upon receipt by the Registrar of a written certification (in the form provided in the Fiscal Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note and in accordance with Regulation S.

A beneficial interest in the Unrestricted Global Note that is transferred to a person who takes delivery in the form of an interest in the Restricted Global Note will, upon transfer, cease to be an interest in the Unrestricted Global Note and become an interest in the Restricted Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in the Restricted Global Note for as long as it remains such an interest. A beneficial interest in the Restricted Global Note that is transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note will, upon transfer, cease to be an interest in the Restricted Global Note and become an interest in the Unrestricted Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in the Unrestricted Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of the definitive registered certificates ("**Note Certificates**"). No Notes will be initially issued in bearer form.

Legends

The holder of a Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Restricted Global Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Restricted Global Note, the Company will deliver only Note Certificates ("**Restricted Note Certificates**") that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Company and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Company that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Amendments to Terms and Conditions of the Notes

The Global Notes contain provisions that apply to the Notes that it evidences, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions.

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to the person who appears in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment as holder of the Notes against presentation for endorsement by the Fiscal Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Fiscal Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to a Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes. "**Clearing System Business Day**" for the purposes of this paragraph means Monday to Friday, inclusive, except 25 December and 1 January.

Notices

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes (and such notices will be deemed to have been given on the day following the date of delivery to the relevant clearing system or, if that is not a Clearing System Business Day, on the next succeeding Clearing System Business Day).

Meetings

The holder of a Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each integral U.S.$1,000 in principal amount of Notes.

Purchase and Cancellation

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the relevant Global Note. Notes may only be purchased by the Company or any of its Subsidiaries if they are purchased together with the right to receive all future payments of interest thereon.

Prescription

Claims against the Company in respect of principal and interest on the Notes whilst the relevant Notes are represented by a Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7 (*Taxation*) of the Notes).

Default

Each Global Note provides that the holder may cause the Global Note or a portion of it to become due and payable in the circumstances described in Condition 8 (*Events of Default*) of the Notes by stating in the notice to the Fiscal Agent the principal amount of Notes which is being declared due and payable. If principal in respect of any Note is not paid when due and payable, the holder of the Global Note may elect that the Global Note becomes void as to a specified portion and that the persons entitled to such portion, as accountholders with a clearing system, acquire direct enforcement rights against the Company under further provisions of the Global Note executed by the Company as a deed poll.

Put Option

The Noteholders' put option in Condition 5(b) (*Redemption at the Option of Noteholders (Put Option)*) of the Notes may be exercised by the holder of the relevant Global Note, giving notice to the Fiscal Agent of the principal amount of Notes in respect of which the option is exercised and presenting the relevant Global Note for endorsement of exercise within the time limits and in the circumstances specified in Condition 5(b) (*Redemption at the Option of Noteholders (Put Option)*).

Exchange for Note Certificates

Exchange

The Unrestricted Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates if: (i) it is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 calendar days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or (ii) if the Company would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 (*Taxation*) of the Notes, which would not be suffered were the Notes in definitive form, by the Company giving notice to the Registrar and the Noteholders, in each case of its intention to exchange interests in the Unrestricted Global Note for Note Certificates on or after the Exchange Date (as defined below) specified in the notice.

The Restricted Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates if (i) DTC or its successor depositary notifies the Company that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time unable to act as such, and the Company is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (ii) the Company would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 (*Taxation*) of the Notes, which would not be suffered were the Notes in definitive form, by the Company giving notice to the Registrar and the Noteholders, in each case, of its intention to exchange interests in the Restricted Global Note for Note Certificates on or after the Exchange Date (as defined below) specified in the notice.

"**Exchange Date**" means a day falling not later than 60 calendar days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Paying and Transfer Agent is located.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

Delivery

If any of the events described in "*—Exchange*" above occurs, the relevant Global Note shall be exchangeable in full but not in part for Note Certificates and the Company will, free of charge to the Noteholders (but against such indemnity as the Registrar or any relevant Paying and Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Note Certificates to be executed and delivered to the Registrar for completion and despatch to the relevant Noteholders. A person having an interest in the relevant Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Company and the Registrar may require to complete, execute and deliver such Note Certificates and (b) in the case of the Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Except as otherwise permitted, Note Certificates issued in exchange for an interest in the Restricted Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

CLEARING AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Company nor any other party to the Fiscal Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The Clearing Systems

Custodial and depositary links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "— *Book-Entry Ownership*" and "—*Settlement and Transfer of Notes*" below.

Investors may hold their interests in a Global Note directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other.

The Depository Trust Company

DTC has advised the Company as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Restricted Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Restricted Notes represented by the Restricted Global Note among Direct Participants on whose behalf it acts with respect to Restricted Notes and receives and transmits distributions of principal and interest on Restricted Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Independent Participants with which beneficial owners of Restricted Notes have accounts with respect to the Restricted Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their beneficial owners. Accordingly, although beneficial owners who hold Restricted Notes through Direct Participants or Indirect Participants will not possess Restricted Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Participants will receive payments and will be able to transfer their interest in respect of the Restricted Notes.

DTC has advised the Company that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Restricted Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Summary of the Provisions Relating to the Notes whilst in Global Form—Exchange for Note Certificates*", DTC will cause its custodian to surrender the Restricted Global Note for exchange for Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Payments through DTC

Payments of principal and interest in respect of a Global Note registered in the name of, or in the name of a nominee for, DTC will be made to the order of such nominee as the registered holder of such Note.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Unrestricted Global Note evidencing Unrestricted Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Restricted Global Note evidencing the Restricted Notes will have an ISIN, Common Code and a CUSIP number and will be deposited with the Custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for its share of each payment made by the Company to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Company expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant Clearing System with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant Clearing System or its nominee. The Company also expects that payments by Direct Participants in any Clearing System to owners of beneficial interests in any Global Note held through such Direct Participants in any Clearing System will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Company in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Company will be discharged by payment to the registered holder of such Global Note in respect of each amount so paid. None of the Company, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing System's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Notes, unless and until interests in any Global Note held within a Clearing System are exchanged for Note Certificates.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Restricted Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the Restricted Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to the certification procedures provided in the Fiscal Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date, Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Restricted Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Notes among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the Fiscal Agent or any other Paying and Transfer Agent will have any responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Settlement of Pre-issue Trades

It is expected that delivery of Notes will be made against payment therefor on the Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market are generally required to settle within two business days (T+2), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the relevant date of pricing and the Issue Date should consult their own advisers.

SUBSCRIPTION AND SALE

Each of Citigroup Global Markets Limited and J.P. Morgan Securities plc (together, the "**Joint Lead Managers and Bookrunners**"), Renaissance Securities (Cyprus) Limited and TBC Capital LLC (together, the "**Joint Lead Managers**" and, collectively with the Joint Lead Managers and Bookrunners, the "**Underwriters**") and JSC Galt & Taggart, as Co-Manager with no underwriting commitment (the "**Co-Manager**" and, collectively with the Underwriters, the "**Managers**"), has, in a subscription agreement dated 15 June 2021 (the "**Subscription Agreement**") and upon the terms and subject to the conditions contained therein, severally agreed to subscribe and pay for the aggregate principal amount of the Notes listed next to its name in the table below at the issue price of 100% of their principal amount.

Joint Lead Manager and Bookrunner	**Principal Amount of the Notes**
Citigroup Global Markets Limited	U.S.$250,000,000
J.P. Morgan Securities plc	U.S.$250,000,000
Total	**U.S.$500,000,000**

The Company has agreed to pay to the Managers a fee in respect of their agreement to subscribe and pay for the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes. The Company has in the Subscription Agreement agreed to indemnify the Managers against certain liabilities incurred in connection with the Notes.

Each of the Managers and its respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Company and its affiliates (including its shareholders) for which they will receive customary fees. If the Managers or their respective affiliates have a lending relationship with the Company, they will routinely hedge their credit exposure consistent with customary risk management policies. Typically, the Managers and their respective affiliates would hedge such exposure by entering into transactions, which consist of either the purchase of credit default swaps or the creation of short positions in the Company's securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Managers and their respective affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with the issue of the Notes, the Stabilising Manager (or any person acting for the Stabilising Manager) may over-allot notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the initial allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Certain Investors

EBRD

European Bank for Reconstruction and Development ("**EBRD**") and the Company have entered into a framework agreement which, *inter alia*, sets out certain environmental and social reporting obligations and polices with which the Company must comply if and for so long as EBRD is a Noteholder. EBRD may buy or sell Notes in open market transactions at any time following the consummation of the offering of the Notes.

Asian Development Bank

Asian Development Bank ("**ADB**") and the Company have entered into a policy rights agreement with respect to ADB's investment in the Notes and which, *inter alia*, sets out certain environmental and social reporting obligations and polices with which the Company must comply for so long as ADB is a Noteholder. ADB may buy or sell Notes in open market transactions at any time following the consummation of the offering of the Notes.

Tender Offer and Priority Allocation

On 26 May 2021, pursuant to the Tender Offer and Consent Solicitation Memorandum, the Company invited holders of the 2012 Notes to: (i) tender any or all of the 2012 Notes held by them for purchase by the Company for cash; and (ii) concurrently consent to amend by extraordinary resolution the terms and conditions of the 2012 Notes to provide for the Mandatory Early Redemption, all on the terms and subject to the conditions set out in the Tender Offer and Consent Solicitation Memorandum.

Holders of the 2012 Notes that wish to subscribe for Notes, in addition to participating in the Tender Offer and Consent Solicitation, may request to receive priority in the allocation of the Notes, subject to the completion of the Tender Offer and Consent Solicitation and the other terms and conditions set out in the Tender Offer and Consent Solicitation Memorandum. See "—*Allocation of Notes*".

Allocations of Notes

The Company will, in connection with the allocation of the Notes, consider among other factors, whether or not the relevant investor seeking an allocation of Notes has validly tendered the 2012 Notes held by it and/or voted in favour of the Mandatory Early Redemption, or indicated a firm intention to tender the 2012 Notes and/or vote in favour of the Mandatory Early Redemption, pursuant to the Tender Offer and Consent Solicitation, and, if so, the aggregate principal amount of such 2012 Notes tendered and/or voted in favour, or intended to be tendered and/or voted in favour (as the case may be), by such investor. When considering allocations of 2012 Notes, the Company intends to look favourably upon those investors who have, pursuant to the Tender Offer and Consent Solicitation and prior to the allocation of Notes, tendered 2012 Notes, voted in favour of the Mandatory Early Redemption, or indicated either such intention to the Company or the Dealer Managers and Solicitation Agents (as defined in the Tender Offer and Consent Solicitation Memorandum); however, the Company is not obliged to allocate the Notes to any investor whether or not it has validly tendered 2012 Notes and/or voted in favour of the Mandatory Early Redemption, or indicated a firm intention to tender 2012 Notes or vote in favour of the Mandatory Early Redemption, pursuant to the Tender Offer and Consent Solicitation. Any allocations of Notes, while being considered by the Company as set out above, will be made in accordance with customary allocation processes and procedures.

United States

The Notes have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each Manager has represented that it has not offered or sold, and agreed that it will not offer or sell, any Notes constituting part of its allotment within the United States except in accordance with Rule 144A under the Securities Act. Each Manager has represented that neither it nor its affiliates (as defined in Rule 405 under the Securities Act), nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

Each Manager has represented and agreed that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act ("**Regulation D**"), nor any person acting on its or their behalf, has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer and sale of the Notes in the United States.

The Notes are being offered and sold by the Managers outside the United States in accordance with Regulation S. The Subscription Agreement provides that the Managers may through their respective United States broker-dealer affiliates resell a portion of the Notes within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A, or another available exemption from registration under the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Georgia

Each Manager has represented and agreed that it has complied and will comply with all applicable provisions of Georgian law with respect to anything done by it in relation to the Notes in, from or otherwise involving Georgia.

Singapore

Each Manager has acknowledged that this Prospectus has not been registered as a prospectus with the MAS. Accordingly, each Manager has severally represented, warranted and undertaken with the Company that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Hong Kong

Each Manager has represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction,

section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the offering of the Notes.

Russia

Each Manager has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

General

No action has been, or will be, taken by the Company or the Managers that would, or is intended to, permit a public offer of Notes, or possession or distribution of this Prospectus, in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will comply, to the best of its knowledge and belief and in all material respects, with all applicable securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus.

TRANSFER RESTRICTIONS

Restricted Notes

Each purchaser of Restricted Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acting for its own account, or for the account of a QIB, (c) not formed for the purpose of investing in the Company, and (d) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

2. It understands that the Restricted Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and that the Restricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case, in accordance with any applicable securities laws of any state or another jurisdiction of the United States.

3. It acknowledges that the Notes offered and sold hereby in the manner set forth in paragraph 1 are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Notes.

4. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make (and does make) the foregoing acknowledgments, representations and agreements on behalf of each such account.

5. It understands that the Company has the right to refuse to honour the transfer of an interest in the Restricted Notes to a U.S. person whom it reasonably believes is not a QIB.

6. It understands that the Restricted Notes, unless otherwise agreed between the Company and the Fiscal Agent in accordance with applicable law, will bear a legend to substantially the following effect:

   THIS NOTE HAS NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") AND THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES.

7. It acknowledges that the Company, the Registrar, the Managers and their affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Restricted Notes is no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

8. It understands that the Restricted Notes will be evidenced by the Restricted Global Note. Before any interest in a Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note, it will be required to provide a Paying and Transfer Agent with a written certification (in the form provided in the Fiscal Agency Agreement) as to compliance with applicable securities laws.

9. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each purchaser of Unrestricted Notes, by accepting delivery of this Prospectus and the Notes, will have been deemed to have represented, agreed and acknowledged that:

1. It is, or at the time the Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) that it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Company or a person acting on behalf of such an affiliate.

2. It understands that the Unrestricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs or (b) to a non-United States person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case, in accordance with any applicable securities laws of any state of the United States.

3. It understands that the Unrestricted Notes will be evidenced by an Unrestricted Global Note. Before any interest in an Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the corresponding Restricted Global Note, it will be required to provide a Paying and Transfer Agent with a written certification (in the form provided in the Fiscal Agency Agreement) as to compliance with applicable securities laws.

4. It acknowledges that the Company, the Registrar, the Managers and their affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Unrestricted Notes is no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

TAXATION

The following discussion summarises certain Georgian tax considerations that may be relevant to holders of Notes. It also includes a limited discussion of certain United States federal income tax considerations. This summary is based on the Company's understanding of laws, regulations, rulings and decisions now in effect and is subject to changes in, and differing interpretations of, tax law and practice, including changes, interpretations and applications that could have a retroactive effect. Certain statements made below as to the possible tax treatment of holders of Notes should be read in this context.

This summary does not describe all of the tax considerations that may be relevant to holders of Notes, particularly holders of Notes subject to special tax rules. Holders of Notes are advised to consult their own professional advisers as to the consequences of purchasing Notes under the tax laws of the country of which they are resident.

Georgian Tax

The analysis below is a general overview of certain tax implications related to the Notes prepared in accordance with Georgian tax legislation. As with other areas of Georgian legislation, tax law and practice in Georgia is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that changes may be made in the law or in the current interpretation of the law or current practice, including changes that could have a retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation, or that rates currently in effect with respect to such payments could be increased, in ways that cannot be anticipated as at the date of this Prospectus. Each prospective purchaser of Notes should also consider the further tax implications for it under laws and regulations of those countries which will be applicable to its purchase, holding and sale of Notes.

Furthermore, the analysis in the paragraph *'Withholding Tax on Interest'* below relates to notes listed on a "recognised stock exchange of the foreign country" under Georgian law, such as London Stock Exchange. It does not address tax issues arising from any future listing of the Notes on an exchange in Georgia, or another country that is not a "recognised stock exchange of the foreign country" under Georgian law, for which a prospective purchaser of Notes should consult its tax advisors.

Withholding Tax on Interest

Pursuant to the Tax Code of Georgia, payments of interest on the Notes will be exempt from withholding tax and such payments of interest shall not be included in the gross taxable income of Noteholders (whether they are individuals (physical persons) or legal entities), so long as the Notes are issued by the Georgian resident and admitted to trading on a "recognised stock exchange of the foreign country". For these purposes, the London Stock Exchange Group is a "recognised stock exchange of the foreign country" under Georgian law.

Enforceability of the Tax Gross-up under the Terms and Conditions of the Notes

Pursuant to Condition 7 *(Taxation)* of the Notes, in the case of a withholding or deduction of any taxes (subject to certain customary exceptions) in respect of any payment on the Notes, the Company is required to increase the amount of the relevant payment by such amount as would result in the receipt by the relevant Noteholder of the amount which would have been received by it had no such withholding or deduction been required. The Tax Code of Georgia neither prohibits nor permits the inclusion of tax gross-up clauses (such as that set out in Condition 7 *(Taxation)*) in agreements or instruments made by Georgian companies. In practice, however, such gross-up provisions are widely respected by the tax authorities in Georgia.

Taxation on Sale of Notes

Taxation on Sale of Notes by Non-resident Legal Entities

Non-resident legal entities will be assessed for profit tax on the difference between the initial purchase price and the subsequent sale price. The relevant non-resident entity will be obliged to report and pay profit tax to the Georgian tax authorities at the rate of 15%. If the sale is carried out through a Georgian brokerage company and the seller is not registered as a taxpayer in Georgia, such brokerage company may be responsible for withholding the applicable tax at a 10% rate or at a 15% rate if the selling entity is registered in an offshore jurisdiction. The applicability of profit tax may be affected by a double tax treaty between Georgia and the country of residence of the selling entity.

Taxation on Sale of Notes by Non-resident Natural Persons

Natural persons in Georgia are subject to income tax at a current rate of 20% and the tax base is calculated after permitted deductions. The income tax of non-resident natural persons will be assessed on the difference between the initial purchase price and the subsequent sale price. Non-resident natural persons selling Notes will be obliged to report and pay such income tax to the Georgian tax authorities. If the sale is completed through a Georgian brokerage company and the seller is not a registered taxpayer in Georgia, such brokerage company may be responsible for withholding the applicable tax at a rate of 10% or at a rate of 15% if the seller is registered in an offshore jurisdiction. The applicability of profit tax may be affected by a double tax treaty between Georgia and the country of residence of the selling entity.

Certain exemptions may be available to individual Noteholders if such individuals maintain ownership of such Notes for more than two calendar years.

Taxation on Sale of Notes by Resident Legal Entities

A sale of Notes by a Georgian legal entity (except commercial banks, credit unions, insurance companies, microfinance organisations and persons registered as loan issuers, until 1 January 2023) may be subject to profit tax at a rate of 15%, with the tax being calculated based on the difference between the relevant initial purchase price and the subsequent sale price.

Until 1 January 2023, the gain received from the sale of the Notes (*i.e.,* the difference between the initial purchase price and the subsequent sale price of the Notes) by commercial banks, credit unions, insurance companies, microfinance organisations and persons registered as loan issuers will be included in their gross taxable income and, after the permitted deductions, will be subject to profit tax at a rate of 15%.

Taxation on Sale of Notes by Resident Natural Persons

If a Georgian resident individual Noteholder, who is not registered as a taxpayer for the purposes of the Tax Code of Georgia, sells Notes through a brokerage company registered in Georgia, withholding tax (currently at the rate of 20%) will be assessed on the difference between the initial purchase price and the subsequent sale price. Certain exemptions from the application of income tax at a rate of 20% may be available to an individual Noteholder if such Noteholder has held Notes for more than two calendar years.

Value Added Tax

The sale (supply) of the Notes is exempt from value-added-tax in Georgia.

Other Considerations

The Tax Code of Georgia expressly provides for right of the tax authority to re-examine the transaction price indicated by the respective parties, subject to certain procedural requirements.

Certain U.S. Federal Income Taxation Considerations

The following is a summary of certain United States federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes at the "issue price" (the first price at which a substantial amount of Notes is sold for money, excluding sales to underwriters, placement agents or wholesalers) in the initial offering that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of United States federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the United States federal income tax laws (such as financial institutions, insurance companies, regulated

investment companies, real estate investment trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions, conversion transactions or other integrated transactions for United States federal income tax purposes, U.S. Holders that are required to take certain amounts into income no later than the time such amounts are reflected on an applicable financial statement, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. Dollar). Furthermore, this summary also does not address purchasers of Notes who will participate in the Tender Offer. Prospective purchasers who are holders of Notes who will participate in the Tender Offer should consult their own tax advisers regarding the U.S. federal income tax consequences to them of the acquisition of the Notes offered hereby and the sale of their Notes pursuant to the Tender Offer.

As used herein, the term "**U.S. Holder**" means a beneficial owner of Notes that is, for United States federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to United States federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for United States federal income tax purposes.

The United States federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the United States federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as at the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF UNITED STATES FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED TO BE RELIED UPON BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE U.S. INTERNAL REVENUE CODE. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder's method of accounting for U.S. federal income tax purposes. Interest paid by the Company on the Notes constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Sale, Retirement and Other Taxable Disposition of the Notes

A U.S. Holder will generally recognise gain or loss on the sale, retirement or other taxable disposition of a Note equal to the difference between the amount realised on the disposition and the U.S. Holder's adjusted tax basis of the Note. A U.S. Holder's adjusted tax basis in a Note will generally be its U.S. Dollar cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognised by a U.S. Holder on the sale, retirement or other taxable disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. The deductibility of capital losses is subject to limitations.

If a Georgian tax is withheld on the sale, retirement or other taxable disposition of a Note, the amount realised by a U.S. Holder will include the gross amount of the proceeds of that sale or other disposition before deduction of the Georgian tax withheld. Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for any Georgian income taxes withheld by the Issuer. Gain or loss realised by a U.S. Holder on the sale, retirement or other taxable disposition of a Note generally will be United States source for U.S. foreign tax credit purposes. Therefore, in the case of a gain from the disposition of a Note that is subject to Georgian tax, a U.S. Holder may have insufficient foreign source income to utilise foreign tax credits attributable to any withholding tax imposed on the sale or disposition. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex. Prospective purchasers should consult their tax advisers as to the foreign tax credit or foreign tax deduction implications of the sale, retirement or other taxable disposition of Notes.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other disposition of Notes by a United States paying agent or other United States intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders (including corporations) are not subject to backup withholding.

Backup withholding is not an additional tax. Any backup withholding from a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS. U.S. Holders should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of the Notes, including requirements related to the holding of certain foreign financial assets.

GENERAL INFORMATION

Authorisation

The Company has obtained all necessary consents, approvals and authorisations in Georgia in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolutions of the Board of Directors of the Company passed on 13 April 2021 and 14 May 2021, by resolutions of the Supervisory Board of the Company passed on 16 April 2021 and 21 May 2021 and by resolutions of the sole shareholder of the Company passed on 28 April 2021 and 21 May 2021. The Company's registration number is 202886010. The Company's telephone number is +995 32 2199010.

Listing

It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or about 18 June 2021, subject only to the issue of the Global Notes. The Global Notes are expected to be issued on or about 17 June 2021. Prior to official listing and admission to trading, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The Notes are also expected to be admitted to the Sustainable Bond Market of the London Stock Exchange. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). Transactions will normally be effected for settlement in U.S. Dollars and for delivery on the third working day after the day of the transaction. The listing expenses in connection with the issue of the Notes are expected to be approximately £5,515.

No Significant Change

There has been no material adverse change in the prospects of the Company since 31 December 2020. There has been no significant change in the financial performance or financial position of the Company or the Group since 31 March 2021.

Clearing Systems and LEI

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and ISIN for the Unrestricted Notes and the Common Code, ISIN and CUSIP number for the Restricted Notes are as follows:

Unrestricted Notes

ISIN:	XS2340149439
Common Code:	234014943

Restricted Notes

ISIN:	US37363BAB45
Common Code:	234806831
CUSIP:	37363B AB4

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, NY 10041.

The Legal Entity Identifier is 2138005UZV4ZT2B2ZO19.

Indication of Yield

The indication of yield in relation to the Notes is 4.00% *per annum*. This yield is calculated at the Issue Date on the basis of the issue price. It is not an indication of future yield.

Litigation

Other than as set out on page 124 under the heading "*Description of the Group's Business—Legal Proceedings—Spacecom*", neither the Company nor its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including such proceedings pending or threatened of which the Company is aware) during the previous twelve months that may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or the Group.

Documents

For so long as any Notes are outstanding, copies (and English translations where the documents in question are not in English) of the following will be available for inspection on the Company's website (http://www.railway.ge/en/eurobonds/):

(a) a copy of this Prospectus, along with any supplement to this Prospectus;

(b) the Charter of the Company; and

(c) the Consolidated Financial Statements, including the related independent auditor's report and review report in respect thereof.

For so long as any Notes are outstanding, copies of the Fiscal Agency Agreement will be available for inspection during normal business hours on any weekday, (i) at the specified office of the Paying and Transfer Agent in London or (ii) electronically from the Company or the Paying and Transfer Agent.

This Prospectus will also be published on the website of the Regulatory News Service operated by the London Stock Exchange at:

- https://www.londonstockexchange.com/news?tab=news-explorer; and

- https://data.fca.org.uk/#/nsm/nationalstoragemechanism.

The Second Party Opinion and the annual reporting on the use of proceeds of the Notes, as referred to in the Green Bond Framework, will be published on the Issuer's website for so long as any of the Notes remain outstanding. The Second Party Opinion and the Green Bond Framework, as well as the contents of the Company's website, are not incorporated in, and do not form part of, this Prospectus.

Auditors

Each of the 2020 Audited Consolidated Financial Statements and the 2019 Audited Consolidated Financial Statements included in this Prospectus have been audited by KPMG Georgia LLC of 5th Floor, GMT Plaza, 4 Liberty Square, 0105 Tbilisi, Georgia, independent auditors, as stated in their audit reports included in this Prospectus.

With respect to the First Quarter Condensed Consolidated Financial Statements included in this Prospectus, KPMG Georgia LLC of 5th Floor, GMT Plaza, 4 Liberty Square, 0105 Tbilisi, Georgia, independent auditors, have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included in the First Quarter Condensed Consolidated Financial Statements and included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The auditors' review report on the First Quarter Condensed Consolidated Financial Statements contains an emphasis of matter paragraph that states that the comparative financial information presented as at, and for the three months ended, 31 March 2020 has been restated. See "*Presentation of Financial and Other Information—Financial Information—Emphasis of Matter*" and "*Presentation of Financial and Other Information—Financial Information—Restatement*".

Other

(1) No natural or legal person has an interest that is material to the issue of the Notes.

(2) There are no material contracts entered into other than in the ordinary course of the Company's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Company's ability to meet its obligations to Noteholders under the Notes.

(3) The language of this Prospectus is English.

(4) The Company does not intend to provide any post-issuance transaction information regarding the Notes.

(5) Citigroup Global Markets Europe AG will act as Registrar in relation to the Notes.

(6) The Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with and may perform services of the Company in the ordinary course of business. In the ordinary course of their business activities, the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and

may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Company.

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JSC Georgian Railway

Condensed Consolidated Interim Financial Statements as at 31 March 2021 and for the three-month periods ended 31 March 2021 and 31 March 2020

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholder of JSC Georgian Railway

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of JSC Georgian Railway (the "Company") and its subsidiaries (the "Group") as at 31 March 2021, and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2021 and 31 March 2020, and notes to the condensed consolidated interim financial information (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our reviews.

Scope of Reviews

We conducted our reviews in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 31 March 2021 and for the three-month periods ended 31 March 2021 and 31 March 2020 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting.*

Emphasis of Matter – Comparative Financial Information

We draw attention to Note 20 to the condensed consolidated interim financial information which describes that the comparative financial information presented as at and for the three-month period ended 31 March 2020 has been restated. Our conclusion is not modified in respect of this matter.

Irina Gevorgyan:

KPMG Georgia LLC
11 May 2021

KPMG Georgia LLC, a company incorporated under the Laws of Georgia and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

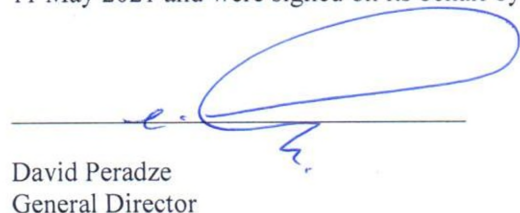
000 GEL	Note	31 March 2021	31 December 2020
Assets			
Property, plant and equipment	10	1,818,710	1,829,561
Loans receivable	11	-	30,336
Other non-current assets		98,983	99,131
Non-current assets		**1,917,693**	**1,959,028**
Inventories		36,675	38,399
Loans receivable	11	32,347	-
Tax assets		-	1,830
Prepayments and other current assets		2,847	1,942
Trade and other receivables	12	30,321	23,579
Cash and cash equivalents	13	319,065	322,986
Current assets		**421,255**	**388,736**
Total assets		**2,338,948**	**2,347,764**
Equity			
Share capital	14 (a)	1,053,936	1,053,936
Non-cash owner contribution reserve		100,322	100,322
Accumulated losses		(849,353)	(794,972)
Total equity		**304,905**	**359,286**
Liabilities			
Loans and borrowings	15	1,773,868	1,702,980
Advance received from the Government		46,594	46,594
Payables for non-current assets	16	49,977	53,535
Non-current liabilities		**1,870,439**	**1,803,109**
Loans and borrowings	15	44,046	74,356
Trade and other payables	16	83,759	82,331
Liabilities to the Government		4,734	4,734
Provisions		17,079	16,551
Tax liabilities		5,538	-
Other current liabilities		8,448	7,397
Current liabilities		**163,604**	**185,369**
Total liabilities		**2,034,043**	**1,988,478**
Total equity and liabilities		**2,338,948**	**2,347,764**

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 20.

		For the three months ended 31 March	
'000 GEL	**Note**	**2021**	**2020 Restated**
Revenue	6	127,866	122,024
Other income		2,265	3,382
Employee benefits expense		(40,537)	(40,230)
Depreciation and amortization expense		(17,346)	(20,379)
Electricity, consumables and maintenance costs	7	(10,594)	(11,533)
Impairment loss on trade receivables		(2,004)	(359)
Other expenses	8	(21,416)	(15,527)
Results from operating activities		**38,234**	**37,378**
Finance income	9	4,802	3,862
Finance costs	9	(33,294)	(30,426)
Net foreign exchange loss	9	(63,951)	(193,184)
Net finance costs		**(92,443)**	**(219,748)**
Loss before income tax		**(54,209)**	**(182,370)**
Income tax expense		(172)	(221)
Loss and total comprehensive loss for the period		**(54,381)**	**(182,591)**

The comparative information is restated on account of correction of errors. See note 20.

These condensed consolidated interim financial statements were approved by Management Board on 11 May 2021 and were signed on its behalf by:



David Peradze
General Director

Irakli Titvinidze
Chief Financial Officer

The condensed consolidated interim statements of profit or loss and other comprehensive income are to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 20.

'000 GEL	Share capital	Non-cash owner contribution reserve	Accumulated losses	Total equity
Balance at 1 January 2021	1,053,936	100,322	(794,972)	359,286
Loss and total comprehensive loss for the period	-	-	(54,381)	(54,381)
Balance at 31 March 2021	**1,053,936**	**100,322**	**(849,353)**	**304,905**
Balance at 1 January 2020	1,053,371	100,322	(630,328)	523,365
Loss and total comprehensive loss for the period, restated	-	-	(182,591)	(182,591)
Balance at 31 March 2020, restated	**1,053,371**	**100,322**	**(812,919)**	**340,774**

The comparative information is restated on account of correction of errors. See Note 20.

The condensed consolidated interim statements of changes in equity are to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 20.

		For the three months ended 31 March	
'000 GEL	**Note**	**2021**	**2020 Restated**
Cash flows from operating activities			
Cash receipts from customers		116,823	115,126
Cash paid to suppliers and employees		(63,358)	(58,749)
Cash flows from operations before income taxes paid		**53,465**	**56,377**
Income tax paid		-	-
Net cash from operating activities		**53,465**	**56,377**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(5,310)	(14,392)
Proceeds from sale of property, plant and equipment		1,215	2,382
Interest received		4,054	3,283
Net cash used in investing activities		**(41)**	**(8,727)**
Cash flows from financing activities			
Interest paid	15 (b)	(63,992)	(55,637)
Net cash used in financing activities		**(63,992)**	**(55,637)**
Net decrease in cash and cash equivalents		**(10,568)**	**(7,987)**
Cash and cash equivalents at 1 January		322,986	257,976
Effect of exchange rate fluctuations on cash and cash equivalents		6,794	22,902
Effect of movements in ECL on cash and cash equivalents		(147)	(55)
Cash and cash equivalents at 31 March	13	**319,065**	**272,836**

The comparative information is restated on account of correction of errors. See Note 20.

The condensed consolidated interim statements of cash flows are to be read in conjunction with the notes to, and forming part of, the condensed consolidated interim financial statements set out on pages 8 to 20.

1. Reporting entity

(a) Business environment

The Group's operations are primarily located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Georgia. The COVID-19 coronavirus pandemic has further increased uncertainty in the business environment (see Note 21).

The condensed consolidated interim financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

JSC Georgian Railway (the "Company") and its subsidiaries (the "Group") comprise Georgian joint stock and limited liability companies as defined in the Civil Code of Georgia. The Company was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The Company's registration number is 03/4-965.

The Company's registered office is 15 Queen Tamar Avenue, Tbilisi 0112, Georgia.

The Group's principal activity is the operation of a nationwide railway system providing freight and passenger transportation services, freight forwarding services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

The Company is wholly owned by JSC Partnership Fund, a wholly state-owned company. The ultimate controlling party of the Group is the Government of Georgia. JSC Partnership Fund produces publicly available consolidated financial statements.

Related party transactions are disclosed in Note 18.

2. Basis of accounting

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting,* and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2020 ("last annual consolidated financial statements") which are located on the Group's official website. These condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari (GEL), which is the functional currency of the Group entities and the currency in which these condensed consolidated interim financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

4. Use of estimates and judgments

Preparing the condensed consolidated interim financial statements requires Management to make judgements, estimates assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements.

Measurement of fair values

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 17.

5. Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Freight transportation – includes transportation of goods and commodities and related services.*
- *Passenger transportation – includes transportation of passengers.*

There are no inter-segment charges.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before infrastructure costs, which are the cost of maintaining the rail network used by both reportable segments, central overheads, interest and income tax, as included in the internal management reports that are reviewed by the Group's Management Board. Segment

profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. The Group's Management Board does not monitor segment liabilities.

(i) Information about reportable segments

For the three months ended 31 March

	Freight transportation		Passenger transportation		Total	
'000 GEL	**2021**	**2020 Restated**	**2021**	**2020 Restated**	**2021**	**2020 Restated**
External revenues	125,700	115,369	767	4,682	126,467	120,051
Depreciation and amortization	(3,222)	(5,402)	(2,882)	(3,433)	(6,104)	(8,835)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	90,383	78,216	(7,388)	(5,231)	82,995	72,985
Capital expenditure and other additions to non-current assets	1,294	609	4	109	1,298	718
	31-Mar-21	**31-Dec-20**	**31-Mar-21**	**31-Dec-20**	**31-Mar-21**	**31-Dec-20**
Reportable segment assets	177,871	183,949	126,657	127,784	304,528	311,733

(ii) Reconciliations of reportable segment revenues, profit or loss and assets

	For the three months ended 31 March	
'000 GEL	**2021**	**2020 Restated**
Revenues		
Total revenue for reportable segments	126,467	120,051
Other revenue	1,399	1,973
Consolidated revenue	**127,866**	**122,024**
Profit or loss		
Total profit for reportable segments before infrastructure costs, net impairment, interest cost and income tax	82,995	72,985
Employee benefits expense – infrastructure and headquarters	(17,276)	(17,324)
Depreciation expenses – infrastructure and headquarters	(11,242)	(11,544)
Net finance costs	(92,443)	(219,748)
Other net unallocated expenses*	(16,243)	(6,739)
Consolidated loss before income tax	**(54,209)**	**(182,370)**

* Other net unallocated expenses include logistic services expense of GEL 8,897 thousand (3 months ended 31 March 2020: GEL 3,146 thousand) which was not included in the freight transportation segment profit presented to the Group's Management Board.

There has been no change in reportable segments as well as in a basis of allocation since last annual consolidated financial statements

6. Revenue

The Group's operations and main revenue streams are those described in the last annual consolidated financial statements.

	For the three months ended	
'000 GEL	**2021**	**2020 Restated**
Freight traffic	102,672	93,884
Logistic services	17,690	13,114
Freight car cross-border charge	4,930	4,944
Rent of wagons and other rental income	1,219	4,195
Passenger traffic*	767	4,682
Other	588	1,205
	127,866	**122,024**

* In response to the restrictions imposed by the Government of Georgia against COVID-19, the Group periodically terminated the passenger transportation services during 2020 and 2021.

Railroad transportation in Georgia is a natural monopoly, however, the prices are not subject to government regulation. According to clause 64 of the Railway Code of Georgia, which came into force on 1 July 2005, the Government of Georgia allowed the Group to set the prices for all services provided, including freight transportation, freight transportation-related additional services and passenger transportation.

Tariffs for freight transportation are based on the International Rail Transit Tariff. The Group is a co-signatory of the Tariff Agreement together with CIS countries, Latvia, Lithuania and Estonia. The parties to the Agreement hold annual conferences to determine the tariff policy for the following year: each party declares tariffs denominated in Swiss Francs (CHF) for railway transportation and states the general rules that apply to and modify tariffs. The agreed tariffs indicate the maximum level of tariffs applicable.

Performance obligations and revenue recognition policies are those described in the last annual consolidated financial statements.

7. Electricity, consumables and maintenance costs

	For the three months ended	
'000 GEL	**2021**	**2020 Restated**
Electricity	6,207	5,808
Materials	2,208	1,961
Fuel	1,372	2,014
Repair and maintenance	807	1,750
	10,594	**11,533**

8. Other expenses

	For the three months ended	
'000 GEL	**2021**	**2020 Restated**
Logistic services	8,897	3,146
Property and land tax	5,720	6,012
Freight car cross-border charge	2,488	1,585
Security	2,416	2,363
Other	1,895	2,421
	21,416	**15,527**

9. Finance income and finance costs

	For the three months ended	
’000 GEL	**2021**	**2020 Restated**
Recognised in profit or loss		
Interest income under the effective interest method	4,802	3,862
Finance income	**4,802**	**3,862**
Impairment loss on other financial assets	(156)	(74)
Unwinding of discount on provisions and financial liabilities measured at amortised cost	(418)	(268)
Interest expense on financial liabilities measured at amortised cost *	(32,720)	(30,084)
Finance costs	**(33,294)**	**(30,426)**
Net foreign exchange loss	(63,951)	(193,184)
Net finance costs recognised in profit or loss	**(92,443)**	**(219,748)**

* As disclosed in note 10 (b) capitalisation of borrowing costs on a qualifying asset was suspended in 2020 and 2021.

10. Property, plant and equipment

(a) Acquisitions and disposals

During the three months ended 31 March 2021, the Group acquired property plant and equipment with a cost, of GEL 6,915 thousand (three months ended 31 March 2020: GEL 8,183 thousand)

Assets with a carrying amount of GEL 658 thousand were disposed of during the three months ended 31 March 2021 (three months ended 31 March 2020: GEL 839 thousand).

(b) Construction in progress

By the end of 2010, the Group started two large capital projects:

- The Main Line Modernisation; and
- Tbilisi Bypass Project.

The Group commenced the initiation of the above projects in September 2010 and November 2010, respectively. The Group issued unsecured bonds in 2010 to partly finance the projects above. During 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see Note 15).

No borrowing costs were capitalized during the three months ended 31 March 2021 due to significant slowdown of the works performed on Modernization project, mainly linked with COVID-19 pandemic situation in Georgia (three months ended 31 March 2020: nil).

(c) Impairment of property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that the recoverable amount of the Group's non-financial assets has declined below the carrying value or previously recognized impairment loss is subject to reversal.

As at 31 March 2021, the Management analyzed impairment, as well as impairment reversal indicators (external and internal) according to IAS 36 and concluded that there is no indication of additional impairment or reversal of previously recognized impairment losses, respectively no detailed impairment test has been conducted at 31 March 2021.

No event or change in circumstances occurred which would result in a reversal of the provision related to Tbilisi Bypass Project during the three months ended 31 March 2021.

(d) Security

At 31 March 2021, property with a carrying amount of GEL 72,052 thousand (31 December 2020: GEL 72,494 thousand) is pledged in respect of the secured loan (See Note 15).

(e) Capital commitment

As at 31 March 2021, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 356,477 thousand (31 December 2020: GEL 367,643 thousand) mainly relating to the Main Line Modernization project of GEL 61,711 thousand (31 December 2020: GEL 65,369 thousand) and Tbilisi Bypass project of GEL 294,766 thousand (31 December 2020: GEL 301,993 thousand, decreased only due to CHF foreign exchange rate fluctuation).

Management does not expect that the future cessation of the construction agreement with the counterparty, responsible for the Tbilisi Bypass project completion, will result in the payment of the above amount.

11. Loans receivable

This note provides information about the contractual terms of the Group's interest-bearing loans receivable, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and credit risk, see Note 17.

'000 GEL	**31 March 2021**	**31 December 2020**
Non-current assets		
Parent company	-	30,336
	-	**30,336**
Current assets		
Parent company	32,347	-
	32,347	**-**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 March 2021		**31 December 2020**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Parent company	USD	9.75%	2022	32,347	32,347	30,336	30,336
Total interest-bearing assets				**32,347**	**32,347**	**30,336**	**30,336**

In September 2020, the Parent company used its contractual option to extend the principal repayment of the loan obtained from the Group till March 2022.

12. Trade and other receivables

'000 GEL	31 March 2021	31 December 2020
Trade receivables	263,175	253,070
Impairment allowance on trade receivables	(233,141)	(229,789)
	30,034	**23,281**
Other receivables	287	298
	30,321	**23,579**

The Group's exposure to credit and currency risks related to trade and other receivables are disclosed in Note 17.

13. Cash and cash equivalents

'000 GEL	31 March 2021	31 December 2020
Current accounts in banks	42,792	124,622
Call deposits	276,721	198,687
Petty cash	21	-
Provision for cash and cash equivalents	(469)	(323)
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	**319,065**	**322,986**

Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring penalties or significant loss of interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

The Group's exposure to interest rate risk is disclosed in Note 17.

14. Equity

(a) Share capital

Number of shares	**Ordinary shares**	
	31 March 2021	**31 December 2020**
In issue, fully paid	1,053,936,024	1,053,936,024
Authorised shares - par value	1	1

All ordinary shares rank equally with regard to the Group's residual assets.

(b) Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group.

15. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 17.

'000 GEL	31 March 2021	31 December 2020
Non-current liabilities		
Secured loan	68,724	65,546
Unsecured bonds	1,705,144	1,637,434
	1,773,868	**1,702,980**
Current liabilities		
Secured loan	15,382	14,453
Current portion of unsecured bonds	28,664	59,903
	44,046	**74,356**
	1,817,914	**1,777,336**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings were as follows:

				31 March 2021		31 December 2020	
'000 GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured bonds	USD	7.75%	2022	1,733,808	1,733,808	1,697,337	1,697,337
Secured loan	USD	Libor +1.25%	2026	84,106	84,106	79,999	79,999
Total interest-bearing liabilities				**1,817,914**	**1,817,914**	**1,777,336**	**1,777,336**

In July 2012, the Group carried out the issuance, placement and registration (listing) of unsecured bonds of USD 500 million on the London Stock Exchange with an interest rate of 7.75% due in 2022.

Part of the above bonds were used for an early redemption of the unsecured bonds of USD 250 million issued by the Group in 2010.

The secured loan was obtained for the sole purpose of the acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains, with the carrying amount of GEL 72,052 thousand as at 31 March 2021 (31 December 2020: GEL 72,494 thousand) (See Note 10 (d)).

As at 31 December 2020 a financial covenant related to Net debt to EBITDA ratio on the secured loan above was breached allowing the lender to request repayment on demand, however on 23 December 2020 the Group obtained a waiver from the lender on this covenant until 31 December 2021, consequently the Group classified the loan as long-term borrowings as at 31 March 2021 and 31 December 2020.

(b) Changes in liabilities arising from financing activities

'000 GEL	2021	2020
Balance at 1 January	**1,777,336**	**1,565,631**
Interest paid	(63,992)	(55,637)
Total change from financing cash flows	**(63,992)**	**(55,637)**
The effect of changes in foreign exchange rates	**71,850**	**222,467**
Other changes		
Interest expense recognised in finance costs	32,720	30,084
Total liability-related other changes	**32,720**	**30,084**
Balance at 31 March	**1,817,914**	**1,762,545**

16. Trade and other payables

'000 GEL	**31 March 2021**	**31 December 2020**
Current		
Payables for non-current assets	40,764	37,380
Trade payables	27,210	26,122
Advances received from customers	15,785	18,829
	83,759	**82,331**
Non-current		
Payables for non-current assets	49,977	53,535
	49,977	**53,535**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 17.

17. Financial instruments and risk management

The Group has determined fair values of financial assets and liabilities using valuation techniques disclosed in the last annual consolidated financial statements.

Management's estimate of the fair value of the unsecured bonds yielded a range of values from a fair value approximately equal to the carrying amount to a fair value approximately 5% higher than the carrying amount.

The carrying values of other financial assets and liabilities of the Group are a reasonable approximation of their fair values.

The Group's financial risk management objectives and policies are consistent with those disclosed in the last annual consolidated financial statements.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans receivable and cash and cash equivalents. Credit risk is consistent with those disclosed in the last annual consolidated financial statements and the Group has not faced a significant financial loss during the three months period ended 31 March 2021.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of three months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters or global pandemic.

As at 31 March 2021, the Group maintains committed unused credit lines of GEL 66,118 thousand maturing in 2022 with the local banks (31 December 2020: GEL 64,766 thousand).

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 March 2021

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	84,106	93,562	8,111	8,054	15,929	46,439	15,029
Unsecured bonds	1,733,808	1,970,315	66,104	66,104	1,838,107	-	-
Trade payables	117,951	128,532	67,644	3,998	31,886	25,004	-
	1,935,865	**2,192,409**	**141,859**	**78,156**	**1,885,922**	**71,443**	**15,029**

31 December 2020

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	79,999	89,853	7,789	7,735	15,298	44,598	14,433
Unsecured bonds	1,697,337	1,892,236	63,484	63,484	1,765,268	-	-
Trade payables	117,037	124,107	63,169	365	27,667	32,906	-
	1,894,373	**2,106,196**	**134,442**	**71,584**	**1,808,233**	**77,504**	**14,433**

As at the date these condensed consolidated interim financial statements are authorized for issue, the largest refinancing risk faced by the Group is related to its USD 500 thousand Eurobonds due in July 2022. The bonds are currently traded with a lower yielding (approx. 3.5%) compared to the initial yield of 7.75%. The management believes that the market data adequately captures the appetite of the market and the investors and consequently believes in the Group's capacity to refinance the existing Eurobonds without any major implications. The management is evaluating various alternatives for the refinancing.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currencies of Group entities are the Georgian Lari (GEL). The currencies in which these transactions are primarily denominated and settled are U.S. Dollars (USD) and Swiss Francs (CHF).

Borrowings and related interest are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without a need to enter into derivatives contracts.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

’000 GEL	USD -denominated 31 March 2021	USD -denominated 31 December 2020
Cash and cash equivalents	169,603	194,823
Loan receivable	32,347	30,336
Trade receivables	22,072	18,549
Secured loan	(84,106)	(79,999)
Unsecured bonds	(1,733,808)	(1,697,337)
Trade and other payables	(7,871)	(5,468)
Net exposure	**(1,601,763)**	**(1,539,096)**

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate	
	three months ended 31 March 2021	three months ended 31 March 2020	31 March 2021	31 December 2020
USD 1	3.3142	2.9267	3.4118	3.2766

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

18. Related parties

(a) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the period, which is included in employee benefits expenses:

	For the three months ended 31 March	
’000 GEL	2021	2020
Salaries and bonuses	**248**	**227**

(b) Other related party transactions

(i) Transactions with the Government

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence of the Government of Georgia. The Group has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

The Group's other related party transactions are disclosed below.

(ii) Revenue, purchases and expenses

The Group purchases security services from a state agency, which amounted to GEL 2,342 thousand for three months ended 31 March 2021 (31 March 2020: GEL 2,295 thousand). The Group usually does not have significant balances for these purchases.

Management estimates that the aggregate amounts of other income and expenses and the related balances with other Government-related entities are not significant.

(iii) Loans issued

'000 GEL	Transaction value for the three months ended 31 March		Outstanding balance	
	2021	2020	31 March 2021	31 December 2020
Loans issued:				
Parent company	-	-	32,347	30,336

During the three months ended 31 March 2021, interest income of GEL 748 thousand (three months ended 31 March 2020: GEL 615 thousand) was recognised in profit or loss in respect of a related party loan.

19. Change in accounting policies

A number of new standards and amendments to standards are effective from annual periods beginning after 1 January 2021, however their application did not have an impact on the Groups' consolidated financial statements.

The significant accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group's last annual consolidated financial statements.

20. Prior period misstatement

As part of preparing the current period condensed consolidated interim financial statements, Management identified errors in the condensed consolidated interim financial statements as at and for the three-month period ended 31 March 2020 that were approved for issuance on 15 May 2020. Management restated the condensed consolidated interim statements of comprehensive income changes in equity and cash flows for the three-month period ended 31 March 2020 in accordance with International Financial Reporting Standard IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in these condensed consolidated interim financial statements to adjust for those errors. This has resulted in the following changes in the amounts reported previously.

The corrections have no effect on the consolidated financial statement as at and for the year ended 31 December 2020.

The following tables summarise the impacts on the Group's financial statements:

Condensed consolidated interim statement of profit or loss and other comprehensive income

'000 GEL	Impact of correction of error		
For the three-month period ended 31 March 2020	**As previously reported**	**Adjustments**	**As restated**
Revenue	122,764	(740)	122,024
Other income	708	2,674	3,382
Depreciation and amortization expense	(20,189)	(190)	(20,379)
Electricity, consumables and maintenance costs	(11,697)	164	(11,533)
Impairment loss on trade receivables	(1,301)	942	(359)
Other expenses	(15,195)	(332)	(15,527)
Net finance costs	(198,149)	(21,599)	(219,748)
Loss for the three-month period	**(163,510)**	**(19,081)**	**(182,591)**
Total comprehensive loss for the three-month period	**(163,510)**	**(19,081)**	**(182,591)**

The effect of corrections to the total equity as at 31 March 2020 amounted to GEL 19,081 thousand, out of which GEL 17,106 thousand relates to the suspension of capitalised borrowing costs on the Modernization project (see Note 10(b)) during three-month period ended 31 March 2020 which were previously capitalised to property, plant and equipment.

Condensed consolidated interim statement of cash flows

’000 GEL	**Impact of correction of error**		
For the three-month period ended 31 March 2020	**As previously reported**	**Adjustments**	**As restated**
Net cash from operating activities	58,148	(1,771)	56,377
Net cash used in investing activities	(10,498)	1,771	(8,727)

There is no impact on the financing cash flows for the three-month period ended 31 March 2020.

21. Impact of COVID-19

The COVID-19 outbreak started to have a significant impact in Georgia in late February 2020. On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic and Georgian government started to take measures to contain the virus – imposed restrictions on the cross-border movement, instructed the business community to transfer employees to work from home, etc. To enhance social distancing the schools, restaurants, cinemas and sports activities have stayed suspended for most of the 2020 and 2021.

The outbreak of COVID-19 has substantially affected the economy and the business environment globally and in Georgia. Georgia’s real GDP year-over-year change for 2020 is estimated at negative 6.1% (according to Geostat) compared to positive 5.1% and 4.8% in 2019 and 2018 respectively. Although, the freight transportation sector tends to be more resilient than most of the other sectors, still COVID-19 did have a negative impact on the Group’s passenger transportation segment and infrastructural project.

The major implications of COVID-19 pandemic on the business and the industry have been the following:

– The Group temporarily terminated the passenger transportation service, which has been restored from August 2020 till November 2020 and again restored from March 2021. See Note 6.
– The Group temporarily suspended capitalization of borrowing costs due to suspension on infrastructural projects. See note 10 (b).
– The slow-down of the economy affected the disposable income and the spending patterns of businesses.
– The local currency devaluation against US dollar had a favorable impact on the operating profit as the Group’s revenues are mostly denominated in USD, while expenses are maintained in GEL. However, it negatively affected the net profit due to the currency revaluation of the Group’s loans and borrowings denominated in USD.
– The management closely observed and actively managed the Group’s short-term liquidity. As a result the Group maintained a strong cash liquidity throughout 2020 and three months ended 31 March 2021.
– The Group did not seek any additional indebtedness either for the liquidity purposes or for its ongoing capital investment projects.

Taking into account the Group’s current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Group’s financial position and operating results.

The management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group in the medium and longer term. The Group also considers negative development scenarios and is ready to adapt its operational plans accordingly.

JSC Georgian Railway

Consolidated Financial Statements for 2020

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Independent Auditors' Report

To the Shareholder of JSC Georgian Railway

Opinion

We have audited the consolidated financial statements of JSC Georgian Railway (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) *(IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Property, Plant and Equipment

Please refer to the Note 10 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Due to significant market turmoil during 2020 from COVID-19 and considering that impairment test conducted at 31 December 2019 was sensitive to changes in key assumptions the Management concluded that there was an indication of an impairment and conducted an impairment test at 31 December 2020. As a result of the impairment test conducted, the recoverable amount of the Group's property, plant and equipment was determined to be higher	We have performed the following audit procedures to address the key audit matter: - Performed inquiries of management to obtain an understanding of the process for the impairment analysis; - Evaluated the design and implementation of the processes and internal controls of the Group, surrounding the preparation of the impairment model, to assess the reliability and accuracy of the Group's forecasting and budgeting process; - Involved our own valuation specialists to challenge the key assumptions and judgements underpinning the impairment testing model, such as cargo

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than its carrying amount and no additional impairment loss was recognised in 2020. The impairment of property, plant and equipment is a Key Audit Matter due to the level of judgement involved in Management's impairment analysis and inherent estimation uncertainties involved in the forecasting and discounting future cash flows related to the impairment assessment.	growth rates, inflation rate, discount rate, period of cash flow projections, annual maintenance capital expenditure and payments for the finalisation of the Main Line Modernization project by comparing those inputs to externally derived data, as well as our own expectations; - We compared the current year's actual results with the figures for the same period included in the impairment model prepared as at 31 December 2019, to assess management's ability to accurately budget the expected results; - We obtained the Group's budget for the year ending 31 December 2021 and assessed whether expected cash flows in that budget are consistent with those included in the current year's impairment model; - We evaluated the sensitivity of the impairment model outcomes by considering the downside scenarios against reasonably plausible changes to the key assumptions; and - We evaluated the adequacy of the disclosures made in Note 10 (c) of the consolidated financial statements by reference to the requirements of IAS 36 –Impairment of Assets and IAS 1 – Presentation of financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, covering the Management Report, prepared for statutory purposes, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We have read the other information and based on the work we have performed, we conclude that the other information:

- is consistent with the consolidated financial statements and does not contain material misstatement;
- Management Report contains the information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is

Irina Gevorgyan:

KPMG Georgia LLC
10 April 2021

000 GEL	Note	31 December 2020	31 December 2019	1 January 2019
Assets				
Property, plant and equipment	10	1,829,561	1,865,352	1,826,591
Loans receivable	11	30,336	24,133	20,480
Other non-current assets	12	99,131	93,789	97,525
Non-current assets		**1,959,028**	**1,983,274**	**1,944,596**
Inventories	13	38,399	40,224	32,882
Tax assets		1,830	6,383	3,899
Prepayments and other current assets		1,942	1,369	415
Trade and other receivables	14	23,579	24,337	40,912
Cash and cash equivalents	15	322,986	257,976	241,308
Current assets		**388,736**	**330,289**	**319,416**
Total assets		**2,347,764**	**2,313,563**	**2,264,012**
Equity				
Share capital	16 (a)	1,053,936	1,053,371	1,053,714
Non-cash owner contribution reserve	16 (b)	100,322	100,322	100,244
Accumulated losses		(794,972)	(630,328)	(624,742)
Total equity		**359,286**	**523,365**	**529,216**
Liabilities				
Loans and borrowings	18	1,702,980	1,500,687	1,336,665
Advance received from the Government	16 (e)	46,594	46,594	46,594
Payables for non-current assets	19	53,535	21,551	55,146
Non-current liabilities		**1,803,109**	**1,568,832**	**1,438,405**
Loans and borrowings	18	74,356	64,944	134,194
Trade and other payables	19	82,331	128,313	136,464
Liabilities to the Government	16 (c)	4,734	4,896	5,317
Provisions	20	16,551	16,027	11,356
Other current liabilities		7,397	7,186	9,060
Current liabilities		**185,369**	**221,366**	**296,391**
Total liabilities		**1,988,478**	**1,790,198**	**1,734,796**
Total equity and liabilities		**2,347,764**	**2,313,563**	**2,264,012**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

'000 GEL	Note	2020	2019
Revenue	6	489,370	491,038
Other income		12,547	12,751
Employee benefits expense		(170,502)	(160,561)
Depreciation and amortization expense	10	(76,156)	(81,235)
Electricity, consumables and maintenance costs	7	(41,411)	(47,921)
Impairment loss on trade receivables	21(b)(ii)	(13,560)	(33,729)
Other expenses	8	(71,042)	(72,128)
Results from operating activities		**129,246**	**108,215**
Finance income	9	26,508	14,849
Finance costs	9	(127,983)	(42,882)
Net foreign exchange loss	9	(191,901)	(85,249)
Net finance costs		**(293,376)**	**(113,282)**
Loss before income tax		**(164,130)**	**(5,067)**
Income tax expense		(514)	(519)
Loss and total comprehensive loss for the year		**(164,644)**	**(5,586)**

These consolidated financial statements were approved by the Management Board on 10 April 2021 and were signed on its behalf by:

David Peradze
General Director

Irakli Titvinidze
Chief Financial Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

'000 GEL	**Share capital**	**Non-cash owner contribution reserve**	**Accumulated losses**	**Total equity**
Balance at 1 January 2019	1,053,714	100,244	(624,742)	529,216
Loss and total comprehensive loss for the year	-	-	(5,586)	(5,586)
Transactions with owner, recorded directly in equity				
Net decrease in share capital (Note 16 (a))	(343)	-	-	(343)
Non-cash contributions by owners	-	78	-	78
Total transactions with owner, recorded directly in equity	**(343)**	**78**	**-**	**(265)**
Balance at 31 December 2019	**1,053,371**	**100,322**	**(630,328)**	**523,365**
Balance at 1 January 2020	1,053,371	100,322	(630,328)	523,365
Loss and total comprehensive loss for the year	-	-	(164,644)	(164,644)
Transactions with owner, recorded directly in equity				
Net increase in share capital (Note 16 (a))	565	-	-	565
Total transactions with owner, recorded directly in equity	**565**	**-**	**-**	**565**
Balance at 31 December 2020	**1,053,936**	**100,322**	**(794,972)**	**359,286**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

'000 GEL	Note	2020	2019
Cash flows from operating activities			
Cash receipts from customers		487,815	503,900
Cash paid to suppliers and employees		(275,099)	(288,414)
Cash flows from operations before income taxes paid		**212,716**	**215,486**
Income tax paid		-	(250)
Net cash from operating activities		**212,716**	**215,236**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(55,904)	(112,151)
Proceeds from sale of property, plant and equipment		2,330	13,835
Interest received		16,261	12,653
Net cash used in investing activities		**(37,313)**	**(85,663)**
Cash flows from financing activities			
Repayment of borrowings	18 (b)	(14,310)	(12,343)
Interest paid	18 (b)	(117,300)	(110,033)
Net cash used in financing activities		**(131,610)**	**(122,376)**
Net increase in cash and cash equivalents		**43,793**	**7,197**
Cash and cash equivalents at 1 January		257,976	241,308
Effect of exchange rate fluctuations on cash and cash equivalents		20,968	9,486
Effect of movements in ECL on cash and cash equivalents		249	(15)
Cash and cash equivalents at 31 December	15	**322,986**	**257,976**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

1. Reporting entity

(a) Georgian business environment

The Group's operations are primarily located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The COVID-19 coronavirus pandemic has further increased uncertainty in the business environment (see Note 26).

The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

JSC Georgian Railway (the "Company") and its subsidiaries (the "Group") comprise Georgian joint stock and limited liability companies as defined in the Civil Code of Georgia. The Company was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The Company's registration number is 03/4-965.

The Company's registered office is 15 Queen Tamar Avenue, Tbilisi 0112, Georgia.

The Group's principal activity is the operation of a nationwide railway system providing freight and passenger transportation services, freight forwarding services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

The Company is wholly owned by JSC Partnership Fund, a wholly state-owned company. The ultimate controlling party of the Group is the Government of Georgia. JSC Partnership Fund produces publicly available consolidated financial statements.

Related party transactions are disclosed in Note 25.

2. Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 10 (c) – impairment of property, plant and equipment;
- Note 14 – impairment allowances for trade and other receivables;
- Note 28 (h) (iii) – useful lives and residual values of property, plant and equipment;
- Note 10 (a) – suspension of capitalisation of borrowing costs.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- Note 10 (c) – sensitivity of impairment of property, plant and equipment;
- Note 21 (b)(ii) – measurement of ECL allowance for financial assets.

Measurement of fair values

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

- Note 21 (a) – fair value of financial assets and liabilities.

5. Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Freight transportation – includes transportation of goods and commodities and related services.*
- *Passenger transportation – includes transportation of passengers.*

There are no inter-segment charges.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before infrastructure costs, which are the cost of maintaining the rail network used by both reportable segments, central overheads, interest and income tax, as included in the internal management reports that are reviewed by the Group's Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. The Group's Management Board does not monitor segment liabilities.

(i) Information about reportable segments

	Freight transportation		**Passenger transportation**		**Total**	
'000 GEL	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
External revenues	463,459	449,967	11,201	31,138	474,660	481,105
Depreciation and amortization	(17,203)	(17,196)	(12,339)	(11,121)	(29,542)	(28,317)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	322,741	310,148	(24,797)	(4,541)	297,944	305,607
Reportable segment assets	183,949	181,553	127,784	137,510	311,733	319,063
Capital expenditure and other additions to non-current assets	5,432	1,750	2,315	391	7,747	2,141

(ii) *Reconciliations of reportable segment revenues, profit or loss, assets and other material items*

’000 GEL	2020	2019
Revenues		
Total revenue for reportable segments	474,660	481,105
Other revenue	14,710	9,933
Consolidated revenue	**489,370**	**491,038**
Profit or loss		
Total profit or loss for reportable segments before infrastructure costs, net impairment, interest cost and income tax	297,944	305,607
Employee benefits expense – infrastructure and headquarters	(73,029)	(68,500)
Depreciation expenses – infrastructure and headquarters	(46,614)	(52,918)
Net finance costs	(293,376)	(113,282)
Other net unallocated expenses*	(49,055)	(75,974)
Consolidated loss before income tax	**(164,130)**	**(5,067)**
Assets		
Total assets for reportable segments	311,733	319,063
Property, plant and equipment - infrastructure and headquarters	1,543,936	1,568,891
Other unallocated assets, principally cash and non-current assets	492,095	425,609
Consolidated total assets	**2,347,764**	**2,313,563**

* Other net unallocated expenses include logistic services expense of GEL 21,105 thousand (2019: GEL 20,182 thousand) which was not included in the freight transportation segment profit presented to the Group’s Management Board.

(iii) *Other material items in 2020*

’000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	7,747	47,036	54,783
Depreciation and amortization	29,542	46,614	76,156

(iv) *Other material items in 2019*

’000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	2,141	111,767	113,908
Depreciation and amortization	28,317	52,918	81,235

(v) *Geographical information*

Approximately 95% of the Group’s revenue is generated in Georgia with the remainder generated in CIS countries. The non-current assets of the Group are located in Georgia.

(vi) *Major customer*

In 2020, two customers of the Group’s freight transportation segment represented approximately 23% of the Group’s total revenue (2019: one customer - 11%).

6. Revenue

'000 GEL	**2020**	**2019**
Freight traffic	389,308	373,913
Logistic services	54,106	48,814
Passenger traffic*	11,201	31,138
Rent of wagons and other rental income	8,838	16,090
Freight car cross-border charge	14,147	14,156
Other	11,770	6,927
	489,370	**491,038**

* In response to the restrictions imposed by the Government of Georgia against COVID-19, the Group periodically terminated the passenger transportation services during 2020.

Railroad transportation in Georgia is a natural monopoly, however, the prices are not subject to government regulation. According to clause 64 of the Railway Code of Georgia, which came into force on 1 July 2005, the Government of Georgia allowed the Group to set the prices for all services provided, including freight transportation, freight transportation-related additional services and passenger transportation.

Tariffs for freight transportation are based on the International Rail Transit Tariff. The Group is a co-signatory of the Tariff Agreement together with CIS countries, Latvia, Lithuania and Estonia. The parties to the Agreement hold annual conferences to determine the tariff policy for the following year: each party declares tariffs denominated in Swiss Francs (CHF) for railway transportation and states the general rules that apply to and modify tariffs. The agreed tariffs indicate the maximum level of tariffs applicable.

(a) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Freight traffic - Revenue generated by transporting freight from one point to another in return of the consideration determined based on the agreement.

Logistics services - Revenue for provision of general freight transportation supervision, document preparation and other related services to the external parties.

Passenger traffic - Revenue generated by charging the individuals for transporting from one place to another through sale of railway tickets.

Freight car cross-border charge - Revenue generated, when the Group's wagons cross Georgian border and enter another country's territory, based on daily charges for wagons, containers and any other services.

Rent of wagons and other rental income – Income represents operating lease and is accounted for under IFRS 16, see Note 23.

Other revenue - Revenue is predominantly comprised of sale of scrap.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Revenue Type	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Freight traffic, logistic services and passenger traffic	Freight traffic, logistic services and passenger traffic revenue streams are to be recognized "over time" since transportation is the service, during which customer receives and consumes simultaneously the benefit as the Group performs. The customer benefits from the distance travelled.	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on estimated time to completion of transportation.
Freight car cross-border charge	Freight car cross-border charge stream is to be recognized "over time" since it is the service, during which customer receives and consumes simultaneously the benefit as the Group performs.	Revenue for such services is recognised over time.
Other revenue	Other revenue is recognised at the point in time when sale has been commenced and control over the goods was transferred.	Revenue is recognised at a point in time when the goods have been accepted by customers at the Group`s warehouse.

7. Electricity, consumables and maintenance costs

’000 GEL	2020	2019
Electricity	19,519	22,069
Materials	10,306	12,135
Repair and maintenance	5,402	6,694
Fuel	6,184	7,023
	41,411	**47,921**

8. Other expenses

’000 GEL	2020	2019
Property and land tax	23,938	22,225
Logistic services	21,105	20,182
Security	9,917	9,246
Freight car cross-border charge	3,688	3,780
Other *	12,394	16,695
	71,042	**72,128**

* Included in the other above are the fees paid to the audit firms of about GEL 337 thousand, for the provision of audit and other professional services (2019: GEL 432 thousand).

9. Finance income and finance costs

’000 GEL	2020	2019
Recognised in profit or loss		
Interest income under the effective interest method	18,920	14,849
Gain on modification of financial instruments	7,367	-
Impairment reversal on other financial assets	221	-
Finance income	**26,508**	**14,849**
Impairment loss on other financial assets	-	(39)
Unwinding of discount on provisions and financial liabilities measured at amortised cost	(1,225)	-
Interest expense on financial liabilities measured at amortised cost *	(126,758)	(42,843)
Finance costs	**(127,983)**	**(42,882)**
Net foreign exchange loss	(191,901)	(85,249)
Net finance costs recognised in profit or loss	**(293,376)**	**(113,282)**

* As disclosed in note 10 (a) capitalisation of borrowing costs on a qualifying asset was suspended in 2020.

10. Property, plant and equipment

'000 GEL	Land	Buildings and constructions	Rail track infrastructure	Transport, machinery, equipment and other	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2019	539,725	131,001	967,000	1,024,110	1,251,844	3,913,680
Additions	489	605	5,232	6,370	111,569	124,265
Disposals and write-offs	(308)	(402)	(1,764)	(16,822)	(2)	(19,298)
Transfers	81	127	11,098	197	(11,503)	-
Balance at 31 December 2019	**539,987**	**131,331**	**981,566**	**1,013,855**	**1,351,908**	**4,018,647**
Balance at 1 January 2020	539,987	131,331	981,566	1,013,855	1,351,908	4,018,647
Additions	200	442	2,857	4,107	35,899	43,505
Disposals and write offs	(2,630)	(155)	(2,545)	(5,257)	(115)	(10,702)
Transfers	386	1,440	37,975	7,337	(47,138)	-
Balance at 31 December 2020	**537,943**	**133,058**	**1,019,853**	**1,020,042**	**1,340,554**	**4,051,450**
Depreciation and impairment loss						
Balance at 1 January 2019	171,484	64,524	557,809	695,270	598,002	2,087,089
Depreciation for the year	-	2,575	45,359	33,325	-	81,259
Disposals and write offs	(79)	(217)	(1,406)	(13,351)	-	(15,053)
Transfer of impairment loss allocated to construction in progress	21	33	2,908	52	(3,014)	-
Balance at 31 December 2019	**171,426**	**66,915**	**604,670**	**715,296**	**594,988**	**2,153,295**
Balance at 1 January 2020	171,426	66,915	604,670	715,296	594,988	2,153,295
Depreciation for the year	-	2,783	38,382	34,488	-	75,653
Disposals and write offs	(521)	(144)	(2,012)	(4,330)	(52)	(7,059)
Reallocation of depreciation and impairment	2,086	556	8,976	(19,845)	8,227	-
Balance at 31 December 2020	**172,991**	**70,110**	**650,016**	**725,609**	**603,163**	**2,221,889**
Carrying amounts						
At 1 January 2019	**368,241**	**66,477**	**409,191**	**328,840**	**653,842**	**1,826,591**
At 31 December 2019	**368,561**	**64,416**	**376,896**	**298,559**	**756,920**	**1,865,352**
At 31 December 2020	**364,952**	**62,948**	**369,837**	**294,433**	**737,391**	**1,829,561**

(a) Construction in progress

By the end of 2010, the Group started two large capital projects:

- The Main Line Modernisation; and
- Tbilisi Bypass Project.

The Group commenced the initiation of the above projects in September 2010 and November 2010, respectively. The Group issued unsecured bonds in 2010 to partly finance the projects above. During 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see Note 18).

The borrowing costs were capitalized on the above two projects in proportion to the costs incurred on those projects based on a capitalization rate of approximately 8% in 2019. No borrowing costs were capitalized in 2020 due to significant slowdown of the works performed on Modernization project, mainly linked with COVID-19 pandemic situation in Georgia (2019: Capitalised borrowing costs of GEL 73,518 thousand during 2019 relate to the Main Line Modernization project).

(b) Impairment of Tbilisi Bypass Project (the Project)

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 capitalised since October 2013.

In March 2014, the Government of Georgia decided that the suspension of the construction of 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 the 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, because of which the existing bypass infrastructure may become redundant. The alternative scenarios also included the determination of the future use of the existing infrastructure, should it become redundant. The options of future use of the infrastructure were bypass automobile road, light rail/extension of the Tbilisi Metro System, freight depot, etc., however, as at 31 December 2020 and the date these consolidated financial statements were authorized for issue, 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 implementation of any other scenarios, envisaging the change in the existing use of the Project, and also considering the fact that 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 by GEL 382,616 thousand in 2017 to its recoverable amount GEL 14,689 thousand, representing land included in the construction in progress heading above.

During 2020 and 2019 no event or change in circumstances occurred which would result in a reversal of the provision.

(c) Impairment of property, plant and equipment (excluding Tbilisi Bypass Project)

At each reporting date, the Group assesses whether there is any indication that the recoverable amount of the Group's non-financial assets has declined below the carrying value or previously recognized impairment loss is subject to reversal.

At 31 December 2018, the impairment testing was carried out by the Group 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 in freight transportation (from GEL 350,749 thousand in 2012 to GEL 241,572 thousand in 2018). As a result of the impairment testing, the Group recognized impairment loss of GEL 691,387 thousand in 2018 and the impairment loss was allocated to items of property, plant and equipment on a pro-rata basis, but not less than the fair value less costs to sell of the individual items.

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.

In 2019, the Group revisited some of its key assumptions with respect to longer-term prospects of growth as a result of the new developments in the market, outside of the control of the Group. Consequently, the Group conducted an impairment test at 31 December 2019. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

As at 31 December 2020, the Management analyzed impairment indicators (external and internal) according to IAS 36 and concluded that there is an indication of impairment because of the significant market turmoil during 2020 driven by the outbreak of COVID-19 and considering that impairment test conducted at 31 December 2019 was sensitive to changes in key assumptions. The Management conducted a new impairment test at 31 December 2020. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

The following main key assumptions are used in the estimation of the recoverable amount:

- Cash flows are projected based on actual operating results and cash flows for five years and a terminal growth rate thereafter. A long-term growth rate for the terminal period is determined as approximate long-term economy growth forecast for Georgia and the region affecting the Group's operations.
- Volumes are projected based on the budgeted quantities during 2021, adjusted for the Georgian GDP growth rate of 4.5% and 4.1% during the first two projected years and 4.6% increase during the remaining projected period. No volume growth is projected from 2026. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2021, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 2.1% and 1.8% during the first two projected years and 1.9% increase during the remaining projected period;
- Cash flows include annual maintenance capital expenditures and payments for the finalization of the Main Line Modernization project. Projected cash flows include USD 50 million associated with the Modernization project above. The finalization of the above project is expected to decrease the projected electricity and material costs by 10% during 2022 and 2023;
- A pre-tax discount rate of 11.49% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. The long-term growth rate for the terminal period approximates to the long-term inflation forecast for USD, which is 1.9%.

The key assumptions to which the impairment indicator analysis is most sensitive include:

- Discount rate – An increase of 1% point in the discount rate used would have resulted in an impairment loss of approximately GEL 96,800 thousand;
- Volume growth – A decrease of 5% in the transported volumes projection used would have resulted in impairment loss of approximately GEL 46,503 thousand;
- Terminal growth – A decrease of 1% point in the terminal growth rate used would have resulted in impairment loss of approximately GEL 44,390 thousand.

(d) Capital contributions and distributions

The Government of Georgia contributes and distributes certain property, plant and equipment in the form of an increase or decrease in share capital. In 2020 the share capital has been increased by the fair value of assets contributed of GEL 565 thousand, unlike to 2019, when share capital decreased by the carrying amount of assets of GEL 343 thousand (See Note 16 (a)).

(e) Security

At 31 December 2020, property with a carrying amount of GEL 72,494 thousand (31 December 2019: GEL 74,274 thousand) is pledged in respect of the secured loan (See Note 18).

(f) Capital commitment

As at 31 December 2020, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 367,643 thousand (2019: GEL 331,617 thousand) mainly relating to the Main Line Modernization project of GEL 65,369 thousand (2019: GEL 91,152 thousand) and Tbilisi Bypass project of GEL 301,993 thousand (2019: GEL 240,012 thousand, increased only due to foreign exchange rate fluctuation).

Management does not expect that the future cessation of the construction agreement with the counterparty, responsible for the Tbilisi Bypass project completion, will result in the payment of the above amount.

(g) Property received free of charge

In 2020, the Group obtained railway infrastructure assets from a non-related party (the Party), free of charge, with a fair value of GEL 3,051 thousand, which was recognized in Other income. The Party receives freight traffic services from the Group under the normal course of the Group's business operations. To benefit from the received service from the Group, the Party constructed and initially operated its own railway infrastructure independently in the territory adjacent to its operations. However, based on the commercial disadvantages of such independent operations, the Party decided to gift those assets to the Group and pay normal tariffs for received services on this territory.

11. Loans receivable

This note provides information about the contractual terms of the Group's interest-bearing loans receivable, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and credit risk, see Note 21.

'000 GEL	**2020**	**2019**
Non-current assets		
Parent company	30,336	24,133
	30,336	**24,133**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2020		**31 December 2019**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Parent company	USD	9.75%	2022	30,336	30,336	24,133	24,133
Total interest-bearing assets				**30,336**	**30,336**	**24,133**	**24,133**

In September 2020, the Parent company used its contractual option to extend the principal repayment of the loan obtained from the Group till March 2022.

12. Other non-current assets

'000 GEL	2020	2019
Prepayments for non-current assets*	63,719	60,768
Construction materials	26,084	23,240
Intangible assets	9,328	9,735
Other	-	46
	99,131	**93,789**

* Prepayments for non-current assets are mainly related to Bypass project, which was suspended as at 31 December 2020 and 31 December 2019. Per Management's assessment the prepayments are fully recoverable based on the performance guarantee from a foreign bank.

13. Inventories

'000 GEL	2020	2019
Materials	31,374	32,238
Fuel	2,370	3,582
Rails	1,402	1,422
Other	5,045	4,743
	40,191	**41,985**
Allowance for inventory obsolescence	(1,792)	(1,761)
	38,399	**40,224**
(Write-down)/reversal of previous write-down of inventories	(31)	190

14. Trade and other receivables

'000 GEL	2020	2019
Trade receivables	253,070	229,810
Impairment allowance on trade receivables	(229,789)	(205,666)
	23,281	**24,144**
Other receivables	298	193
	23,579	**24,337**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 21.

15. Cash and cash equivalents

'000 GEL	2020	2019
Current accounts in banks	124,622	104,342
Call deposits	198,687	154,122
Petty cash	-	82
Provision for cash and cash equivalents	(323)	(570)
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**322,986**	**257,976**

Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring penalties or significant loss of interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

The Group's exposure to interest rate risk is disclosed in Note 21.

16. Equity and liabilities to the Government

(a) Share capital

Number of shares	Ordinary shares	
	2020	**2019**
In issue at 1 January	1,053,371,024	1,053,713,624
Net increase/(reduction) for property, plant and equipment (See Note 10 (d))	565,000	(342,600)
In issue at 31 December, fully paid	**1,053,936,024**	**1,053,371,024**
Authorised shares - par value	**1**	**1**

All ordinary shares rank equally with regard to the Group's residual assets.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group.

(b) Non-cash owner contribution reserve

The difference between the nominal amount of registered share capital for non-cash assets contributed by the owner and the fair value of the contributed assets is recognised in the non-cash owner contribution reserve.

(c) Liabilities to the Government

Liabilities to the Government represent liabilities in the form of property, plant and equipment which are withdrawn as a reduction in share capital but not yet transferred formally to the Government. These liabilities are recorded at the carrying amount of assets to be transferred to the owner.

'000 GEL	**2020**	**2019**
Liabilities to the Government	4,734	4,896

(d) Dividends

No dividends were declared in 2020 and in 2019.

(e) Advance received from the Government

In April 2012, the Group and the Government entered into the Bypass Project Memorandum. According to the Bypass Project Memorandum the Government is interested and aims to purchase from the Group approximately 701,281 square meters of land plots with attached constructions which would be freed up as a result of the removal of railway infrastructure from Tbilisi city center and construction of a new bypass railway route for the purposes of further development of the land plots. The Government agreed to pay to the Group CHF 138 million equivalents in national currency through the reduction in the amount of dividends payable to the Government.

In 2012, the Group declared dividends of GEL 231,592 thousand (CHF 138 million). Subsequently, the Group agreed with the Government that the declared dividend amount would represent a consideration due from the Government for the future sale of the land plots in accordance with the Bypass Project Memorandum. As a result, the dividend payable was classified as an advance received from the Government for the sale of land. As of the date these consolidated financial statements were authorized for issue, there is no decision by the Government about these advances and no indication from the Government that this amount is due on demand. No transfer of the aforementioned land plots to the Government took place in 2019 or in 2020.

17. Capital management

The Group has no formal policy for capital management, but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows and unsecured bonds. With these measures the Group aims for steady profits growth.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

18. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 21.

'000 GEL	**2020**	**2019**
Non-current liabilities		
Secured loan	65,546	68,092
Unsecured bonds	1,637,434	1,432,595
	1,702,980	**1,500,687**
Current liabilities		
Secured loan	14,453	12,876
Current portion of unsecured bonds	59,903	52,068
	74,356	**64,944**
	1,777,336	**1,565,631**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings were as follows:

				31 December 2020		**31 December 2019**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	7.75%	2022	1,697,337	1,697,337	1,484,663	1,484,663
Secured loan	USD	Libor +1.25%	2026	79,999	79,999	80,968	80,968
Total interest-bearing liabilities				**1,777,336**	**1,777,336**	**1,565,631**	**1,565,631**

In July 2012, the Group carried out the issuance, placement and registration (listing) of unsecured bonds of USD 500 million on the London Stock Exchange with an interest rate of 7.75% due in 2022.

Part of the above bonds were used for an early redemption of the unsecured bonds of USD 250 million issued by the Group in 2010.

The secured loan was obtained for the sole purpose of the acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains, with the carrying amount of GEL 72,494 thousand as at 31 December 2020 (31 December 2019: GEL 74,274 thousand) (See Note 10 (e)).

As at 31 December 2020 a financial covenant related to Net debt to EBITDA ratio on the secured loan above was breached allowing the lender to request repayment on demand, however on 23 December 2020 the Group obtained a waiver from the lender on this covenant until 31 December 2021, consequently the Group classified the loan as long-term borrowings as at 31 December 2020.

(b) Changes in liabilities arising from financing activities

’000 GEL	**2020**	**2019**
Balance at 1 January	**1,565,631**	**1,470,859**
Repayment of borrowings	(14,310)	(12,343)
Interest paid	(117,300)	(110,033)
Total change from financing cash flows	**(131,610)**	**(122,376)**
The effect of changes in foreign exchange rates	**216,557**	**100,787**
Other changes		
Interest expense recognised in finance costs	126,758	42,843
Interest expense capitalised as borrowing costs (Note 10 (a))	-	73,518
Total liability-related other changes	**126,758**	**116,361**
Balance at 31 December	**1,777,336**	**1,565,631**

19. Trade and other payables

’000 GEL	**2020**	**2019**	**1 January 2019**
Current			
Payables for non-current assets	37,380	75,772	103,213
Trade payables	26,122	32,884	18,552
Advances received from customers	18,829	19,657	14,699
	82,331	**128,313**	**136,464**
Non-current			
Payables for non-current assets	53,535	21,551	55,146
	53,535	**21,551**	**55,146**

During the preparation of 2020 consolidated financial statements the Management reconsidered its right under the construction contract for Modernisation Project to defer the payment beyond 12 months. The Management determined that as at 31 December 2019 and 1 January 2019 it has an unconditional right to defer the payment of GEL 21,551 thousand and GEL 55,146 thousand, respectively, for over 1 year. The Management re-presented the balance sheets as at those dates in these consolidated financial statements to show these amounts as non-current liabilities.

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

20. Provisions

’000 GEL	**2020**	**2019**
Balance at 1 January	16,027	11,356
Additional provision during the year	2,362	4,671
Provision used	(1,007)	-
Reversal of provision during the year	(2,182)	-
Unwinding of provision	843	-
Net foreign exchange loss	508	-
Balance at 31 December	**16,551**	**16,027**

The Group recognised a provision for the estimated cash outflow required to settle legal cases against the Group existing as at 31 December 2020 and as at 31 December 2019 as well as to settle the legal obligations towards the employees injured during the performance of their duties.

21. Fair values and risk management

(a) Fair value of financial assets and liabilities

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Group has determined fair values of financial assets and liabilities using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management's estimate of the fair value of the unsecured bonds yielded a range of values from a fair value approximately equal to the carrying amount to a fair value approximately 5% higher than the carrying amount.

The carrying values of other financial assets and liabilities of the Group are a reasonable approximation of their fair values.

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.
The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans receivable and cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Carrying amount	
'000 GEL	**2020**	**2019**
Cash and cash equivalents	322,986	257,894
Trade receivables	23,281	24,144
Loans receivable	30,336	24,133
Balance at 31 December	**376,603**	**306,171**

Cash and cash equivalents

The Group usually holds funds with banks with good credit ratings. As at 31 December 2020, approximately 100% (31 December 2019: 99%) of the bank balances are held with the largest Georgian banks with short-term default rating of B, rated by Fitch Ratings. All balances are categorized under Stage 1. The Group does not expect any counterparty to fail to meet its obligations.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base including the default risk of the industry and country in which customers operate. During 2020, about 23% of the Group's revenue is attributable to sales transactions with two customers (2019: 11% with single customer).

Credit risk is managed mostly by requesting prepayments from freight and passenger transportation customers. Accordingly, the Group's trade receivables mainly consist of receivables from foreign railway companies and two large customers. Credit risk related to receivables from foreign railway companies is managed through the monthly monitoring of receivable balances and requiring immediate repayment of a debt when the balance approaches specific limits set for each individual counterparty.

More than 90% of the Group's foreign railway customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties.

No collateral in respect of trade receivables is generally required.

The Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade receivables.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
'000 GEL	**2020**	**2019**
Foreign countries	15,084	17,047
Domestic	8,197	7,097
	23,281	**24,144**

The Group's two most significant customers (2019: two customers) account for GEL 8,951 thousand of the trade receivables carrying amount as at 31 December 2020 (31 December 2019: GEL 9,051 thousand).

Expected credit loss assessment for corporate customers

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement regarding customer behaviour. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies.

The following tables provides information about the exposure to credit risk and ECLs for trade receivables for customers as at 31 December 2020 and 31 December 2019:

'000 GEL	**2020**	**2020**	**2020**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	5,816	-	5,816
Medium risk	-	12,967	12,967
High risk	-	234,287	234,287
Total Gross carrying amount	**5,816**	**247,254**	**253,070**
Loss allowance	(453)	(229,336)	(229,789)
	5,363	**17,918**	**23,281**

'000 GEL	**2019**	**2019**	**2019**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	9,520	-	9,520
Medium risk	10,030	5,081	15,111
High risk*	-	205,179	205,179
Total Gross carrying amount	**19,550**	**210,260**	**229,810**
Loss allowance	(1,563)	(204,103)	(205,666)
	17,987	**6,157**	**24,144**

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, information on potential financial difficulties of the counterparties and information on past due days) and applying experienced credit judgement.

Exposures within each credit risk grade are segmented by geographic region and an ECL rate is calculated for each segment based on delinquency status, external credit rating and actual credit loss experience over the past two years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

* The Group has receivable from the Government of Georgia (hereinafter the Government or the GoG) with amount of GEL 25,205 thousand recognized as a result of the transfer of the property to the GoG, as according to the Bypass Project Memorandum of Understanding (MoU).

Due to uncertainties associated with the reimbursement of the above receivable, total balance of GEL 25,205 is impaired since 2017 (See Note 16 (e).

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

'000 GEL	**2020**	**2019**
Balance at 1 January	**205,666**	**171,937**
Net charge for the year	13,560	33,729
Effect of movements in foreign exchange rates	10,563	-
Balance at 31 December	**229,789**	**205,666**

The allowance account in respect of trade receivables is used to record impairment losses until all possible opportunities for recovery have been exhausted; at that point the amounts are written off against the financial asset directly.

Loans receivable

As at 31 December 2020 and 31 December 2019, the Group has issued loan to the parent company. The loan is not secured.

Management believes that the Group is not exposed to a significant amount of credit risk relating to the parent company loan, as the loan is not past due as at 31 December 2020 and 31 December 2019. There are no indications that the parent company will fail to meet its obligations, when it falls due and management assessed expected credit loss from loans receivable at GEL 136 thousand as at 31 December 2020 (31 December 2019: GEL 108 thousand). The balance is categorized under Stage 1.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of three months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters or global pandemic.

As at 31 December 2020, the Group maintains committed unused credit lines of GEL 64,766 thousand maturing in 2022 with the local banks (31 December 2019: GEL 146,708 thousand).

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2020

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan **	79,999	89,853	7,789	7,735	15,298	44,598	14,433
Unsecured bonds	1,697,337	1,892,236	63,484	63,484	1,765,268	-	-
Trade payables*	117,037	124,107	63,169	365	27,667	32,906	-
	1,894,373	**2,106,196**	**134,442**	**71,584**	**1,808,233**	**77,504**	**14,433**

31 December 2019

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	80,968	98,025	7,686	7,562	14,800	41,993	25,984
Unsecured bonds	1,484,663	1,767,220	55,562	55,562	111,123	1,544,973	-
Trade payables	130,207	130,207	72,738	35,918	21,551	-	-
	1,695,838	**1,995,452**	**135,986**	**99,042**	**147,474**	**1,586,966**	**25,984**

* Based on the agreement signed between the Group and the construction company responsible for the Modernization Project, there is a specified percentage of each milestone payment to be withheld (retention fee), to protect the Group from the contractor failing to adequately complete its obligations under the contract. Such retention fee is due to pay within two years after the completion of the project.

** As at the date these consolidated financial statements are authorized for issue, the largest refinancing risk faced by the Group is related to its USD 500 thousand Eurobonds due in July 2022. The bonds are currently traded with a lower yielding (approx. 4%) compared to the initial yield of 7.75%. The management believes that the market data adequately captures the appetite of the market and the investors and consequently believes in the Group's capacity to refinance the existing Eurobonds without any major implications. Subsequent to the reporting date the Group hired banks, underwriters and lawyers who are involved in refinance process. The Parties involved in the process are in active communication and have already prepared draft Tender Offer and Consent Solicitation Memorandum; Preliminary Prospectus and Publicity Guidelines. Considering the recent status of the refinancing process and expectation of investors the Management believes that the Group has a capacity to successfully refinance its existing debt instrument in June 2021.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currencies of Group entities are the Georgian Lari (GEL). The currencies in which these transactions are primarily denominated and settled are U.S. Dollars (USD) and Swiss Francs (CHF).

Borrowings and related interest are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without a need to enter into derivatives contracts.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

'000 GEL	USD - denominated 2020	CHF – denominated 2020	USD - denominated 2019	CHF - denominated 2019
Cash and cash equivalents	194,823	1	186,711	128
Loan receivable	30,336	-	24,133	-
Trade receivables	18,549	507	6,816	6,957
Secured loan	(79,999)	-	(80,968)	-
Unsecured bonds	(1,697,337)	-	(1,484,663)	-
Trade and other payables	(5,468)	-	(7,115)	(15)
Net exposure	**(1,539,096)**	**508**	**(1,355,086)**	**7,070**

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate 31 December	
	2020	2019	2020	2019
USD 1	3.1097	2.8192	3.2766	2.8677
CHF 1	3.3178	2.8374	3.7103	2.9488

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

’000 GEL	Profit or loss and equity
2020	
USD (10% weakening)	(153,910)
CHF (10% weakening)	51
2019	
USD (10% weakening)	(135,509)
CHF (10% weakening)	707

A strengthening of the GEL against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(v) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was as follows:

’000 GEL	Carrying amount	
Fixed rate instruments	**2020**	**2019**
Financial assets	304,421	252,740
Financial liabilities	(1,697,337)	(1,484,663)
	(1,392,916)	**(1,231,923)**
Variable rate instruments		
Financial liabilities	(79,999)	(80,968)
	(79,999)	**(80,968)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial instruments as FVTPL or FVOCI. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates as at 31 December 2020 would have affected profit or loss by GEL 800 thousand (31 December 2019: GEL 810 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

22. Subsidiaries

Subsidiary	Country of incorporation	Principal activities	2020 Ownership/ voting	2019 Ownership/ voting
GR Property Management LLC	Georgia	Property management and development	100%	100%
GR Logistics and Terminals LLC	Georgia	Container transportation and terminal services	100%	100%
Georgian Railway Construction JSC	Georgia	Construction and other projects	100%	100%
Georgia Transit LLC	Georgia	Transportation services	100%	100%
GR Transit Line LLC	Georgia	Transportation services	100%	100%
GR Trans Shipment LLC	Georgia	Transportation services	100%	100%
GR Transit LLC	Georgia	Transportation services	100%	100%

23. Operating leases

The Group leases out its wagons, other buildings, containers, locomotives and fittings. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Group during 2020 was GEL 8,838 thousand (2019: GEL 16,090 thousand) and included in revenue.

The following table sets out a maturity analysis of lease payments under non-cancellable period of a lease contracts entered into as at 31 December 2020, showing the undiscounted lease payments to be received after the reporting date.

’000 GEL	
2020 – Operating leases under IFRS 16	
Less than one year	4,013
Between one and five years	10,510
More than five years	27,526
Total	**42,049**
2019 – Operating leases under IFRS 16	
Less than one year	4,946
Between one and five years	7,762
More than five years	23,178
Total	**35,886**

24. Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its property, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Litigation

In the ordinary course of business, the Group is subject to legal actions, litigations and complaints. Management believes that the ultimate liability not already provided for, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

25. Related parties

(a) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in employee benefits expenses:

’000 GEL	**2020**	**2019**
Salaries and bonuses	**933**	**1,031**

(b) Other related party transactions

(i) Transactions with the Government

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence of the Government of Georgia. The Group has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

The Group’s other related party transactions are disclosed below.

(ii) Revenue, purchases and expenses

The Group purchases security services from a state agency, which amounted to GEL 9,655 thousand for 2020 (2019: GEL 9,246 thousand). The Group usually does not have significant balances for these purchases.

Management estimates that the aggregate amounts of other income and expenses and the related balances with other Government-related entities are not significant.

(iii) Loans issued

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2020	2019	2020	2019
Loans issued:				
Parent company	-	-	30,336	24,133

During 2020, interest income of GEL 2,659 thousand (2019: GEL 2,181 thousand) was recognised in profit or loss in respect of a related party loan.

26. Impact of COVID-19

The COVID-19 outbreak started to have a significant impact in Georgia in late February, 2020. On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic and Georgian government started to take measures to contain the virus – imposed restrictions on the cross-border movement, instructed the business community to transfer employees to work from home, etc. To enhance social distancing the schools, restaurants, cinemas and sports activities have stayed suspended for most of the 2020.

The outbreak of COVID-19 has substantially affected the economy and the business environment globally and in Georgia. Georgia's real GDP year-over-year change for 2020 is estimated at negative 6.1% (according to Geostat) compared to positive 5.1% and 4.8% in 2019 and 2018 respectively. Although, the freight transportation sector tends to be more resilient than most of the other sectors, still COVID-19 did have a negative impact on the Group's passenger transportation segment and infrastructural project.

The major implications of COVID-19 pandemic on the business and the industry have been the following:

– The Group temporarily terminated the passenger transportation service, which has been restored from August 2020 till November 2020. See Note 6.
– The Group temporarily suspended capitalization of borrowing costs due to suspension on infrastructural projects. See note 10 (a).
– The slow-down of the economy affected the disposable income and the spending patterns of businesses.
– The local currency devaluation against US dollar by 12% (change in the year end exchange rates) had a favorable impact on the operating profit as the Group's revenues are mostly denominated in USD, while expenses are maintained in GEL. However, it negatively affected the net profit due to the currency revaluation of the Group's loans and borrowings denominated in USD.
– The management closely observed and actively managed the Group's short-term liquidity. As a result the Group maintained a strong cash liquidity throughout the year.
– The Group did not seek any additional indebtedness either for the liquidity purposes or for its ongoing capital investment projects.

Taking into account the Group's current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Group's financial position and operating results.

The management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group in the medium and longer term. The Group also considers negative development scenarios and is ready to adapt its operational plans accordingly.

27. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment, which was revalued to determine deemed cost as a part of the adoption of IFRSs.

28. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

A number of new or amended standards and interpretations are effective from 1 January 2020 but they do not have a material effect on the Group's consolidated financial statements.

(a) Basis of consolidation

(i) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Revenue

Information about the Group's accounting policies relating to contracts with customers is provided in Note 6.

(i) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(c) Finance income and costs

The Group's finance income and finance costs include:

- interest income on bank deposits and loans receivable;
- interest expense on financial liabilities;
- impairment loss on other financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss.

(e) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(f) Income tax

Income tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective at a later date.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholder as a dividend. However, some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of the net distribution.

Set off the tax payable on dividends declared and paid is available for the corporate income tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Group considers the taxation of such transaction as outside of the scope of IAS 12 *Income Taxes* and accounts for the tax on such items as taxes other than on income.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.
Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRS, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Maintenance and repair expenses are recognised as follows:

- Rolling stock:

- current maintenance expenses during the useful life of equipment (repair work and replacement of unusable and missing parts) are recognised as operating expenses in profit or loss as incurred;
- expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated separately from the main asset;
- overhauls performed near the end of the useful life of an asset, together with refurbishment, are capitalised when they extend the useful life of the underlying asset.

- Fixed installations:

- current maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recognised as operating expenses in profit or loss as incurred;
- labour, materials and other costs (associated with the installation of rails, sleepers and ballast) under multi-year major building or infrastructure maintenance programmes are capitalised through the partial or total replacement of each component concerned;
- costs associated with infrastructure improvements are capitalized to the extent that they increase the functionality (traffic working speed) of the asset.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Residual values for rails, wagons and locomotives are assessed based on the estimated market price of scrap metal and the estimated weight of rails, wagons and locomotives less deinstallation costs.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. Major scheduled capital repairs for wagons and locomotives, estimated at 16% of the cost, are considered as major components and depreciated separately for an average useful life of 7 to 15 years based on the expected timing of the capital repairs.

The estimated average useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- buildings and constructions 30-44 years;
- rail track infrastructure 13-25 years;
- transport, machinery, equipment and other 10-16 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade and other receivables, loans receivable and cash and cash are classified as measured at amortised cost.

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest.

These financial assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(j) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Increase of share capital

Share capital increase is affected through the issuance of new shares. When share capital is increased, any difference between the registered amount of share capital and the fair value of the assets contributed is recognized as a separate component of equity as a fair value adjustment reserve for non-cash owner contributions.

Reduction of share capital

Share capital reductions and non-cash distributions are recognized at the carrying amount of the assets distributed. Non-cash distributions of the Group are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners* since the ultimate controlling party controls the assets before and after the distribution.

(k) Impairment

(i) Non-derivative financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

– debt securities that are determined to have low credit risk at the reporting date; and
– other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss recognised in prior periods, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Leases

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At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(i) As a lessee

The Group does not have significant lease agreements where it acts as a lessee as at 31 December 2020 and 2019. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

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(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly railway infrastructure, corporate assets (primarily the Group's headquarters), head office expenses, financial income and expenses, tax expenses and tax assets and liabilities. Items related to infrastructure are not allocated as the Group has not implemented systems for such allocations. The Group's Management Board does not monitor segment liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.

29. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).*
- *COVID-19-Related Rent Concessions (Amendments to IFRS 16).*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *References to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts.*

JSC Georgian Railway

Consolidated Financial Statements for 2019

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Independent Auditors' Report

To the Shareholder of JSC Georgian Railway

Opinion

We have audited the consolidated financial statements of JSC Georgian Railway (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Property, Plant and Equipment

Please refer to the Note 11 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
In 2019 the Group revisited some of its key assumptions with respect to longer-term prospects of growth as a result of the new developments in the market, outside of the control of the Group. Consequently, the Group conducted an impairment test at 31 December 2019. As a result of the impairment test conducted, the recoverable amount of the Group's property, plant and equipment was determined to be higher than its carrying amount and no additional impairment loss was recognised in 2019.	We have performed the following audit procedures to address the key audit matter: - Performed inquiries of management to obtain an understanding of the process for the impairment analysis; - Evaluated the design and implementation of the processes and internal controls of the Group, surrounding the preparation of the impairment model, to assess the reliability and accuracy of the Group's forecasting and budgeting process;

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

The impairment of property, plant and equipment is a Key Audit Matter due to the level of judgement involved in Management's impairment analysis and inherent estimation uncertainties involved in the forecasting and discounting future cash flows related to the impairment assessment.	- Involved our own valuation specialists to challenge the key assumptions and judgements underpinning the impairment-testing model, such as liquid and dry cargo growth rates, inflation rate, discount rate, period of cash flow projections, annual maintenance capital expenditure and payments for the finalisation of the Main Line Modernization project by comparing those inputs to externally derived data, as well as our own expectations; - We compared the current year's actual results with the figures for the same period included in the impairment model prepared as at 31 December 2018, to assess management's ability to accurately budget the expected results; - We obtained the Group's budget for the year ending 31 December 2020 and assessed whether expected cash flows in that budget are consistent with those included in the current year's impairment model; - We evaluated the sensitivity of the impairment model outcomes by considering the downside scenarios against reasonably plausible changes to the key assumptions; and - We evaluated the adequacy of the disclosures made in Note 11 (c) of the consolidated financial statements by reference to the requirements of IAS 36 –Impairment of Assets and IAS 1 – Presentation of financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, covering the Management Report, prepared for statutory purposes, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We have read the other information and based on the work we have performed, we conclude that the other information:

– is consistent with the consolidated financial statements and does not contain material misstatement;
– Management Report contains the information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

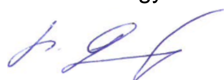
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is

Irina Gevorgyan:



KPMG Georgia LLC
1 June 2020

000 GEL	Note	31 December 2019	31 December 2018*
Assets			
Property, plant and equipment	11	1,865,352	1,826,591
Loans receivable	12	24,133	20,480
Other non-current assets	13	93,789	97,525
Non-current assets		**1,983,274**	**1,944,596**
Inventories	14	40,224	32,882
Tax assets		6,383	3,899
Prepayments and other current assets		1,369	415
Trade and other receivables	15	24,337	40,912
Cash and cash equivalents	16	257,976	241,308
Current assets		**330,289**	**319,416**
Total assets		**2,313,563**	**2,264,012**
Equity			
Share capital	17 (a)	1,053,371	1,053,714
Non-cash owner contribution reserve	17 (b)	100,322	100,244
Accumulated losses		(630,328)	(624,742)
Total equity		**523,365**	**529,216**
Liabilities			
Loans and borrowings	19	1,500,687	1,336,665
Advance received from the Government	17 (e)	46,594	46,594
Non-current liabilities		**1,547,281**	**1,383,259**
Loans and borrowings	19	64,944	134,194
Trade and other payables	20	149,864	191,610
Liabilities to the Government	17 (c)	4,896	5,317
Provisions	21	16,027	11,356
Other current liabilities		7,186	9,060
Current liabilities		**242,917**	**351,537**
Total liabilities		**1,790,198**	**1,734,796**
Total equity and liabilities		**2,313,563**	**2,264,012**

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated, see Note 5.

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

'000 GEL	**Note**	**2019**	**2018***
Revenue	7	491,038	424,614
Other income		12,751	19,512
Employee benefits expense		(160,561)	(154,338)
Depreciation and amortization expense	11	(81,235)	(113,804)
Electricity, consumables and maintenance costs	8	(47,921)	(43,708)
Impairment loss on trade receivables	22(b)(ii)	(33,729)	(12,017)
Impairment loss on property, plant and equipment	11 (c)	-	(691,387)
Other expenses	9	(72,128)	(73,758)
Results from operating activities		**108,215**	**(644,886)**
Finance income	10	14,849	14,534
Finance costs	10	(128,131)	(85,018)
Net finance costs		**(113,282)**	**(70,484)**
Loss before income tax		**(5,067)**	**(715,370)**
Income tax expense		(519)	(1,169)
Loss and total comprehensive loss for the year		**(5,586)**	**(716,539)**

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated, see Note 5.

These consolidated financial statements were approved by the Management Board on 1 June 2020 and were signed on its behalf by:

David Peradze
General Director

Irakli Titvinidze
Chief Financial Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

'000 GEL	Share capital	Non-cash owner contribution reserve	Retained earnings/ (Accumulated losses)	Total equity
Balance at 1 January 2018	1,053,271	98,192	91,797	1,243,260
Loss and total comprehensive loss for the year	-	-	(716,539)	(716,539)
Transactions with owner, recorded directly in equity				
Increase in share capital (Note 17 (a))	443	-	-	443
Non-cash contributions by owners	-	2,052	-	2,052
Total transactions with owner, recorded directly in equity	**443**	**2,052**	**-**	**2,495**
Balance at 31 December 2018*	**1,053,714**	**100,244**	**(624,742)**	**529,216**
Balance at 1 January 2019	1,053,714	100,244	(624,742)	529,216
Loss and total comprehensive loss for the year	-	-	(5,586)	(5,586)
Transactions with owner, recorded directly in equity				
Net decrease in share capital (Note 17 (a))	(343)	-	-	(343)
Non-cash contributions by owners	-	78	-	78
Total transactions with owner, recorded directly in equity	**(343)**	**78**	**-**	**(265)**
Balance at 31 December 2019	**1,053,371**	**100,322**	**(630,328)**	**523,365**

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated, see Note 5.

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

'000 GEL	Note	2019	2018*
Cash flows from operating activities			
Cash receipts from customers		503,900	455,638
Cash paid to suppliers and employees		(288,414)	(276,328)
Cash flows from operations before income taxes paid		**215,486**	**179,310**
Income tax paid		(250)	(270)
Net cash from operating activities		**215,236**	**179,040**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(112,151)	(104,694)
Proceeds from sale of property, plant and equipment		13,835	17,357
Interest received		12,653	11,856
Net cash used in investing activities		**(85,663)**	**(75,481)**
Cash flows from financing activities			
Repayment of borrowings	19 (b)	(12,343)	(11,327)
Interest paid	19 (b)	(110,033)	(101,022)
Net cash used in financing activities		**(122,376)**	**(112,349)**
Net increase/(decrease) in cash and cash equivalents		**7,197**	**(8,790)**
Cash and cash equivalents at 1 January		241,308	243,018
Effect of exchange rate fluctuations on cash and cash equivalents		9,486	7,635
Effect of movements in ECL on cash and cash equivalents		(15)	(555)
Cash and cash equivalents at 31 December	16	**257,976**	**241,308**

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated, see Note 5.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

1. Reporting entity

(a) Georgian business environment

The Group's operations are primarily located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

JSC Georgian Railway (the "Company") and its subsidiaries (the "Group") comprise Georgian joint stock and limited liability companies as defined in the Civil Code of Georgia. The Company was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The Company's registration number is 03/4-965.

The Company's registered office is 15 Queen Tamar Avenue, Tbilisi 0112, Georgia.

The Group's principal activity is the operation of a nationwide railway system providing freight and passenger transportation services, freight forwarding services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

The Company is wholly owned by JSC Partnership Fund, a wholly state-owned company. The ultimate controlling party of the Group is the Government of Georgia. JSC Partnership Fund produces publicly available consolidated financial statements.

Related party transactions are disclosed in Note 26.

2. Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 5.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 11 (c) – impairment of property, plant and equipment;
- Note 15 – impairment allowances for trade and other receivables;
- Note 29 (h) (iii) – useful lives and residual values of property, plant and equipment.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 11 (c) – sensitivity of impairment of property, plant and equipment;
- Note 22(b)(ii) – measurement of ECL allowance for financial assets.

Measurement of fair values

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.
Further information about the assumptions made in measuring fair values is included in the following note:

- Note 22 (a) – fair value of financial assets and liabilities.

5. Changes in significant accounting policies

IFRS 16

The Group has initially adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, recognises right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Group has applied IFRS 16 using the modified retrospective approach and has measured right-of-use asset at the amount equal to the lease liability, adjusted for prepayments and accruals. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

The Group does not have significant lease contracts where it acts as a lessee as at 1 January 2019 and 31 December 2019. Consequently, the Group used practical expedient when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group did not recognise right-of-use assets and liabilities for leases with a term ending less than 12 months after the date of initial application of IFRS 16 *Leases*.

(c) As a lessor

The Group leases out its other buildings, wagons, containers, locomotives and fittings. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group is not involved in sub-lease transactions.

(d) Impact on consolidated financial statements

On transition to IFRS 16, the Group has not recognized either additional right-of-use assets or additional lease liabilities. Consequently, there was no impact on the consolidated financial statements of the Group on transition date. Rent expense related to the leases with a term ending less than 12 months after the date of initial application amounted to GEL 1,149 thousand (2018: GEL 1,030 thousand).

A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements, including amendments in IAS 23 *Borrowing Costs*.

6. Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

– *Freight transportation – includes transportation of goods and commodities and related services.*
– *Passenger transportation – includes transportation of passengers.*

There are no inter-segment charges.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before infrastructure costs, which are the cost of maintaining the rail network used by both reportable segments, central overheads, interest and income tax, as included in the internal management reports that are reviewed by the Group's Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. The Group's Management Board does not monitor segment liabilities.

(i) Information about reportable segments

	Freight transportation		**Passenger transportation**		**Total**	
'000 GEL	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
External revenues	449,967	388,643	31,138	27,404	481,105	416,047
Depreciation and amortization	(17,196)	(36,303)	(11,121)	(8,457)	(28,317)	(44,760)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	310,148	220,452	(4,541)	(5,166)	305,607	215,286
Reportable segment assets	181,553	184,898	137,510	147,654	319,063	332,552
Capital expenditure and other additions to non-current assets	1,750	2,496	391	812	2,141	3,308

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and other material items

'000 GEL	**2019**	**2018**
Revenues		
Total revenue for reportable segments	481,105	416,047
Other revenue	9,933	8,567
Consolidated revenue	**491,038**	**424,614**
Profit or loss		
Total profit or loss for reportable segments before infrastructure costs, net impairment, interest cost and income tax	305,607	215,286
Employee benefits expense – infrastructure and headquarters	(68,500)	(67,860)
Depreciation expenses – infrastructure and headquarters	(52,918)	(69,044)
Impairment	-	(691,387)
Net finance costs	(113,282)	(70,484)
Other net unallocated expenses*	(75,974)	(31,881)
Consolidated loss before income tax	**(5,067)**	**(715,370)**
Assets		
Total assets for reportable segments	319,063	332,552
Property, plant and equipment - infrastructure and headquarters	1,568,891	1,520,426
Other unallocated assets, principally cash and non-current assets	425,609	411,034
Consolidated total assets	**2,313,563**	**2,264,012**

* Other net unallocated expenses include logistic services expense of GEL 20,182 thousand (2018: GEL 17,636 thousand) which was not included in the freight transportation segment profit presented to the Group's Management Board.

(iii) Other material items in 2019

'000 GEL	**Reportable segment totals**	**Infrastructure and headquarters**	**Consolidated totals**
Capital expenditure and other additions to non-current assets	2,141	111,767	113,908
Depreciation and amortization	28,317	52,918	81,235

(iv) Other material items in 2018

'000 GEL	**Reportable segment totals**	**Infrastructure and headquarters**	**Consolidated totals**
Capital expenditure and other additions to non-current assets	3,308	239,287	242,595
Depreciation and amortization	44,760	69,044	113,804

(v) Geographical information

Approximately 90% of the Group's revenue is generated in Georgia with the remainder generated in CIS countries. The non-current assets of the Group are located in Georgia.

(vi) Major customer

In 2019, one customer of the Group's freight transportation segment represented approximately 11% of the Group's total revenue (2018: 7%).

7. Revenue

'000 GEL	**2019**	**2018**
Freight traffic	373,913	292,963
Logistic services *	48,814	70,318
Passenger traffic	31,138	27,404
Rent of wagons and other rental income	16,090	11,297
Freight car cross-border charge	14,156	17,468
Other	6,927	5,164
	491,038	**424,614**

* On 28 September 2017, GR Transit LLC concluded a Ship-or-Pay Agreement (SoP) with foreign company, according to which foreign company had to pay for transportation of 50% of annual quantity of crude oil sourced from Turkmenistan and delivered to Baku-Tbilisi-Ceihan pipeline until the end of 2018 regardless of whether such transportation has occurred. No revenue was recognised in terms of SoP in 2019 (2018: GEL 23,471 thousand).

Railroad transportation in Georgia is a natural monopoly, however, the prices are not subject to government regulation. According to clause 64 of the Railway Code of Georgia, which came into force on 1 July 2005, the Government of Georgia allowed the Group to set the prices for all services provided, including freight transportation, freight transportation-related additional services and passenger transportation.

Tariffs for freight transportation are based on the International Rail Transit Tariff. The Group is a co-signatory of the Tariff Agreement together with CIS countries, Latvia, Lithuania and Estonia. The parties to the Agreement hold annual conferences to determine the tariff policy for the following year: each party declares tariffs denominated in Swiss Francs (CHF) for railway transportation and states the general rules that apply to and modify tariffs. The agreed tariffs indicate the maximum level of tariffs applicable.

a) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Freight traffic - Revenue generated by transporting freight from one point to another in return of the consideration determined based on the agreement.

Logistics services - Revenue for provision of general freight transportation supervision, document preparation and other related services to the external parties.

Passenger traffic - Revenue generated by charging the individuals for transporting from one place to another through sale of railway tickets.

Freight car cross-border charge - Revenue generated, when the Group's wagons cross Georgian border and enter another country's territory, based on daily charges for wagons, containers and any other services.

Rent of wagons and other rental income – Income represents operating lease and is accounted for under IFRS 16, see Note 24.

Other revenue - Revenue is predominantly comprised of sale of scrap.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Revenue Type	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Freight traffic, logistic services and passenger traffic	Freight traffic, logistic services and passenger traffic revenue streams are to be recognized "over time" since transportation is the service, during which customer receives and consumes simultaneously the benefit as the Group performs. The customer benefits from the distance travelled.	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on estimated time to completion of transportation.
Freight car cross-border charge	Freight car cross-border charge stream is to be recognized "over time" since it is the service, during which customer receives and consumes simultaneously the benefit as the Group performs.	Revenue for such services is recognised over time.
Other revenue	Other revenue is recognised at the point in time when sale has been commenced and control over the goods was transferred.	Revenue is recognised at a point in time when the goods have been accepted by customers at the Group`s warehouse.

8. Electricity, consumables and maintenance costs

’000 GEL	2019	2018
Electricity	22,069	20,962
Materials	12,135	11,929
Repair and maintenance	6,694	4,113
Fuel	7,023	6,704
	47,921	**43,708**

9. Other expenses

’000 GEL	2019	2018
Property and land tax	22,225	26,813
Logistic services	20,182	17,636
Security	9,246	9,209
Freight car cross-border charge	3,780	4,177
Other *	16,695	15,923
	72,128	**73,758**

* Included in the other above are the fees paid to the audit firms of about GEL 432 thousand, for the provision of audit and other professional services (2018: GEL 208 thousand).

10. Finance income and finance costs

’000 GEL	2019	2018
Recognised in profit or loss		
Interest income under the effective interest method	14,849	14,534
Finance income	**14,849**	**14,534**
Impairment loss on other financial assets	(39)	(149)
Interest expense on financial liabilities measured at amortised cost	(42,843)	(47,352)
Net foreign exchange loss	(85,249)	(37,517)
Finance costs	**(128,131)**	**(85,018)**
Net finance costs recognised in profit or loss	**(113,282)**	**(70,484)**

11. Property, plant and equipment

'000 GEL	Land	Buildings and constructions	Rail track infrastructure	Transport, machinery, equipment and other	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2018	538,684	130,060	956,138	1,031,351	1,004,407	3,660,640
Additions	1,024	950	5,694	6,854	254,320	268,842
Disposals and write-offs	(156)	(71)	(2,495)	(13,080)	-	(15,802)
Transfers	173	62	7,663	(1,015)	(6,883)	-
Balance at 31 December 2018	**539,725**	**131,001**	**967,000**	**1,024,110**	**1,251,844**	**3,913,680**
Balance at 1 January 2019	539,725	131,001	967,000	1,024,110	1,251,844	3,913,680
Additions	489	605	5,232	6,370	111,569	124,265
Disposals and write offs	(308)	(402)	(1,764)	(16,822)	(2)	(19,298)
Transfers	81	127	11,098	197	(11,503)	-
Balance at 31 December 2019	**539,987**	**131,331**	**981,566**	**1,013,855**	**1,351,908**	**4,018,647**
Depreciation and impairment loss						
Balance at 1 January 2018	32,101	36,021	345,954	527,669	350,515	1,292,260
Depreciation for the year	-	3,364	57,840	52,600	-	113,804
Disposals and write offs	-	(26)	(868)	(9,468)	-	(10,362)
Impairment loss	139,383	25,165	154,883	124,469	247,487	691,387
Balance at 31 December 2018	**171,484**	**64,524**	**557,809**	**695,270**	**598,002**	**2,087,089**
Balance at 1 January 2019	171,484	64,524	557,809	695,270	598,002	2,087,089
Depreciation for the year	-	2,575	45,359	33,325	-	81,259
Disposals and write offs	(79)	(217)	(1,406)	(13,351)	-	(15,053)
Transfers of impairment	21	33	2,908	52	(3,014)	-
Balance at 31 December 2019	**171,426**	**66,915**	**604,670**	**715,296**	**594,988**	**2,153,295**
Carrying amounts						
At 1 January 2018	**506,583**	**94,039**	**610,184**	**503,682**	**653,892**	**2,368,380**
At 31 December 2018	**368,241**	**66,477**	**409,191**	**328,840**	**653,842**	**1,826,591**
At 31 December 2019	**368,561**	**64,416**	**376,896**	**298,559**	**756,920**	**1,865,352**

(a) Construction in progress

By the end of 2010, the Group started two large capital projects:

- The Main Line Modernisation; and
- Tbilisi Bypass Project.

The Group commenced the initiation of the above projects in September 2010 and November 2010, respectively. The Group issued unsecured bonds in 2010 to partly finance the projects above. During 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see Note 19).

The borrowing costs were capitalized on the above two projects in proportion to the costs incurred on those projects based on a capitalization rate of approximately 8% (2018: 8%). Capitalised borrowing costs of GEL 73,518 thousand during 2019 relate to the Main Line Modernization project (2018: GEL 57,114 thousand).

(b) Impairment of Tbilisi Bypass Project (the Project)

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 capitalised since October 2013.

In March 2014, the Government of Georgia decided that the suspension of the construction of 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 the 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, because of which the existing bypass infrastructure may become redundant. The alternative scenarios also included the determination of the future use of the existing infrastructure, should it become redundant. The options of future use of the infrastructure were bypass automobile road, light rail/extension of the Tbilisi Metro System, freight depot, etc., however, as at 31 December 2019 and the date these consolidated financial statements were authorized for issue, 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 implementation of any other scenarios, envisaging the change in the existing use of the Project, and also considering the fact that 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 by GEL 382,616 thousand in 2017 to its recoverable amount GEL 14,689 thousand, representing land included in the construction in progress heading above.

During 2019 and 2018 no event or change in circumstances occurred which would result in a reversal of the provision.

(c) Impairment of property, plant and equipment (excluding Tbilisi Bypass Project)

At each reporting date, the Group assesses whether there is any indication that the recoverable amount of the Group's non-financial assets has declined below the carrying value or previously recognized impairment loss is subject to reversal.

At 31 December 2018, the impairment testing was carried out by the Group 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 in freight transportation (from GEL 350,749 thousand in 2012 to GEL 241,572 thousand in 2018). As a result of the impairment testing, the Group recognized impairment loss of GEL 691,387 thousand in 2018 and the impairment loss was allocated to items of property, plant and equipment on a pro-rata basis, but not less than the fair value less costs to sell of the individual items.

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.

As at 31 December 2019, in response to the changes on the market resulting in the revision of some of the expectations of the Group as at 31 December 2018, the Group reassessed its estimates and conducted a new impairment test. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

The following main key assumptions are used in the estimation of the recoverable amount:

- Cash flows are projected based on actual operating results and cash flows for five years and a terminal growth rate thereafter. A long-term growth rate for the terminal period is determined as approximate long-term economy growth forecast for Georgia and the region affecting the Group's operations.
- Volumes are projected based on the budgeted quantities during 2020, adjusted for the Georgian GDP growth rate of 4.9% up to 2024. No volume growth is projected from 2025. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2020, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 1.9% and 2.1% during the first two projected years and 1.7% increase during the remaining projected period;
- Cash flows include annual maintenance capital expenditures and payments for the finalization of the Main Line Modernization project. Projected cash flows include USD 55 million associated with the Modernization project above. The finalization of the above project is expected to decrease the projected electricity and material costs by 10% during 2022 and 2023;
- A pre-tax discount rate of 11.01% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. The long-term growth rate for the terminal period approximates to the long-term inflation forecast for USD, which is 2%.

The key assumptions used to determine the value in use to which the calculation is most sensitive include:

- Discount rate – An increase of 1% point in the discount rate used would have resulted in an impairment loss of approximately GEL 180 million;
- Volume growth – A decrease of 5% in the transported volumes projection used would have resulted in impairment loss of approximately GEL 135 million;
- Terminal growth – A decrease of 1% point in the terminal growth rate used would have resulted in impairment loss of approximately GEL 130 million.

(d) Capital contributions and distributions

The Government of Georgia contributes and distributes certain property, plant and equipment in the form of an increase or decrease in share capital. In 2019 the share capital has been decreased by the carrying amount of assets of GEL 343 thousand, unlike to 2018, when share capital increased by the fair value of assets contributed of GEL 443 thousand (See Note 17 (a)).

(e) Security

At 31 December 2019, property with a carrying amount of GEL 74,274 thousand (31 December 2018: GEL 76,717 thousand) is pledged in respect of the secured loan (See Note 19).

(f) Capital commitment

As at 31 December 2019, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 331,617 thousand (2018: GEL 333, 188 thousand) mainly relating to the Main Line Modernization project of GEL 91,152 thousand (2018: GEL 109,113 thousand) and Tbilisi Bypass project of GEL 240,012 thousand (2018: GEL 222,203 thousand, increased only due to foreign exchange rate fluctuation).

Management does not expect that the cessation of the construction agreement with the counterparty, responsible for the Tbilisi Bypass project completion, will result in the payment of the above amount.

12. Loans receivable

This note provides information about the contractual terms of the Group's interest-bearing loans receivable, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and credit risk, see Note 22.

'000 GEL	2019	2018
Non-current assets		
Parent company	24,133	20,480
	24,133	**20,480**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2019		31 December 2018	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Parent company	USD	9.75%	2021	24,133	24,133	20,480	20,480
Total interest-bearing assets				**24,133**	**24,133**	**20,480**	**20,480**

13. Other non-current assets

'000 GEL	2019	2018
Prepayments for non-current assets*	60,768	60,630
Construction materials	23,240	26,463
Intangible assets	9,735	10,386
Other	46	46
	93,789	**97,525**

* Prepayments for non-current assets are related to Bypass project, which was suspended as at 31 December 2019 and 31 December 2018. Per Management's assessment the prepayments are fully recoverable based on the performance guarantee from a foreign bank.

14. Inventories

'000 GEL	2019	2018
Materials	32,238	27,227
Fuel	3,582	3,405
Rails	1,422	1,264
Other	4,743	2,937
	41,985	**34,833**
Allowance for inventory obsolescence	(1,761)	(1,951)
	40,224	**32,882**
Reversal of previous write-down of inventories	190	1,307

15. Trade and other receivables

'000 GEL	**2019**	**2018**
Trade receivables *	204,605	186,373
Impairment allowance on trade receivables *	(180,461)	(146,732)
	24,144	**39,641**
Receivable from the Government **	25,205	25,205
Impairment allowance on receivable from the Government **	(25,205)	(25,205)
	-	**-**
Other receivables	193	1,271
	24,337	**40,912**

* Trade receivables as at 31 December 2019 and 31 December 2018 include the receivable from a foreign company (See Note 7), amounting to GEL 40,115 thousand and GEL 37,441 thousand, respectively. As at 31 December 2019 and 31 December 2018 and the date these financial statements were authorised for issue, the receivable above was fully overdue. Provision for the receivable as at 31 December 2019 amounts to GEL 40,115 thousand (31 December 2018: GEL 18,373 thousand).

** Receivable from the Government of Georgia (hereinafter the Government or the GoG) was recognized as a result of the transfer of the property to the GoG, as according to the Bypass Project Memorandum of Understanding (MoU), the Government will reimburse the Group for the value added tax payable incurred on such transfers (See Note 17 (e)).

Based on discussions with the GoG and due to uncertainties associated with the reimbursement of the above receivable, the Group recognized an impairment loss on the receivable from the Government, which was recognised in finance cost during 2017.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 22.

16. Cash and cash equivalents

'000 GEL	**2019**	**2018**
Current accounts in banks	104,342	91,716
Call deposits	154,122	150,028
Petty cash	82	119
Provision for cash and cash equivalents	(570)	(555)
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**257,976**	**241,308**

Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring penalties or significant loss of interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

The Group's exposure to interest rate risk is disclosed in Note 22.

17. Equity and liabilities to the Government

(a) Share capital

Number of shares	Ordinary shares	
	2019	**2018**
In issue at 1 January	1,053,713,624	1,053,271,005
Net (reduction)/increase for property, plant and equipment (See Note 11 (d))	(342,600)	442,619
In issue at 31 December, fully paid	**1,053,371,024**	**1,053,713,624**
Authorised shares - par value	**1**	**1**

All ordinary shares rank equally with regard to the Company's residual assets.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

(b) Non-cash owner contribution reserve

The difference between the nominal amount of registered share capital for non-cash assets contributed by the owner and the fair value of the contributed assets is recognised in the non-cash owner contribution reserve.

(c) Liabilities to the Government

Liabilities to the Government represent liabilities in the form of property, plant and equipment which are withdrawn as a reduction in share capital but not yet transferred formally to the Government. These liabilities are recorded at the carrying amount of assets to be transferred to the owner.

'000 GEL	**2019**	**2018**
Liabilities to the Government	4,896	5,317

(d) Dividends

No dividends were declared in 2019 and in 2018.

(e) Advance received from the Government

In April 2012, the Company and the Government entered into the Bypass Project Memorandum. According to the Bypass Project Memorandum the Government is interested and aims to purchase from the Group approximately 701,281 square meters of land plots with attached constructions which would be freed up as a result of the removal of railway infrastructure from Tbilisi city center and construction of a new bypass railway route for the purposes of further development of the land plots. The Government agreed to pay to the Group CHF 138 million equivalents in national currency through the reduction in the amount of dividends payable to the Government.

In 2012, the Company declared dividends of GEL 231,592 thousand (CHF 138 million). Subsequently, the Company agreed with the Government that the declared dividend amount would represent a consideration due from the Government for the future sale of the land plots in accordance with the Bypass Project Memorandum. As a result, the dividend payable was classified as an advance received from the Government for the sale of land. As of the date these consolidated financial statements were authorized for issue there is no decision by the Government about these advances and no indication from the Government that this amount is due on demand. No transfer of the aforementioned land plots to the Government took place in 2018 or in 2019.

18. Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows and unsecured bonds. With these measures the Group aims for steady profits growth.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

19. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 22.

'000 GEL	2019	2018
Non-current liabilities		
Secured loan	68,092	-
Unsecured bonds	1,432,595	1,336,665
	1,500,687	**1,336,665**
Current liabilities		
Secured loan	12,876	85,594
Current portion of unsecured bonds	52,068	48,600
	64,944	**134,194**
	1,565,631	**1,470,859**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings were as follows:

				31 December 2019		**31 December 2018**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	7.75%	2022	1,484,663	1,484,663	1,385,265	1,385,265
Secured loan	USD	Libor +1.25%	2026	80,968	80,968	85,594	85,594
Total interest-bearing liabilities				**1,565,631**	**1,565,631**	**1,470,859**	**1,470,859**

In July 2012, the Group carried out the issuance, placement and registration (listing) of unsecured bonds of USD 500 million on the London Stock Exchange with an interest rate of 7.75% due in 2022.

Part of the above bonds were used for an early redemption of the unsecured bonds of USD 250 million issued by the Group in 2010.

The secured loan was obtained for the sole purpose of the acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains, with the carrying amount of GEL 74,274 thousand as at 31 December 2019 (31 December 2018: GEL 76,717 thousand) (See Note 11 (e)).

As at 31 December 2018 a financial covenant related to Net debt to EBITDA ratio on the secured loan above was breached. As a result, the lender could request repayment on demand and Group had classified the loan as short-term borrowings as at 31 December 2018. The Group obtained a preliminary agreement from the lender on waiving the covenant at 31 December 2018 and the final waiver was received and became effective as of 10 January 2019.

(b) Changes in liabilities arising from financing activities

’000 GEL	2019	2018
Balance at 1 January	**1,470,859**	**1,433,172**
Repayment of borrowings	(12,343)	(11,327)
Interest paid	(110,033)	(101,022)
Total change from financing cash flows	**(122,376)**	**(112,349)**
The effect of changes in foreign exchange rates	**100,787**	**45,570**
Other changes		
Interest expense recognised in finance cost	42,843	47,352
Interest expense capitalised as borrowing costs (Note 11 (a))	73,518	57,114
Total liability-related other changes	**116,361**	**104,466**
Balance at 31 December	**1,565,631**	**1,470,859**

20. Trade and other payables

’000 GEL	2019	2018
Payables for non-current assets	97,323	158,359
Trade payables	32,884	18,552
Advances received from customers	19,657	14,699
	149,864	**191,610**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22.

21. Provisions

’000 GEL	2019	2018
Balance at 1 January	11,356	7,953
Net additional provision during the year	4,671	3,403
Balance at 31 December	**16,027**	**11,356**

The Group recognised a provision for the estimated cash outflow required to settle legal cases against the Group existing as at 31 December 2019 and as at 31 December 2018 as well as to settle the legal obligations towards the employees injured during the performance of their duties.

22. Fair values and risk management

(a) Fair value of financial assets and liabilities

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Group has determined fair values of financial assets and liabilities using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management's estimate of the fair value of the unsecured bonds yielded a range of values from a fair value approximately equal to the carrying amount to a fair value approximately 10% higher than the carrying amount.

The carrying values of other financial assets and liabilities of the Group are a reasonable approximation of their fair values.

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans receivable and cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Carrying amount	
'000 GEL	**2019**	**2018**
Cash and cash equivalents	257,894	241,189
Trade receivables	24,144	39,641
Loans receivable	24,133	20,480
Balance at 31 December	**306,171**	**301,310**

Cash and cash equivalents

The Group usually holds funds with banks with good credit ratings. As at 31 December 2019, approximately 99% (31 December 2018: 99%) of the bank balances are held with the largest Georgian banks with short-term default rating of B, rated by Fitch Ratings. All balances are categorized under Stage 1. The Group does not expect any counterparty to fail to meet its obligations.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base including the default risk of the industry and country in which customers operate. During 2019, about 11% (2018: 7%) of the Group's revenue is attributable to sales transactions with a single customer.

Credit risk is managed mostly by requesting prepayments from freight and passenger transportation customers. Accordingly, the Group's trade receivables mainly consist of receivables from foreign railway companies and one large customer. Credit risk related to receivables from foreign railway companies is managed through the monthly monitoring of receivable balances and requiring immediate repayment of a debt when the balance approaches specific limits set for each individual counterparty.

More than 90% of the Group's foreign railway customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties.

No collateral in respect of trade receivables is generally required.

The Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade receivables.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
'000 GEL	**2019**	**2018**
Foreign countries	17,047	37,646
Domestic	7,097	1,995
	24,144	**39,641**

The Group's two most significant customers (2018: two customers) account for GEL 9,051 thousand of the trade receivables carrying amount as at 31 December 2019 (31 December 2018: GEL 21,975 thousand).

Expected credit loss assessment for corporate customers as at 31 December 2019 and 31 December 2018

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement regarding customer behaviour. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies.

The following table provides information about the exposure to credit risk and ECLs for trade receivables for customers as at 31 December 2019:

'000 GEL	**2019**	**2019**	**2019**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	9,520	-	9,520
Medium risk	10,030	5,081	15,111
High risk	-	179,974	179,974
Total Gross carrying amount	**19,550**	**185,055**	**204,605**
Loss allowance	(1,563)	(178,898)	(180,461)
	17,987	**6,157**	**24,144**

'000 GEL	**2018**	**2018**	**2018**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	3,589	-	3,589
Medium risk	-	9,382	9,382
High risk	-	173,402	173,402
Total gross carrying amount	**3,589**	**182,784**	**186,373**
Loss allowance	-	(146,732)	(146,732)
	3,589	**36,052**	**39,641**

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, information on potential financial difficulties of the counterparties and information on past due days) and applying experienced credit judgement.

Exposures within each credit risk grade are segmented by geographic region and an ECL rate is calculated for each segment based on delinquency status, external credit rating and actual credit loss experience over the past two years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

'000 GEL	**2019**	**2018**
Balance at 1 January	**146,732**	**165,149**
Net charge for the year	33,729	12,017
Net write-off during the year	-	(30,434)
Balance at 31 December	**180,461**	**146,732**

The allowance account in respect of trade receivables is used to record impairment losses until all possible opportunities for recovery have been exhausted; at that point the amounts are written off against the financial asset directly.

Loans receivable

As at 31 December 2019 and 31 December 2018, the Group has issued loan to the parent company. The loan is not secured.

Management believes that the Group is not exposed to a significant amount of credit risk relating to the parent company loan, as the loan is not past due as at 31 December 2019 and 31 December 2018. There are no indications that the parent company will fail to meet its obligations, when it falls due and management assessed expected credit loss from loans receivable at GEL 108 thousand as at 31 December 2019 (31 December 2018: GEL 90 thousand). The balance is categorized under Stage 1.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of three months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters or global pandemic.

As at 31 December 2019, the Group maintains committed unused credit lines of GEL 86,031 thousand maturing in 2020 and GEL 60,677 thousand maturing in 2022 with the local banks (31 December 2018: GEL 162,800 thousand).

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2019

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	80,968	98,025	7,686	7,562	14,800	41,993	25,984
Unsecured bonds	1,484,663	1,767,220	55,562	55,562	111,123	1,544,973	-
Trade payables	130,207	130,207	130,207	-	-	-	-
	1,695,838	**1,995,452**	**193,455**	**63,124**	**125,923**	**1,586,966**	**25,984**

31 December 2018

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	85,594	108,559	7,719	7,516	14,677	41,329	37,318
Unsecured bonds	1,385,265	1,753,173	51,859	51,859	103,718	1,545,737	-
Trade payables	176,911	176,911	176,911	-	-	-	-
	1,647,770	**2,038,643**	**236,489**	**59,375**	**118,395**	**1,587,066**	**37,318**

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currencies of Group entities are the Georgian Lari (GEL). The currencies in which these transactions are primarily denominated and settled are U.S. Dollars (USD) and Swiss Francs (CHF).

Borrowings and related interest are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without a need to enter into derivatives contracts.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

'000 GEL	USD - denominated 2019	CHF – denominated 2019	USD - denominated 2018	CHF - denominated 2018
Cash and cash equivalents	186,711	128	180,680	17
Loan receivable	24,133	-	20,480	-
Trade receivables	6,816	6,957	33,324	4,323
Secured loan	(80,968)	-	(85,594)	-
Unsecured bonds	(1,484,663)	-	(1,385,265)	-
Trade and other payables	(7,115)	(15)	(659)	-
Net exposure	**(1,355,086)**	**7,070**	**(1,237,034)**	**4,340**

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate 31 December	
	2019	**2018**	**2019**	**2018**
USD 1	2.8192	2.5345	2.8677	2.6766
CHF 1	2.8374	2.5910	2.9488	2.7268

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

'000 GEL	**Profit or loss and equity**
2019	
USD (10% weakening)	(135,509)
CHF (10% weakening)	707
2018	
USD (10% weakening)	(123,703)
CHF (10% weakening)	434

A strengthening of the GEL against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(v) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

'000 GEL	**Carrying amount**	
Fixed rate instruments	**2019**	**2018**
Financial assets	178,255	170,508
Financial liabilities	(1,484,663)	(1,385,265)
	(1,306,408)	**(1,214,757)**
Variable rate instruments		
Financial liabilities	(80,968)	(85,594)
	(80,968)	**(85,594)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial instruments as FVTPL or FVOCI. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates as at 31 December 2019 would have affected profit or loss by GEL 810 thousand (31 December 2018: GEL 856 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

23. Subsidiaries

Subsidiary	Country of incorporation	Principal activities	2019 Ownership/ voting	2018 Ownership/ voting
GR Property Management LLC	Georgia	Property management and development	100%	100%
GR Logistics and Terminals LLC	Georgia	Container transportation and terminal services	100%	100%
Georgian Railway Construction JSC	Georgia	Construction and other projects	100%	100%
Georgia Transit LLC	Georgia	Transportation services	100%	100%
GR Transit Line LLC	Georgia	Transportation services	100%	100%
GR Trans Shipment LLC	Georgia	Transportation services	100%	100%
GR Transit LLC	Georgia	Transportation services	100%	100%

24. Operating leases

The Group leases out its wagons, other buildings, containers, locomotives and fittings. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Group during 2019 was GEL 16,090 thousand (2018: GEL 11,297 thousand) and included in revenue. See Note 5.

The following table sets out a maturity analysis of lease payments under non-cancellable period of a lease contracts entered into as at 31 December 2019, showing the undiscounted lease payments to be received after the reporting date.

’000 GEL	
2019 – Operating leases under IFRS 16	
Less than one year	4,946
Between one and five years	7,762
More than five years	23,178
Total	**35,886**
2018 – Operating leases under IAS 17	
Less than one year	5,400
Between one and five years	4,610
More than five years	17,753
Total	**27,763**

25. Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its property, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Litigation

In the ordinary course of business, the Group is subject to legal actions, litigations and complaints. Management believes that the ultimate liability not already provided for, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

26. Related parties

(a) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in employee benefits expenses:

'000 GEL	**2019**	**2018**
Salaries and bonuses	**1,031**	**1,102**

(b) Other related party transactions

(i) Transactions with the Government

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence of the Government of Georgia. The Group has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

The Group's other related party transactions are disclosed below.

(ii) Revenue, purchases and expenses

The Group purchases security services from a state agency, which amounted to GEL 9,246 thousand for 2019 (2018: GEL 9,209 thousand). The Group usually does not have significant balances for these purchases.

Management estimates that the aggregate amounts of other income and expenses and the related balances with other Government-related entities are not significant.

(iii) Loans issued

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2019	**2018**	**2019**	**2018**
Loans issued:				
Parent company	-	-	24,133	20,480

During 2019, interest income of GEL 2,181 thousand (2018: GEL 1,775 thousand) was recognised in profit or loss in respect of a related party loan.

(iv) Credit line

As at 31 December 2019, the Group does not have an unused credit line from the parent company (2018: USD 7 million with bearing interest rate of 10% per annum, maturing in June, 2019).

27. Subsequent events

The outbreak of COVID-19 in early 2020 and its rapid spread in the world, has caused substantial impact and changes to the business environment in all countries over the world, including Georgia.

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Government of Georgia have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home. During March 2020, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theaters and museums and sport facilities.

In response to the aforementioned restrictions imposed by the Government of Georgia, the Group temporarily terminated the passenger transportation services, which is about 6% of total revenue for the year ended 31 December 2019 (2018: 6%), see Note 7. However, irrespective of the aforementioned measures, as at 31 December 2019 and as of the date these consolidated financial statements were authorized for issue, the Group, apart from the passenger transportation services, continues its operations in its normal way. Furthermore, temporary lock down of air and overland transportation has positively affected the revenue from freight traffic which is about 76% of total revenue for the year ended 31 December 2019 (2018: 69%) during the first months of 2020.

Taking into account the Group's current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Groups financial position and operating results.

The management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group in the medium and longer term. The Group also considers negative development scenarios and is ready to adapt its operational plans accordingly.

Management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

28. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment, which was revalued to determine deemed cost as a part of the adoption of IFRSs.

29. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the adoption of IFRS 16 from 1 January 2019, and have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Revenue

Information about the Group's accounting policies relating to contracts with customers is provided in Note 7.

(i) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(c) Finance income and costs

The Group's finance income and finance costs include:

- interest income on bank deposits and loans receivable;
- interest expense on financial liabilities;
- impairment loss on other financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(e) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(f) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective at a later date.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholder as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of the net distribution.

Set off the tax payable on dividends declared and paid is available for the corporate income tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Group considers the taxation of such transaction as outside of the scope of IAS 12 *Income Taxes* and accounts for the tax on such items as taxes other than on income.

(ii) Deferred Tax

Due to the nature of the new taxation system described above, the entities registered in Georgia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRS, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Maintenance and repair expenses are recognised as follows:

- Rolling stock:

- current maintenance expenses during the useful life of equipment (repair work and replacement of unusable and missing parts) are recognised as operating expenses in profit or loss as incurred;
- expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated separately from the main asset;
- overhauls performed near the end of the useful life of an asset, together with refurbishment, are capitalised when they extend the useful life of the underlying asset.

- Fixed installations:

- current maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recognised as operating expenses in profit or loss as incurred;
- labour, materials and other costs (associated with the installation of rails, sleepers and ballast) under multi-year major building or infrastructure maintenance programmes are capitalised through the partial or total replacement of each component concerned;
- costs associated with infrastructure improvements are capitalized to the extent that they increase the functionality (traffic working speed) of the asset.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value. Residual values for rails, wagons and locomotives are assessed based on the estimated market price of scrap metal and the estimated weight of rails, wagons and locomotives less deinstallation costs.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. Major scheduled capital repairs for wagons and locomotives, estimated at 16% of the cost, are considered as major components and depreciated separately for an average useful life of 7 to 15 years based on the expected timing of the capital repairs.

The estimated average useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

– buildings and constructions	30-44 years;
– rail track infrastructure	13-25 years;
– transport, machinery, equipment and other	10-16 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade and other receivables, loans receivable and cash and cash are classified as measured at amortised cost.

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest.

These financial assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(j) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Increase of share capital

Share capital increase is affected through the issuance of new shares. When share capital is increased, any difference between the registered amount of share capital and the fair value of the assets contributed is recognized as a separate component of equity as a fair value adjustment reserve for non-cash owner contributions.

Reduction of share capital

Share capital reductions and non-cash distributions are recognized at the carrying amount of the assets distributed. Non-cash distributions of the Company are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners* since the ultimate controlling party controls the assets before and after the distribution.

(k) Impairment

(i) Non-derivative financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 90 days past due;
– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
– it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment lossrecognised in prior periods, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

The Group did not have significant lease agreements where it acts as a lessee as at 31 December 2019 and 2018. The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. (See Note 5)

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly railway infrastructure, corporate assets (primarily the Group's headquarters), head office expenses, financial income and expenses, tax expenses and tax assets and liabilities. Items related to infrastructure are not allocated as the Group has not implemented systems for such allocations. The Group's Management Board does not monitor segment liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.

30. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*
- *IFRS 17 Insurance Contracts.*
- *Classification of liabilities as current or non-current (Amendments to IAS 1)*

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