Georgian Railway
EST. 1872

2022

ANNUAL REPORT

A MESSAGE FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

The year of 2022 has been one filled with challenges, achievements and opportunities for our company and indeed the nation as a whole.

Over the course of these 12 months a new geopolitical landscape emerged, testing our resilience and adaptability. In particular, we encountered numerous hurdles demanding strategic navigation and careful decision-making. Even when faced with such challenges, I am proud to say that JSC Georgian Railway stood tall and demonstrated its unwavering commitment to prevail.

On that note, I am pleased to share with you the remarkable progress we made in 2022 in various respects. Alongside our relentless efforts to enhance operations, we witnessed a significant increase in the volumes of both cargo and passengers on our mainline. This development indicates that JSC Georgian Railway is becoming increasingly appealing to both freight owners and regular travelers alike. Pertinently, our recent reforms have played a pivotal role in making such outstanding progress and we firmly believe that this upward trend will persist for the foreseeable future.

Specifically, the rise in freight turnover serves as a clear reflection of our strong alignment with the strategic vision of the Government of Georgia (GoG). Indeed, we have significantly contributed to establishing Georgia as a logistical center through our steadfast compliance with the Government's strategy. This showcases the impact we have made in driving economic growth and positioning the country as a vital hub for region.

While passenger transportation may be less commercially attractive, it remains one of our most important responsibilities. Of course, accessible public transportation is vital for the state and our shareholders and I am pleased to report that noticeable improvement was recorded in this area in 2022. Through improved timetables and enhanced services, we successfully transported more passengers than ever before across a variety of routes while reducing losses from passenger transfers.

Meanwhile, we take immense pride in having become one of the few fully electrified railways in the world. In line with our commitment to sustainability, I am thrilled to announce that this contributed to a remarkable saving of 700,000 tons of carbon dioxide (CO2) over the last five years. This progressive achievement highlights the positive impact we have on the environment and as passenger and freight traffic increase, we will continue to strive to make an even greater contribution to a greener future.

Our more than 12,000 dedicated railroaders are among the greatest assets of our company. Their diligence, assiduousness and sincerity act as catalysts for our growth and advancement. To each and every one of them, I want to express my deepest gratitude for their tireless efforts. It is through their dedication that we have been able to achieve some truly impressive milestones. Crucially, the success of our company reflects well not only on our employees and their families—but the entire country, positively impacting the quality of life in Georgia as a whole.

As a highly responsible company, JSC Georgian Railway places a strong emphasis on improving the skills of its personnel, providing retraining opportunities and nurturing the professional growth of newly hired employees as well. In 2015, we, in collaboration with the Ministry of Education and Science and the Technical University of Georgia, established the Railway Transport College. The aim of this institution is to strengthen the railroad labor market and introduce dual professional education to the industry. Through corresponding initiatives, we ensure that our workforce remains equipped with the necessary skills and knowledge to meet the evolving industry demands.

Looking ahead and building upon the enormous success of 2022, it is crucial that we plan strategically for the future of JSC Georgian Railway and to maintain or even accelerate the notable advances we have made in recent years.

Sincerely,

Konstantine Guntsadze

Chairman of the Supervisory Board,

JSC Georgian Railway

Konstantine Guntsadze

A MESSAGE FROM THE GENERAL DIRECTOR

I am pleased to present the 2022 Annual Report for JSC Georgian Railway, highlighting the achievements and progress we recorded during the year. In this period, there were a number of challenges faced and opportunities grasped and I am proud to say that our company continues to thrive and make significant strides towards our goals.

Over the years, I have had the great privilege of working with an exceptional team at JSC Georgian Railway. Together, we have leapt over obstacles and delivered remarkable results. Relatedly, our dedicated railroaders have shown unwavering commitment and resilience in the face of adversities, ensuring the smooth operations of our company and serving the nation with diligence and excellence.

The COVID-19 pandemic had a profound impact on the global transportation industry and we navigated through these turbulent times with great determination. Our employees showed admirable cohesion, adhering to safety protocols and embracing remote working practices to ensure the uninterrupted delivery of services to our valued customers. Accordingly, this crisis once again demonstrated the dependability and trustworthiness of JSC Georgian Railway as a reliable partner for both freight owners and passengers.

At JSC Georgian Railway, we are devoted to the continuous development and well-being of our employees. With that in mind, in 2022, we prioritized their career advancement and welfare, exemplified by increasing the salaries of more than 12,000 employees in January 2023, the third such rise since December 2019. This substantial investment in our workforce reflects our commitment to recognizing their contributions as well as fostering a highly conducive working environment.

Of course, safety remains a paramount concern for JSC Georgian Railway. Accordingly, in 2022, we continued to prioritize the well-being of our staff through comprehensive training programs. In total, over 1,600 personnel received health and safety training and 500 employees in the Electrical Supply Department had their electrical safety certificates renewed. We also implemented various other vital measures, including the installation of instructional, warning and prohibition signs throughout our railway facilities.

The efforts made to strengthen our company and steer it towards accelerated growth have yielded remarkable results. Indeed, despite the challenges posed by the changing geopolitical situation in the region, JSC Georgian Railway achieved an impressive 22% increase in transported cargo volume in 2022, reaching 14.8 million tons (the highest in the past nine years). This improvement underscores our commitment to meeting the evolving demands of our customers and driving economic development for Georgia as a whole.

In line with our commitment to sustainable development, a significant portion of the funds raised through the 2021 Green Eurobond transaction were allocated to our Railway Modernization Project. This ambitious initiative, set to conclude in 2024, will enhance transportation capacity from 27 million tons to 48 million and result in improved train speed, safety measures and infrastructure. We are very confident that these upgrades will make our railway corridor even more attractive to investors and partners, facilitating increased cargo transportation and fueling economic growth.

Elsewhere, the advances made in our information technology (IT) systems have been pivotal. In particular, we have implemented international best practices and robust security measures to combat cyber threats. Our ongoing initiatives, including the modernization of our Dense wavelength-division multiplexing (DWDM) network and the implementation of an electronic ticket selling and accounting system will bolster the efficiency and effectiveness of our operations. In addition, we are modernizing our data center to ensure seamless IT services, even when accessed remotely.

Meanwhile, environmental protection remains one of JSC Georgian Railway's core values. Notably, our green projects have made a significant impact in reducing our ecological footprint. Over the past four years, we have invested more than USD 400 million in green projects, with half of that sum allocated specifically to the Modernization Project. Through this investment and dedicated initiatives, we have achieved substantial reductions in electricity consumption and carbon dioxide (CO2) emissions, demonstrating our unrelenting commitment to sustainable development.

We also prioritize the well-being of our employees and the communities we serve. By supporting various sports activities, such as rugby, basketball, weightlifting and water polo, we promote healthy lifestyles for all. Moreover, our waste management strategies and environmental training programs further amplify our devotion to preserving the environment and raising environmental awareness among our workforce.

As we celebrated the 150th anniversary of JSC Georgian Railway in 2022, we reflected on our rich history of resilience and achievements. We have weathered numerous storms, responding with agility and constantly striving to improve. Throughout this milestone year, exciting projects were planned, although the focus on our fundamental objectives of growth, service quality, stability and transparency remained clear. Courtesy of the dedication of our team and the unwavering support of our stakeholders, JSC Georgian Railway will continue to maintain its leading position and achieve its objectives.

On behalf of the entire JSC Georgian Railway team, I express my deepest gratitude to our employees, customers, partners and stakeholders for their continued trust and support. Looking to the future, together we will shape an even more prosperous future for JSC Georgian Railway, thereby helping Georgia to progress as a nation.

Sincerely,

David Peradze

CEO, JSC Georgian Railway

David Peradze

SUPERVISORY BOARD MEMBERS

KONSTANTINE GUNTSADZE
Chairman of Supervisory Board | since 2012
Main field of competence | Jurisprudence
21 years of working experience in the industry
With GR Group for over 12 years

OLEG BICHIASHVILI
Supervisory Board Member | since 2012
Main field of competence | Logistics
50 years of working experience in the industry
With GR Group for over 49 years

CLIFFORD STANLEY ISAAK
Chairman of Audit Committee | since 2011
Main field of competence | Finance
42 years of working experience in the industry
With GR Group for over 10 years
Left Supervisory Board in 2022

GIORGI MUSKHELISHVILI
Supervisory Board Member | since 2022
Main field of competence | Engineering
30 years of working experience in the industry
With GR Group for 1 year

BEKA INJIA
Supervisory Board Member (with 2 votes)| since 2019
JSC Partnership Fund Representative | since 2021
Main field of competence | Jurisprudence
18 years of working experience in the industry
With GR Group, over 3 years

DAVID SAMKHARASHVILI
Supervisory Board Member | since 2020
Main field of competence | Jurisprudence
17 years of working experience in the industry
With GR Group for over 16 years

MANAGEMENT BOARD MEMBERS

DAVID PERADZE
Chief Executive Officer | since 2017
20 years of working experience in the industry
With GR Group for over 5 years

IRAKLI TITVINIDZE
Chief Financial Officer | since 2013
19 years of working experience in the industry
With GR Group for over 9 years

KAKHABER GUDIASHVILI
Freight SBU Director | since 2021
29 years of working experience in the industry
With GR Group for over 28 years

GIORGI MARUKASHVILI
Infrastructure SBU Director | since 2020
15 years of working experience in the industry
With GR Group for over 3 years

DACHI TSAGURIA
Passenger SBU Director | since 2018
10 years of working experience in the industry
With GR Group for over 9 years

Forward-looking Statement:

This report contains certain forward-looking statements with respect to the business, financial conditions, and results of the operations of the Group and certain plans, intentions, expectations, assumptions, goals, and beliefs of the Group in this regard. These statements include matters that are not factual and generally, but not always, may be identified by the use of words or expressions such as "believes", "expects", "are expected to", "anticipates", "intends", "estimates", "should", "will", "will continue", "may", "is likely to", or "plans" among others.

The forward-looking statements in this report are based upon various assumptions, many of which are based upon further assumptions, including, without limitation, the Management's examination of historical operating trends, data contained in the Group's records, and other data available from third parties. Although the Group believes that these assumptions were reasonable when made, they are subject to significant uncertainties and contingencies, which are difficult or impossible to predict and which are thus beyond the Group's control. Accordingly, the Group may not actually achieve such expectations, beliefs, or projections.

When reading forward-looking statements, the reader 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 are valid only on the date on which they are made. Neither the Group nor any of its agents, employees, or advisers intend or have any obligation, to supplement, amend, update or revise any of the forward-looking statements given in this report.

The reader should be aware that forward-looking statements are not guarantees of future performance and that the Group's actual business: financial conditions, and results of operations and prospects, as well as the development of the industry in which it operates, may differ significantly from what is stated in the forward-looking statements given in this report. In addition, even if the Group's business, financial conditions, 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 given in this report, those results or developments may not necessarily be indicative of results or developments in subsequent periods.

The facts contained in this report refer to the period under review. The Group does not undertake any obligation to update any fact or forward-looking statement to reflect events or circumstances that may occur after the period under review.

Irakli Titvinidze, CFO

27.09.2023

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

For the year (GEL '000)	2022	2021	2020
Revenue	674,773	547,868	489,370
Adjusted EBITDA	284,162	226,576	218,962
EBIT	217,577	168,179	142,806
Net income/(loss)	396,681	52,711	-164,644
Cash from operating activities	288,221	247,300	212,716
Acquisition of property, plant and equipment (PPE)	134,968	77,156	55,905

As at 31 December (GEL '000)	2022	2021	2020
Total assets	2,399,517	2,259,732	2,347,764
Total liabilities	1,618,249	1,846,603	1,988,478
Total equity	781,268	413,129	359,286

Financial ratios	2022	2021	2020
Revenue growth	23.16%	11.95%	-0.34%
Adjusted EBITDA margin	42.11%	41.36%	44.74%
Operating ratio	70.10%	70.94%	73.38%
Dividend payout ratio	0%	0%	0%
Interest coverage ratio	3.76	1.10	1.22
Net Debt to Adjusted EBITDA	3.93	5.88	6.35
Debt*/ Equity	1.8	3.9	4.9

Statistical data ('000)	2022	2021	2020
Tons	14,773	11,063	10,861
Ton-km	4,163,977	3,291,173	2,908,986
Number of passengers	1,605	939	3,027
Passenger-km	482,949	273,268	246,938
Average number of employees	12	12	13

Key operating measures	2022	2021	2020
Total freight revenue per ton-km *(in Tetri)*	11.5	12.9	13.4
Passenger revenue per passenger-km *(in Tetri)*	5.7	5.4	4.5
Revenue per average N of employees *(in GEL '000)*	54.43	44.21	43.76
Operating expenses per ton-km *(in GEL)*	0.11	0.12	0.12
Ton-km per average number of Freight SBU employees *(in '000)*	794.2	628.9	550.2
Passenger -km per average number of Passenger SBU employees *(in '000)*	407.7	230.9	206.6

Safety indicators	2022	2021	2020
Accident rate per million ton-km	0.04	0.04	0
Injuries per average number of employees *('000)*	0.67	0.50	0.58
Deaths per average number of employees *('000)*	0.08	0.00	0.41

**Debt comprises current and non-current loans and borrowings*

CREDIT RATINGS

	First issued	LT	Outlook	ST	Last updated	LT	Outlook	ST
S&P Global	2010	B+	STABLE	B	2022	BB-	STABLE	B
FitchRatings	2010	B+	STABLE	B	2023	BB-	POSITIVE	B

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1. DESCRIPTION OF THE COMPANY'S BUSINESS ACTIVITIES

1.1 HISTORY OF THE COMPANY

2022	Double-track line along the entire mainline network
2021	Eurobond issued in 2012 successfully refinanced with new Green Eurobond
2020	Business processes updated to adapt to COVID-19-related lockdowns and embraced online working
2019	New feeder transportation initiated, serving Black and Caspian Seas to increase container flow in the region
2017	First freight on BTK line
2016, 2017	Modern passenger trains purchased from Stadler Bussnang
2016	ISO 9001:2015 certificate granted to Passenger Transportation SBU
2015	International certificate of quality management (ISO 9001:2008) attained by Georgian Railway
	Revival of the Silk Road and first Chinese train arrives in Georgia
2013	Georgian Railway enters the freight forwarding business
2011	Georgian Railway registered as a JSC
2010	First Eurobond placement on the London Stock Exchange
	Initial credit rating assigned by Fitch Ratings and S&P
2008	Georgian Railway separates its operations into three SBUs
2005	Georgian Railway launches restructuring program based on the proposals of an independent consultant
1998	Georgian Railway is established as a limited liability company on 21 December
1993	TRACECA established, with Georgian Railway a founding member
1992	Formation of the independent Georgian Railway
1991	The assets of the Transcaucasian Railway Company are divided and allocated to the national railroad companies of Georgia, Armenia and Azerbaijan
1883	A rail connection is created between Tbilisi and Baku
1872	The Transcaucasian Railway, which runs through Georgia, Armenia and Azerbaijan, commences operations

OVERVIEW OF THE GROUP

STRATEGIC ASSET FOR THE GEORGIAN ECONOMY

UNIQUE STRATEGIC LOCATION

STRONG CUSTOMER RELATIONS

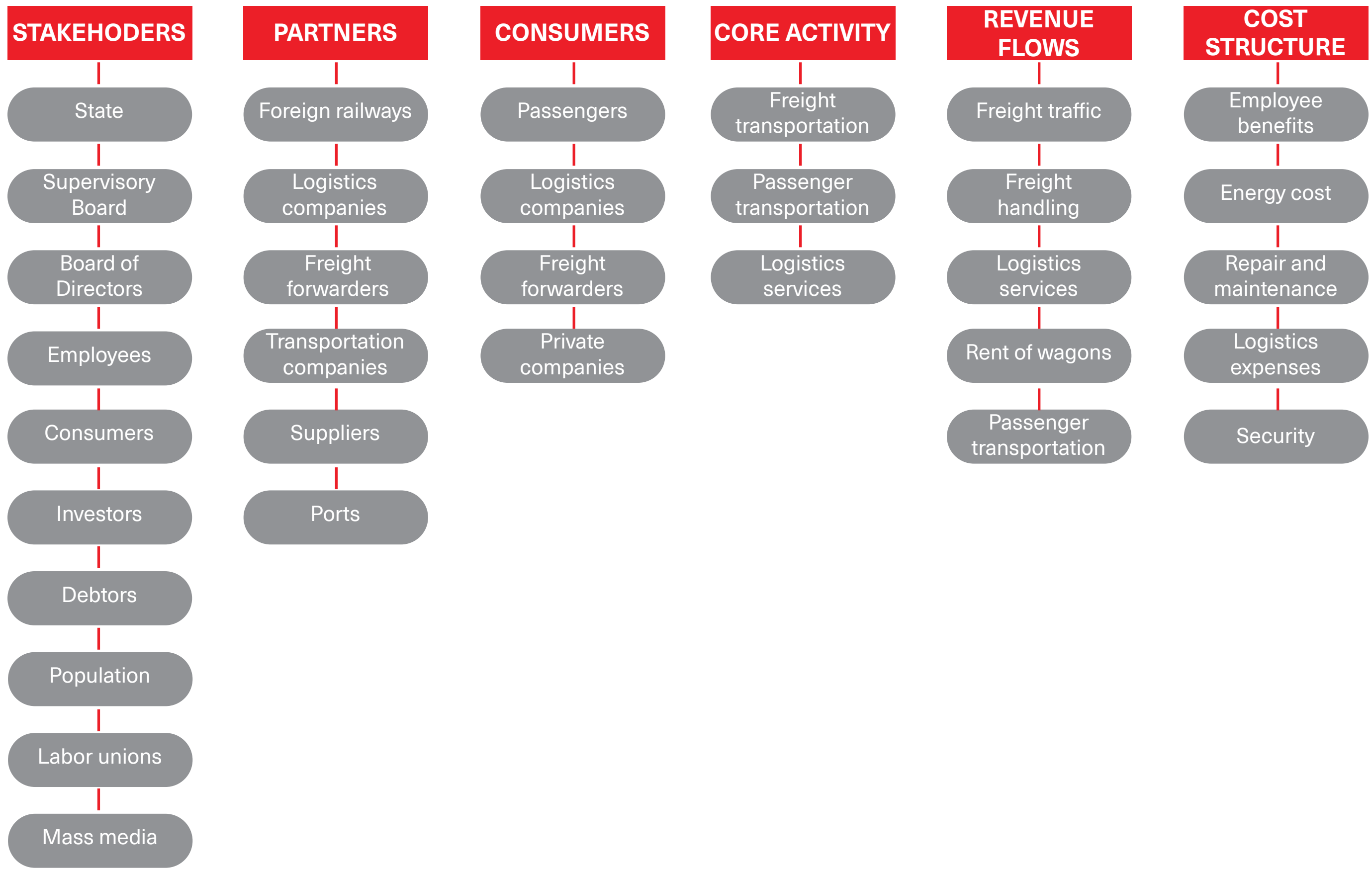
VERTICALLY INTEGRATED FREIGHT AND
PASSENGER TRANSPORTATION BUSINESS MODEL

FLEXIBLE TARIFF POLICY

CONTINUOUS FOCUS ON SUSTAINABLE
DEVELOPMENT

1.2 BUSINESS PROFILE

BUSINESS MODEL OF THE COMPANY



JSC Georgian Railway (hereinafter referred to as “GR” or “the Company,” and as “the Group” encompassing its subsidiaries) is, by statute, Georgia’s only integrated railway company. It principally provides freight transporting services for diverse cargo including oil, oil products, ores and grains, which mostly originate in the East and is transported from Central Asia across the Caspian Sea through Georgia and onward to the Black Sea. The Group also provides passenger services and freight forwarding services. It has a vertically integrated business model, owning and operating tracks, stations, terminals, other infrastructure and rolling stock comprising Georgia’s entire national railway system. The Company is not regulated and sets its tariffs independently without requiring approval from any governmental entity.

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). The Group’s mainline rail network is thus a key link in the shortest route from the Central Asia and the Caspian Sea to the Black Sea and the Mediterranean Basin. As a pertinent connection in the transportation chain between Europe and Central Asia, the Group is uniquely positioned to capitalize on trade between Europe and Central Asia. Specifically, three of the Group’s lines connect to the Georgian port cities of Batumi, Kulevi and Poti. Access to these ports allows for easy on-shipment of transit cargo to the Black Sea and subsequently the world’s oceans through the Mediterranean Sea. Furthermore, a new additional railway line connects Azerbaijan and Georgia to Turkey and, ultimately, Europe.

The map below shows the key transportation links in the Eurasian region:

The Group operates the national railway system through the following three strategic business units (SBUs): the Freight SBU, which consists of freight operations (transportation and handling); the Passenger SBU, which primarily transports passengers; and the Infrastructure SBU, which operates, maintains and manages the Group's principal infrastructure assets. Of note, the Infrastructure SBU provides services only to the Freight SBU and the Passenger SBU and it does not conduct business with third-party customers.

CREDIT RATINGS

The Company is rated by two leading agencies: Fitch Ratings and Standard & Poor's (S&P). In February 2023, Fitch Ratings affirmed its rating of "BB–" and upwardly revised the outlook for GR to "Positive" from "Stable." Prior to that, in December 2022, S&P revised the Company's rating to "BB-" from "B+" with a "Stable" outlook.

FitchRatings

S&P Global

PARTNERSHIP FUND

SHAREHOLDER

Up until 30 September 2011, GR was wholly owned by the Government of Georgia (GoG), represented by the National Agency of State Property of the Ministry of Economy and Sustainable Development. Thereafter, up until 2022, the JSC Partnership Fund, a wholly state-owned investment fund, was the Company's sole shareholder. In December 2022, the Government of Georgia acquired a 100% shareholding of JSC Georgian Railway.

1.3 CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The Company is not subject to the requirements of any national or international corporate governance codes or rules. At the same time, it nevertheless understands the value of good corporate governance for long-term sustainable success and for over 11 years already it has updated its charter and internal regulations to include robust corporate governance principles.

The Group is governed by its Supervisory Board, which is elected by the shareholders and comprises competent people deemed to have the abilities required to ensure the Company's long-term development. In particular, the Supervisory Board consists mostly of independent members and is responsible for establishing company values, strategies and plans. Meanwhile, the Audit Committee, as well as performing an internal audit function, makes sure that relevant risks are properly identified and that internal control procedures are enforced to detect and/or prevent them. Similarly, external auditors are also selected by the Audit Committee to ensure that annual financial statements are free of errors and are prepared in accordance with international standards.

Two additional committees, the Nomination Committee and the Remuneration Committee, sit under the Supervisory Board in order to help with recruiting qualified directors and the senior management team, as well as to assess their performance and establish adequate compensation plans.

SHAREHOLDER

JSC Georgian Railway was owned by the GoG until 2012, after which ownership was transferred to the Partnership Fund. The Partnership Fund was established in 2011 by the Law of Georgia on the JSC Partnership Fund to promote investment activity and economic development and to create more job opportunities in Georgia. At the end of 2022, Georgian Railway resumed its previous position under the direct control of the GoG.

OVERVIEW OF THE COMPANY'S GOVERNING BODIES

The Company's governing bodies consist of the General Meeting of Shareholders (GMS), the Supervisory Board and the Board of Directors (the Management Board), the last of which is responsible for the day-to-day management of the Company. A brief description of each is set out below.

GENERAL MEETING OF SHAREHOLDERS

The Supervisory Board convenes the annual GMS for no later than two months after the completion of audit of the Group's annual International Financial Reporting Standards (IFRS) financial statements. Shareholder responsibilities include but are not limited to passing resolutions on electing and dismissing Supervisory Board members, approving the Supervisory Board's decisions on the appointment and dismissal of Management Board members, authorizing material investments and funding, as well as approving the Company's annual accounts and the election of external auditors. Decisions on all other issues that are not specifically stated in the Charter as being the responsibility of the GMS are made by the Supervisory Board and the Board of Directors within their respective capacities.

SUPERVISORY BOARD

The Supervisory Board is responsible for overseeing the activities of the Board of Directors (Management Board), which mainly includes appointing and discharging the General Director and other members of the Management Board, reviewing annual reports and proposals of the Board of Directors relating to the distribution of profits and approving the Company's annual budget.

The Supervisory Board establishes the Audit Committee, the Nomination Committee and the Remuneration Committee under its charter. These committees report their conclusions and recommendations to the Supervisory Board.

The Supervisory Board currently consists of four independent non-executive members and one independent non-executive member. 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 one-year term. There is, however, no statutory limit on the number of terms for which a member can be appointed. The Supervisory Board, as well as each holder of voting shares, is entitled to propose nominees for election to the Supervisory Board. In addition, 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.

Committee members are selected by the Supervisory Board based on the recommendation of the Nomination Committee, at least one member of which must be independent.

JSC GEORGIAN RAILWAY COMMITTEES

1

AUDIT COMMITTEE - This committee: the reviews, monitors and presents financial statements and other public announcements of the Company concerning its financial position, as well as the Group's financial processes, to the Supervisory Board; reviews material transactions and contracts entered into between or within the Company, or any subsidiary of the Company and related parties; conducts certain review functions following the completion of the annual audit; reviews and monitors the Company's risk management and internal control processes, policies and procedures; reviews and monitors the Company's internal audit processes; and selects, monitors and works with the Company's external auditors.

2

NOMINATION COMMITTEE - This committee: reviews the structure and performance of the Supervisory Board and Board of Directors; recommends appropriate candidates to fill vacancies to the Supervisory Board and Board of Directors; makes recommendations to the Supervisory Board for appointments or reappointments of independent members of the Supervisory Board; issues recommendations to the Supervisory Board for retiring members of the Supervisory Board to be proposed for re-election at a GMS; and recommends candidates to the Audit and Remuneration Committees to the Supervisory Board, in consultation with the chairmen of such committees.

3

REMUNERATION COMMITTEE - This committee: reviews, considers and agrees on proposals and provides recommendations about the Company's framework and policy regarding the remuneration of certain members of the Supervisory Board and Management Board, as well as other senior management personnel; approves the terms of any service agreements with any member of the Supervisory Board or Management Board, as well as certain terms of employment and employment contracts; prepares remuneration reports; and conducts certain functions about any schemes of performance-related remuneration, share incentive plans, pensions, bonuses and other incentive schemes.

SUPERVISORY BOARD AND COMMITTEES				
31-Dec-22	SUPERVISORY BOARD	AUDIT COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
KONSTANTINE GUNTSADZE	●			
OLEG BICHIASHVILI	●			
BEKA INJIA	● ●			
GIORGI MUSKHELISHVILI	●			
DAVID SAMKHARASHVILI	●			

** Clifford Stanley Isaak left the Company in 2022. GR is in the process of hiring new audit committee members*
*** The committees are currently inactive and lacking full membership.*

BOARD OF DIRECTORS

The Board of Directors (Management Board) is an executive body, responsible for the day-to-day management of the Company and consisting 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 remuneration and other employment benefits for each member of the Board of Directors.

As at 31 December 2022, the Board of Directors consists of 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 decisions are adopted by approval of the majority of its members.

Responsibilities of the Board of Directors include but are not limited to conducting the Company's daily operations, preparing and submitting the Company's business plan for the Supervisory Board's approval, supervising operations of the Company's subsidiaries and ensuring that the managers fulfill their functions in line with requirements outlined in the Charter and applicable laws.

The Board of Directors is headed by the General Director. They are 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 members of the Board of Directors and/or managers of the Company and issuing relevant orders, instructions and other directives for similar purposes.

BOARD OF DIRECTORS					
31-Dec-22	CEO	CFO	Freight SBU Director	Passenger SBU Director	Infrastructure SBU Director
DAVID PERADZE	●				
IRAKLI TITVINIDZE		●			
KAKHABER GUDIASHVILI			●		
DACHI TSAGURIA				●	
GEORGE MARUKASHVILI					●

2. COUNTRY PROFILE AND INDUSTRY OVERVIEW

2.1 COUNTRY PROFILE

CROSSROADS BETWEEN EUROPE AND ASIA

Georgia is a country located at the intersection of Europe and Asia, making it an important and attractive place for economic activities. Over the years, Georgia has signed up to multiple international treaties and other agreements to strengthen its position and boost its competitive advantage in this regard. Since regaining independence in 1991, extensive economic reforms have steered the country toward becoming a relatively well-functioning and stable market economy.

In particular, Georgia has been a member of the World Trade Organization (WTO) since 14 June 2000, while it also has free trade agreements (FTAs) with the Commonwealth of Independent States (CIS) and Turkey. Moreover, under the Generalized System of Preferences (GSP) system, Georgia can export a variety of products duty-free to the United States or the EU and can benefit from reduced tariffs with Switzerland, Norway, Canada and Japan.

In addition, the signing of the EU-Georgia Association Agreement (AA) and the establishment of the Deep and Comprehensive Free Trade Area (DCFTA) in 2014 gave Georgian products easier access to the EU market. At the same time, reduced taxes as well as the removal of technical barriers have increased the accessibility of companies and traders in the EU to the Georgian market. Furthermore, Georgia also signed a free trade agreement (FTA) with China in 2017 and with Hong Kong in 2018, while it has similar agreements with the European Free Trade Association (EFTA), the UK and Ukraine as well.

INTERNATIONAL RATINGS

DOING BUSINESS

N7

Out of 190 countries

source: The World Bank

OPEN GOVERNMENT INDEX

N45

Out of 140 countries

source: The World Justice Project

OPEN BUDGET INDEX

N1

Out of 120 countries

source: The International Budget Partnership

CURRUPTION PERCEPTION INDEX

N41

Out of 180 countries

source: Transparency International

GLOBAL COMPETITIVENESS INDEX

N74

Out of 140 countries

source: The World Economic Forum

E-GOVERMENT DEVELOPMENT SURVEY

N60

Out of 193 countries

source: United Nations

ECONOMIC FREEDOM INDEX

N35

Out of 176 countries

source: The Heritage Foundation

GOVERNANCE INDICATORS

N50

Out of 214 countries

source: The World Bank

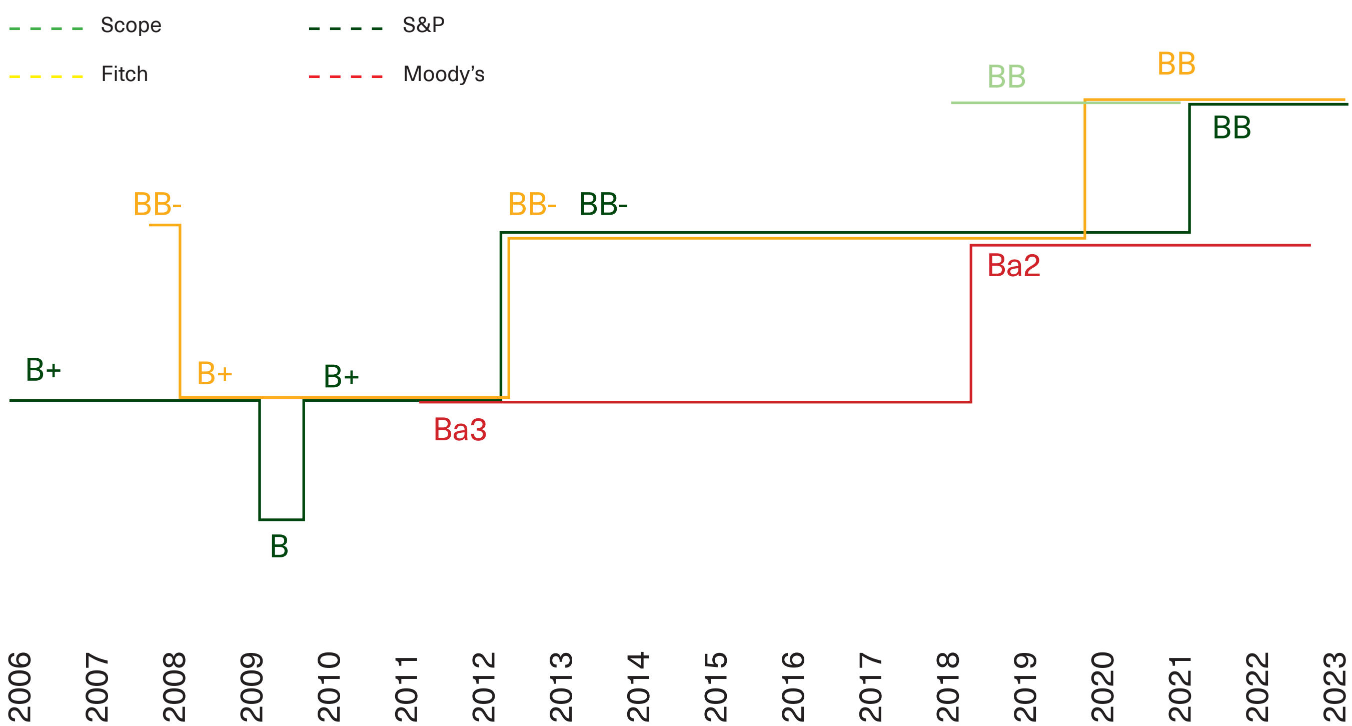
BUSSINES BRIBERY INDEX

N33

Out of 194 countries

source: TRACE International

SOVEREIGN RATINGS FOR GEORGIA



Sources: Moody's; Fitch; S&P.

The world's leading rating agencies permanently monitor and analyze countries' macroeconomic data to give a qualified and reliable opinion. Relatedly, Moody's, Fitch and S&P have all upgraded Georgia's sovereign credit rating over the years.

Specifically, Fitch affirmed Georgia's sovereign credit rating at "BB" and improved its outlook from 'Stable' to 'Positive' in January 2023. In doing so, Georgia was returned to its pre-pandemic status.

Earlier, on 26 August 2022, S&P Global Ratings revised Georgia's outlook to 'Stable' and affirmed its "BB" credit rating.

However, on 21 April 2022, Moody's set Georgia's rating at "Ba2," and revised its outlook to 'Negative.'

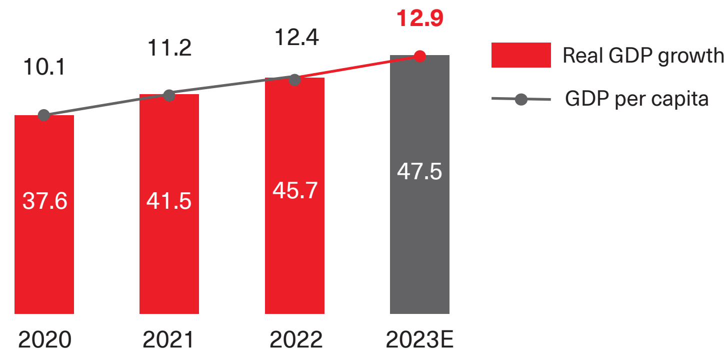
	RATING	OUTLOOK	LAST UPDATE
FITCH RATINGS	BB	POSITIVE	27 January 2023
S&P GLOBAL	BB	STABLE	26 August 2022
MOODY'S	Ba2	NEGATIVE	21 April 2022

MACRO-ECONOMIC OVERVIEW

Georgia's economy encountered two major global obstacles in 2022: navigating its way out of the pandemic; and the Russia-Ukraine War. These altered trade routes and disrupted supply chains, as well as resulting in heightened migration and elevated commodity prices. As a consequence, inflation and interest rates increased.

Nevertheless, in 2022, the Georgian economy recorded a swift revival in tourism earnings, remittances and export revenues, while enjoying a surge in foreign direct investment (FDI). These developments bolstered the value of the Georgian national currency and served as the foundation for the country's impressive double-digit growth in real GDP. Specifically, Georgia's GDP increased by 10.1% in 2022, surpassing the 9.7% growth recorded in 2021. Looking ahead, the International Monetary Fund (IMF) forecasts 4.0% GDP growth for Georgia in 2023.

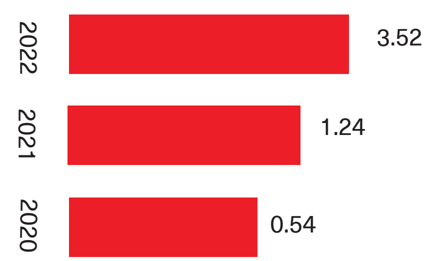
REAL GDP GROWTH *(BLN GEL)*



Sources: National Statistics Office of Georgia (Geostat), International Monetary Fund (IMF).
** Preliminary data.*

Increased consumption, a key factor in GDP, was significantly driven by foreign travel and this substantially contributed to GDP growth. Furthermore, income from foreign travel grew with an notable increase in the numbers of migrants and tourists. In 2022, this growth reached an impressive 183.9%, representing a growth rate 1.4 times higher than that of 2021. This rise also had a notable impact on the railway transport sector, as the number of railway passengers nearly doubled in 2022 compared to the figures recorded in 2021 *(See 7.2 Passenger SBU)*.

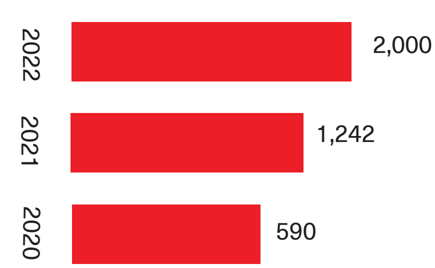
INCOME FROM FOREIGN TRAVEL *(BLN USD)*



Source: National Bank of Georgia (NBG)

Investment plays a central role in GDP, with FDI in particular holding great significance in terms of driving economic growth. In 2022, FDI inflows reached USD 2.0 billion, marking a notable increase of 61% compared to the previous year. Despite the challenges stemming from the Russia-Ukraine War, the Georgia demonstrated resilience and managed to maintain a secure and business-friendly environment. This, in turn, helped to attract highly skilled migrants and international companies to the country. In 2022, the share of the transport sector's contribution to FDI amounted to 4.1%, compared to 0.4% in 2021.

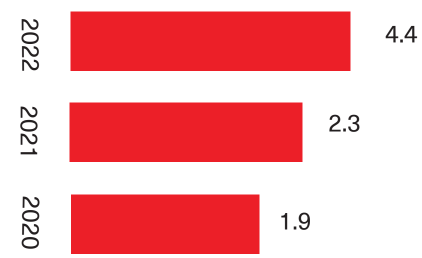
FDI IN GEORGIA *(MLN USD)*



Source: National Statistics office of Georgia (Geostat)

The combination of enhanced FDI along with an influx of foreigners led to an increase in remittance inflows. In 2022, such inflows experienced significant growth of 86% compared to the previous year. Notably, Georgia's top 10 partner countries accounted for 87.7% of the total money transfers from abroad. This substantial intake of foreign currencies contributed to the strengthening of the Georgian Lari.

REMITTANCE INFLOWS *(BLN USD)*

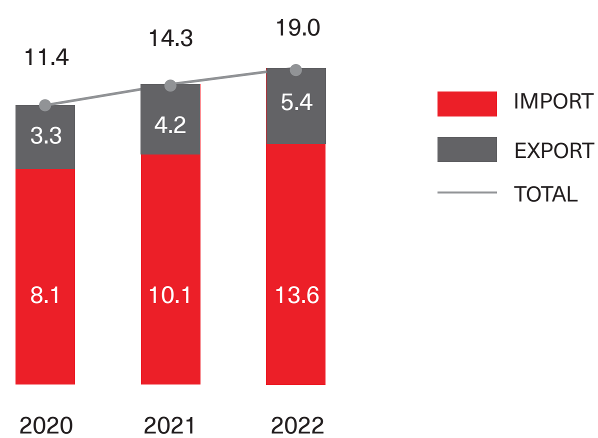


Source: National Bank of Georgia (NBG)

INTERNATIONAL TRADE

Changes in demographics and economic trends in Georgia have had a significant impact on the demand for domestic goods and services, consequently affecting the country's trade balance. Indeed, Georgia's trade balance currently shows a deficit, as the revenue generated from imports is more than twice the amount earned from exports. This highlights the country's high dependence on imports. As Georgia continues to attract investors and gain a reputation as a business-friendly destination, along with receiving an increasing number of migrants and tourists, the demand for imported products has risen. Pertinently, imports witnessed a substantial increase of 35% in 2022, compared to 2021. On the other hand, the export of goods also grew in 2022, by 28% compared to the previous year. It is also worth noting that GR, which holds a monopoly in rail transportation, is playing a vital role in facilitating the transportation of goods for both exports and imports from and to Georgia.

INTERNATIONAL TRADE *(BLN USD)*

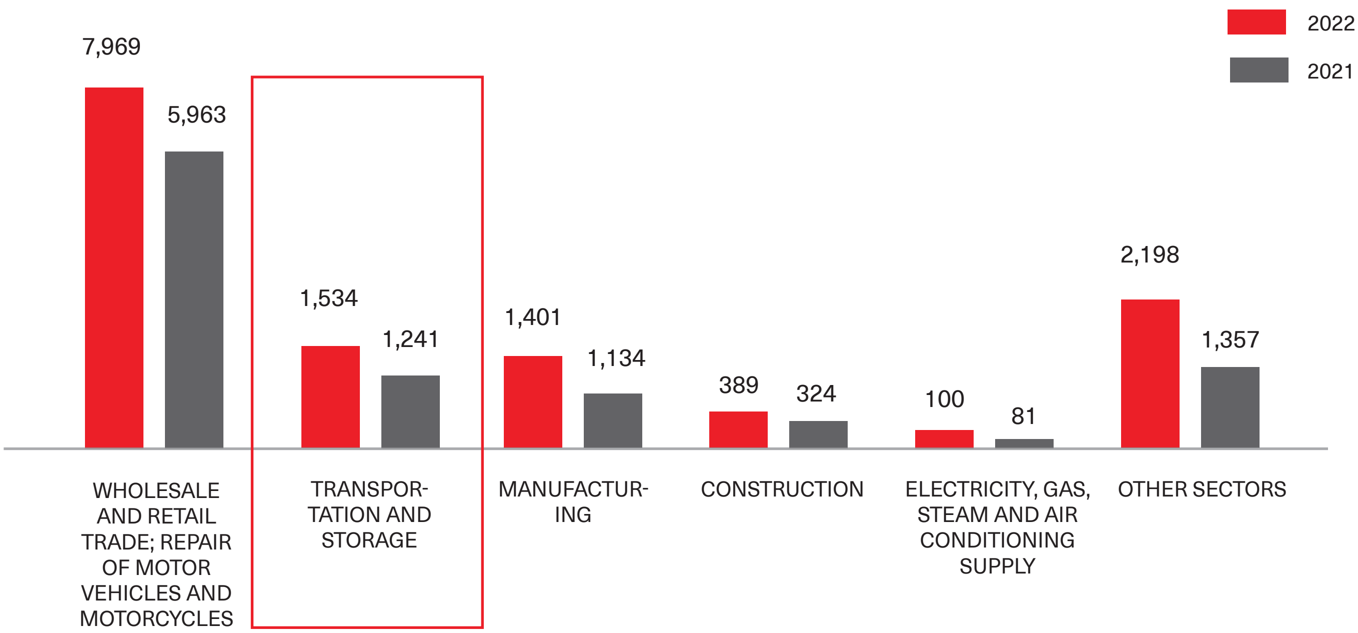


Source: National Statistics Office of Georgia (Geostat)

IMPORT

In 2022, imports into Georgia rose across various economic sectors. There was a significant increase in imports in the wholesale and retail trade sector, which amounted to GEL 2.0 billion, as well as in the transportation and storage sector, which recorded an increase of GEL 0.3 billion, compared to 2021. The main imported products in 2022 included motor vehicles (accounting for 14.3%), followed by petroleum and petroleum oil (7.5%), petroleum gases and gaseous hydrocarbons (6.8%) and copper ores and concentrates (3.9%).

GEORGIA'S IMPORT BY TYPE OF ECONOMIC ACTIVITY *(MLN GEL)*



Source: National Statistics Office of Georgia (Geostat)

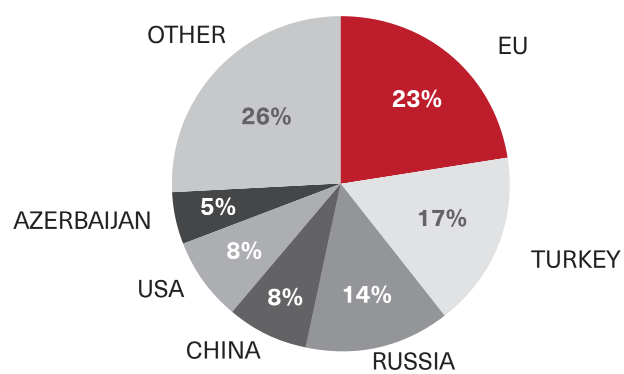
Once the COVID-19 pandemic began to subside, imports began to increase and soon surpassed the pre-pandemic level. In 2022, imports increased from all main trading partners for Georgia, except Ukraine.

IMPORT *y-o-y change*	2020	2021	2022	*2022 VS 2019*
EU MEMBER STATES	*-20%*	*25%*	*32%*	*32%*
TURKEY	*-13%*	*30%*	*30%*	*47%*
RUSSIA	*-9%*	*15%*	*79%*	*88%*
CHINA	*-17%*	*22%*	*30%*	*31%*
USA	*-18%*	*16%*	*45%*	*39%*
AZERBAIJAN	*-8%*	*17%*	*7%*	*15%*
UKRAINE	*-6%*	*16%*	*-39%*	*-34%*
OTHER COUNTRIES	*-18%*	*37%*	*35%*	*52%*

Source: National Statistics Office of Georgia (Geostat)

SHARE OF IMPORT BY COUNTRIES

Full Year 2022

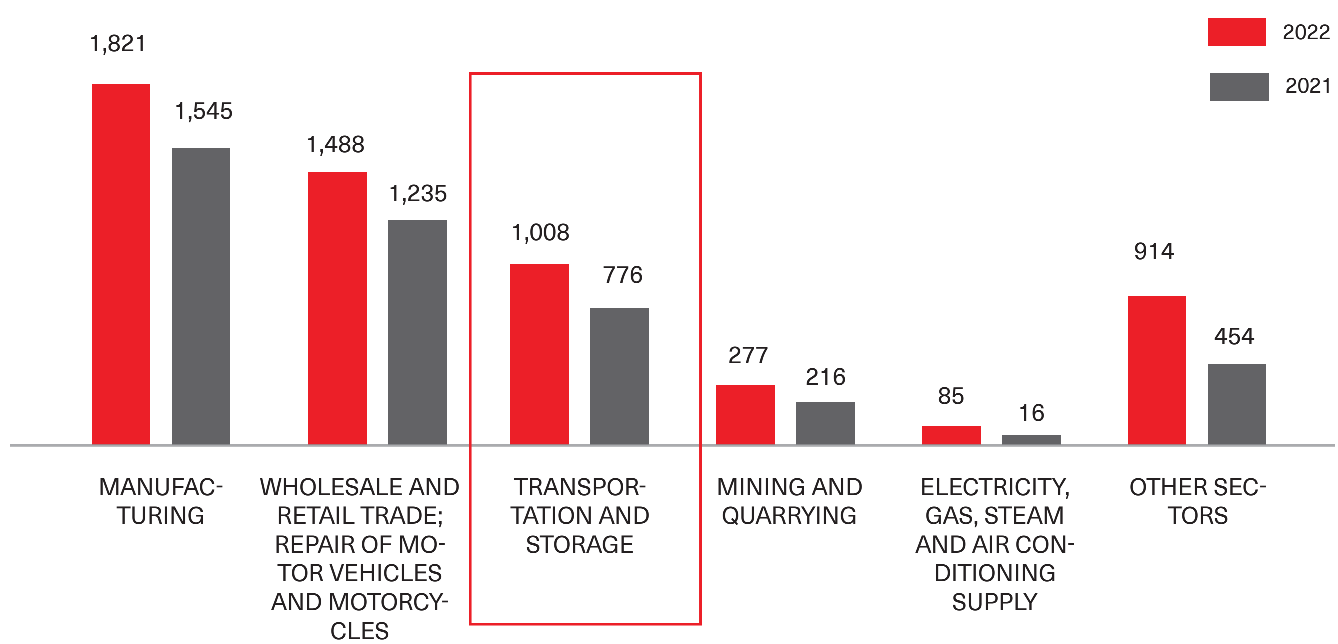


EXPORT

In 2022, exports grew across various economic sectors as well. Significant increases were observed in the manufacturing, wholesale and retail trade and transportation and storage sectors, amounting to GEL 0.3 billion, GEL 0.3 billion and GEL 0.2 billion, respectively, compared to 2021.

The main exported products in 2022 were motor vehicles (accounting for 28.2%), followed by copper ores and concentrates (14.1%), ferro-alloys (5.6%), organic wine (3.9%) and nitrogenous fertilizers (3.8%).

GEORGIA'S EXPORT BY TYPE OF ECONOMIC ACTIVITY *(MLN GEL)*



Source: National Statistics Office of Georgia (Geostat)

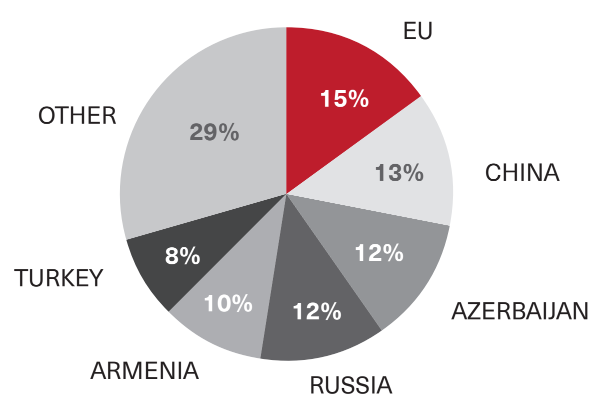
Once the COVID-19 started to subside, exports began to increase and surpassed the pre-pandemic level. In 2022, exports increased to all of Georgia's main trading partners except Ukraine.

EXPORT *y-o-y change*	2020	2021	2022	2022 VS 2019
EU MEMBER STATES	-13%	3%	20%	7%
CHINA	130%	29%	20%	255%
RUSSIA	-11%	38%	7%	31%
AZERBAIJAN	-13%	20%	26%	32%
TURKEY	-6%	69%	35%	115%
UKRAINE	-13%	41%	-25%	-8%
ARMENIA	-57%	37%	128%	35%
OTHER COUNTRIES	-23%	28%	61%	59%

Source: National Statistics Office of Georgia (Geostat)

SHARE OF EXPORT BY COUNTRIES

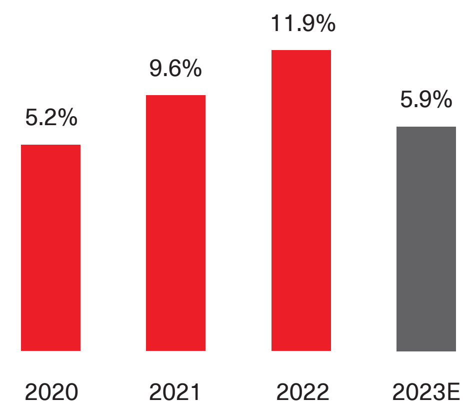
Full Year 2022



ANNUAL INFLATION

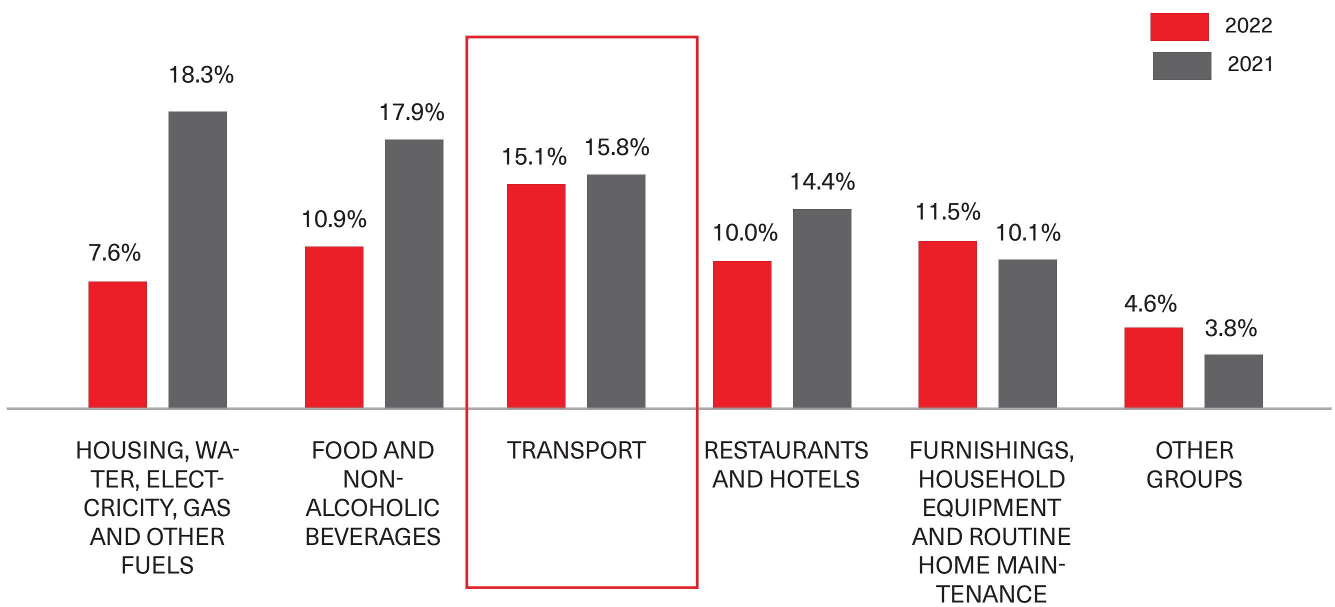
The socio-economic and geopolitical development that unfolded in 2022 resulted in the global inflation rate rising to 8.7%, compared to 4.7% in 2021. Within Georgia particularly, the average annual inflation rate stood at 11.9% in 2022, compared to 9.6% in 2021. This increase was primarily driven by heightened demand and rising prices in housing, water, electricity, gas and other fuels, for which collectively the average inflation rate reached 18.3% in 2022, compared to 7.6% in 2021. Furthermore, there were increased demand and price hikes in the food and non-alcoholic beverages sector, with an average inflation rate of 17.9% in 2022, compared to 10.9% in 2021. Elsewhere, changes in the transport sector also influenced the annual inflation rate, with a 15.8% inflation rate recorded in 2022, compared to 15.3% in 2021. The National Bank of Georgia (NBG) maintained the Monetary Policy Rate at 11% from March 2022 for the rest of the year to address persistent price pressures . From May 11, 2023, NBG reduced the interest rate to 10.5% and from August 3 - to 10.25%. According to the IMF, it is projected that inflation will decrease to 5.9% in 2023.

ANNUAL INFLATION RATE



Source: National Statistics Office of Georgia (Geostat), International Monetary Fund (IMF)

AVERAGE INFLATION BY GROUP



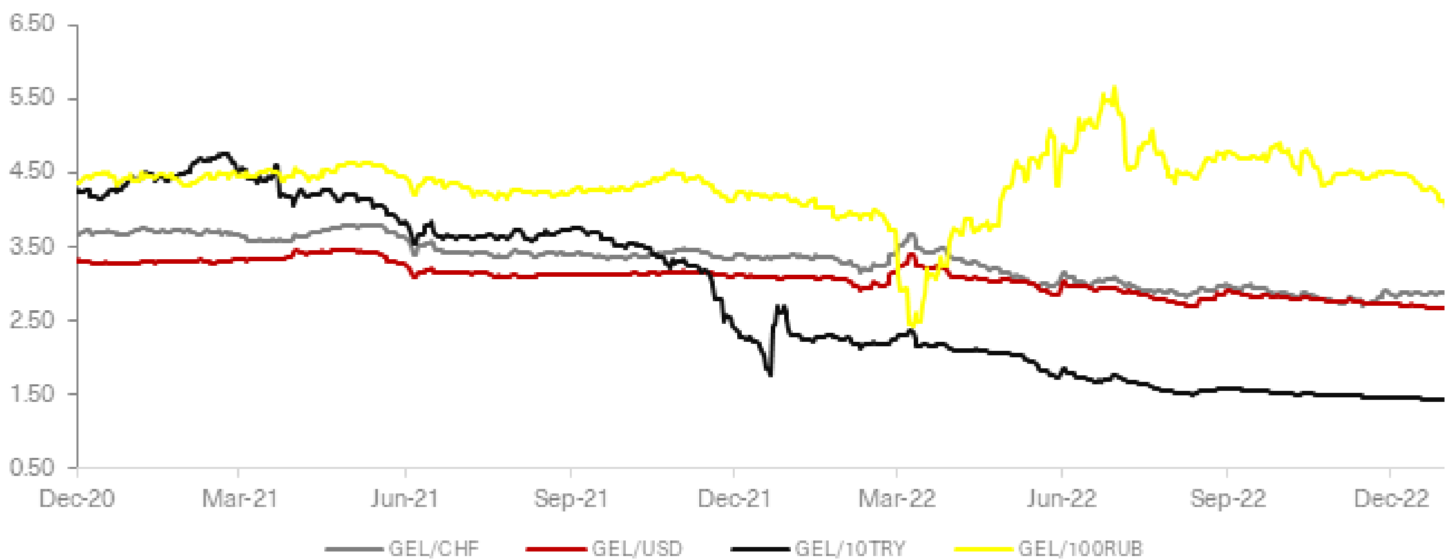
Source: National Statistics office of Georgia (Geostat), International monetary fund (IMF)

The Group's operating expenses have been affected by the substantial inflation rate. The cost of materials utilized by the Group has increased markedly and expenses related to repair and maintenance (particularly for the Group's rolling stock repaired abroad) more than doubled in 2022 compared to 2021.

EXCHANGE RATE

The GEL exchange rate against foreign currencies showed positive trends in 2022. In particular, it appreciated on average by 9.5% against the USD and by 13.2% against the CHF in 2022, compared to 2021. The strengthening of the currency was caused largely by foreign currency inflows related to tourism and migration, with the USD/GEL exchange rate standing at 2.7020 on 31 December 2022, compared to 3.0976 on 31 December 2021, representing a 13.9% increase. As GR's revenue from freight transportation is mostly denominated in USD, it is sensitive to the GEL/USD exchange rate. Pertinently, GR's revenue from freight transportation at constant currency in 2022 would have been 23% higher than in actual currency. Meanwhile, the IMF predicts that real interest rates, which have increased recently, are likely to return to pre-pandemic levels *(see. I.PROFIT AND LOSS STATEMENT; FINANCE INCOME AND COST).*

FOREIGN CURRENCIES AGAINST GEL



Source: National Bank of Georgia (NBG)

IMPACT OF THE COVID-19 PANDEMIC ON THE GEORGIAN ECONOMY

The coronavirus started to have a significant impact on Georgia by late February 2020. On 11 March 2020, the World Health Organization (WHO) declared a pandemic and the Georgian Government started to take measures to contain the virus. These included imposing restrictions on cross-border movement and instructing the businesses to allow their employees to work from home. To maximize social distancing, schools, restaurants, cinemas and sports activities/facilities were suspended for most of 2020.

The COVID-19 pandemic had a severe impact on Georgia. Mobility constraints, a sharp drop in international tourist arrivals and weak external demand all contributed to economic contraction in 2020. Relatedly, there were significant job and income losses, contributing to an increase in poverty. As the crisis strained fiscal and external resources, the fiscal deficit and public debt grew above statutory levels.

During the first half of 2021, the GoG started gradually to lift the major restrictions imposed due to the COVID-19 pandemic. Eventually, vaccines were distributed which lessened the risk of coronavirus and helped to revive future prospects for the economy and business environment in Georgia and around the world. Despite the high number of COVID-19 cases in Georgia in 2021, the economy gradually recovered with the outlook becoming more positive. Notably, preliminary real GDP grew by 10.6% during 2021 (source: Geostat.ge).

In 2022, the impact of COVID-19 weakened and the gradual lifting of restrictions began. Indeed, the Georgian Government canceled all COVID-19 restrictions as of June 2022. Accordingly, the economy grew by double digits, with significant increases in tourism, FDI and exports/imports, while the unemployment rate decreased to 11.3 percent, the lowest in two decades (source: World Bank).

IMPACT OF THE RUSSIA-UKRAINE WAR ON THE GEORGIAN ECONOMY

The Russian invasion of Ukraine in February 2022 caused not only geopolitical but also large-scale economic changes, coinciding with the recovery of the global economy as the pandemic subsided. As a result of the conflict, energy, food and commodity prices increased, while the supply of all such goods and being disrupted and leading to heavy inflation in several countries.

Georgia's economy has been significantly impacted by the conflict as both Russia and Ukraine are among its major economic partners in terms of trade, tourism and remittances.

The impact of the conflict on the country's economy has been twofold thus far. On the one hand, since Georgia is more dependent on imports than exports, its trade deficit has been exacerbated by the ongoing war involving two key trading partner countries. At the same time, escalating prices, mainly for food, electricity and housing, have led to higher inflation. On the other hand, the war has seen a dramatic influx of migrants and tourists to Georgia, which has led to an increase in tourism revenues, money transfers and real estate purchases. Besides, numerous foreign companies have registered in Georgia since the beginning of the war, which has boosted FDI.

According to the World Bank, economic growth for Georgia was predicted to reach 10% in 2022 due to the recovery in domestic demand along with increased travel and remittance revenues. In 2023, growth is predicted to fall to 4% before stabilizing at 5% over the medium term. At the same time, Georgia’s monetary policy remains restrictive and inflation is anticipated to drop, albeit gradually.

2.2 TRANSPORT SECTOR IN GEORGIA

The Georgian Government has concentrated significantly on the development of international trade and travel since 2005. Local Government, the private sector, as well as international agencies have invested substantial funds to upgrade transport infrastructure and to increase the efficiency of related services accordingly. FDI in transportation industry exceeded USD 2.0 billion between 2015 through 2022.

Georgia’s transport system comprises five main areas: road, rail, sea, air and pipelines.

ROAD TRANSPORTATION

In the Georgian transportation industry, road transportation plays a significant role. Specifically, it accounted for 69% of total freight transportation in Georgia in 2022. In particular, transit transportation is one of the main operational features of road transportation in Georgia. Meanwhile, road transportation serves export, import and domestic transportation. In Georgia, road transportation is also the most popular means for passengers, mainly buses, minibuses and cars.

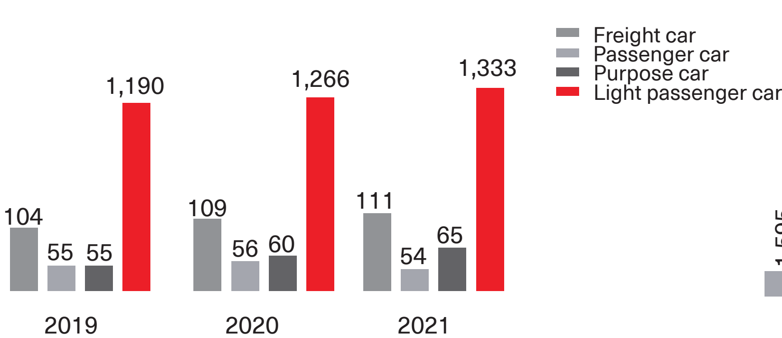
There are four types of vehicles used for road transportation in Georgia: light passenger cars, freight cars, special-purpose cars (including agricultural machines) and passenger cars (buses and minibuses). In 2022, the total number of vehicles in Georgia increased by 5%, compared to the previous year. There was a slight increase (by 2%) in the number of freight cars in Georgia in 2022, compared to 2021. The upturn was mainly driven by an increase in the number of freight cars in western Georgia. Meanwhile, the number of passenger cars (buses and minibuses) decreased 2% mainly due to declines in the numbers of passenger cars in Tbilisi and the Adjara region, by 5% and 4%, respectively. In addition, the number of special-purpose cars (including agricultural machines) increased by 8%, with growth in this category observed in almost every region of the country. For regions that did record such an increase, the percentage rise varied between 4 and 13%

in 2022, compared to 2021. Furthermore, the number of light passenger cars in Georgia also grew, by about 5 percent. Similar to special-purpose cars, growth in this area was spread out across the country. Moreover, for regions in which such an increase was noted, the percentage rise varied between 4 and 9 percent in 2022, compared to 2021.

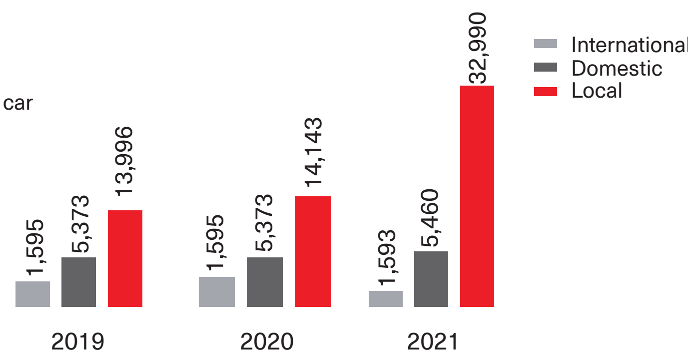
In Georgia, there are three types of roads used for transportation: international, domestic and local. In 2021, the total length of roads in Georgia was 40,044 km, growing markedly by 53% and 52% respectively compared to 2020 (21,110 km) and 2019 (20,964 km).

In Georgia, there are three types of roads used for transportation: international, domestic, and local. According to the law of Georgia "On Roads" (i) highways of international importance include roads connecting administrative, important industrial and cultural centers of Georgia and other states; (ii) highways of internal national importance include roads connecting administrative centers of autonomous republics and municipalities, important industrial and cultural centers of Georgia; as well as roads connecting the capital of Georgia and airports and docks with the previously mentioned ones; (iii) highways of local importance include roads connecting administrative centers of municipalities with settlements of the same municipality; roads connecting settlements of the municipality with each other and/or with highways of international and domestic importance; also roads connecting objects of special importance (sports complexes, historical and cultural monuments, etc.) with the administrative centers of the municipalities and access roads to the nearest railway stations, airports, seaports. Roads of local importance may include roads that do not meet the indicators of local roads defined by this paragraph, but have defensive and special importance. (Source: matsne.gov.ge).

TOTAL NUMBER OF CARS IN GEORGIA *('000)*

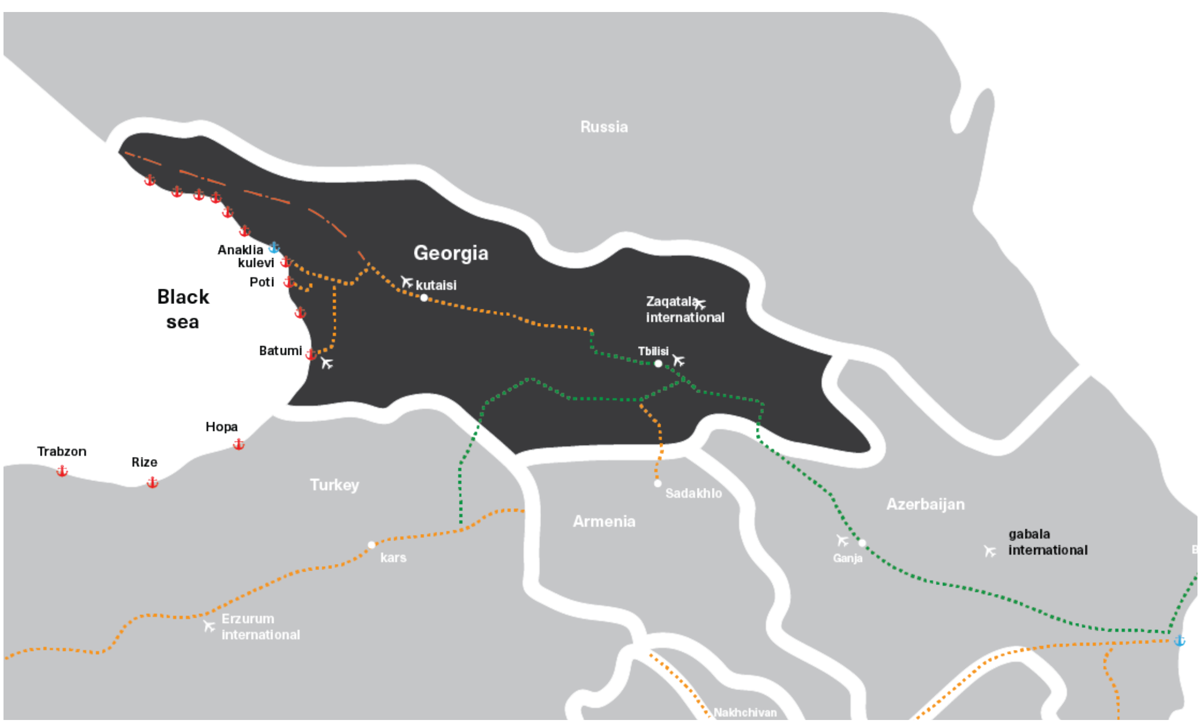


TOTAL LENGTH OF ROAD IN GEORGIA *(KM)*



Source: National Statistics office of Georgia (Geostat)

Note: Based on the amendment to the law of Georgia "On Roads", from 2021, the local roads include the roads within the administrative boundaries of the settlement, which do not belong to the international, secondary and departmental road. Also, the indicator of the length of local roads does not include self-governing cities.



RAILWAY TRANSPORTATION

Railway transportation is the second-most popular transportation type for cargo in Georgia and it accounted for 31% of total freight transportation in the country in 2022. In this regard, Georgian Railway provides export, import, domestic and transit transportation. The most in-demand type of rail freight transportation is transit, the popularity of which has risen courtesy of geopolitical situations. Relatedly, transportation by railway in Georgia has shown resilience to global and regional shocks. However, the activities of Georgian Railway have still been impacted by events of worldwide importance like the Russia-Ukraine War, the COVID-19 pandemic and other global political and environmental shifts. The infrastructure at railways and ports is also crucial to Georgian Railway to enable it to avoid delays in the common rail network. Moreover, railway transportation is also used by passengers in Georgia. Specifically, Georgian Railway serves passengers on both domestic and international services *(See 7.1 FREIGHT SBU)*.

SEA TRANSPORTATION

Sea transportation is an essential part of the Georgian transport sector. Relatedly, ports are tightly linked with both railway and road transportation and together they form an integrated transportation system for exports/imports and transit. In 2022, there was an increase in dry and bulk cargo from Central Asia and as a result the ports were nearly operating at full capacity. This marked a comeback of sorts after the difficulties of the pandemic when the ports operated with labor restrictions and limited capacity.

AIR TRANSPORTATION

Air transportation is the least popular transportation type in Georgia. There are three air freight terminals, all of which are in Tbilisi: Tbilisi Cargo Service LTD; Lasare LTD; and Georgian Post LTD. However, Georgia's airport infrastructure is more expansive, with four domestic airports (Natakhtari, Ambrolauri, Telavi and Mestia) and three international airports (Kutaisi, Tbilisi and Batumi). Only three airlines currently provide regular cargo flights to five destinations, with two of them being in neighboring countries - Turkey and Azerbaijan. The year of 2022 started with promising statistics for air transportation in Georgia, as the sector showed growth in both Q1 and Q2. However, by the end of 2022 its growth for the year was minimal, contributing 0.04% of total freight transportation in Georgia. Crucially, air transportation is not tightly connected to the road, sea and railway transportation systems in Georgia.

PIPELINES

Georgia offers the main gateway for Azerbaijan's oil and gas resources through which to reach the European market via its pipelines. There are four international pipelines which pass through Georgia: the Baku-Tbilisi-Ceyhan (BTC) Pipeline; the South Caucasus Pipeline (SCP); the North-South Main Gas Pipeline (NSMP); and the Western Route Export Pipeline (WREP).

The BTC Pipeline connects the Caspian Sea to the Mediterranean Sea, through Azerbaijan, Georgia and Turkey. It started operating in 2006 and transports crude oil, mainly originating from Azerbaijan. The BTC Pipeline covers a length of 1,768 km, of which 249 km (about 14%) passes through Georgia.

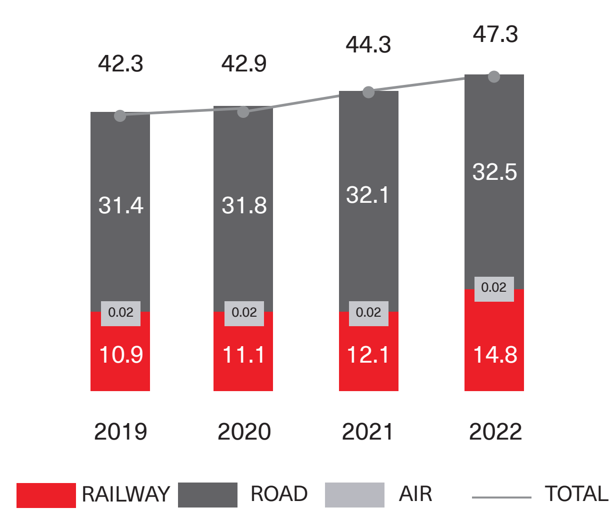
Meanwhile, the 692-km SCP was designed to transport gas from the Shah Deniz field in Azerbaijani territory in the Caspian Sea, through Georgia and on to the Georgia-Turkey border. The SCP passes through Georgia for 249 km, which is approximately 36% of the pipeline's total length.

Furthermore, the NSMP connects Russia to Armenia, stretching from the Georgia-Russia border to the Georgia-Armenia border (221 km) and supplying Georgia and Armenia with natural gas.

Finally, the WREP has been operating since 1999 and was the first international pipeline in Georgia. It delivers crude oil and connects the Caspian Sea to the Supsa Terminal on the Black Sea.

On average, 44.2 million tons were transported annually through Georgia in the period of 2019-2022. The volume peaked for this period in 2022 when 47.3 million tons were transported through Georgia, representing a 6.8% increase compared to 2021 and an 11.8% rise compared to 2019. In terms of transportation type, the share of railway varied between 30-31% of the total transported volume, while the share of road varied between 68-69%.

TRANSPORTED VOLUME BY MODE OF TRANSPORT *(MLN TON)*



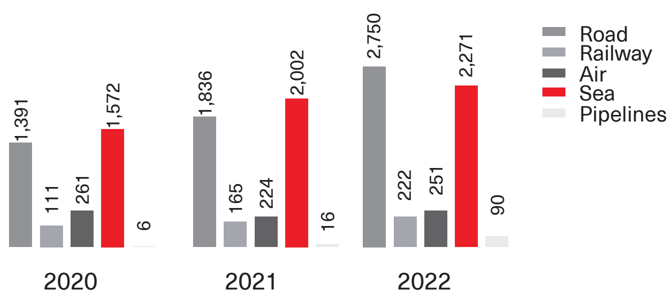
Source: Ministry of Economy and Sustainable Development of Georgia

IMPACT OF THE RUSSIA-UKRAINE WAR ON THE GEORGIAN TRANSPORT SECTOR

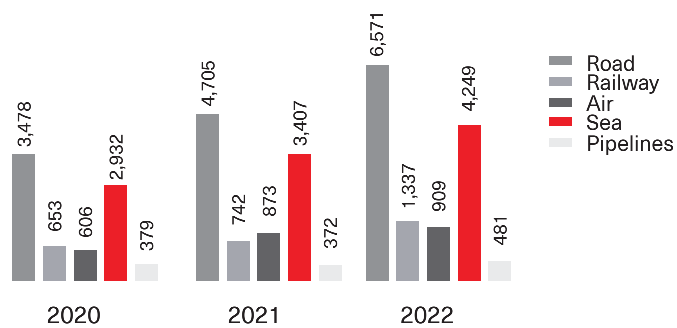
The Russia-Ukraine War, which began in February 2022, has had a significant impact on global trade. In particular, the war has had a noticeable effect on cargo transportation in Georgia. In the months since Russia's invasion of Ukraine, massive queues of trucks in various parts of Georgia became commonplace. Another effect of the war is that international supply chains have been severely disrupted.

Indeed, trucks that used to deliver goods to and from markets in Russia and Central Asia via Ukraine were forced to deviate and major companies transporting goods to and from China via Russian rail corridors had to change their routes due to international sanctions, with many of them opting to redirect through Georgia.

EXPORT BY MODE OF TRANSPORT *(USD 'mln)*



IMPORT BY MODE OF TRANSPORT *(USD 'mln)*



Source: National Statistics office of Georgia (Geostat)

Ultimately, the war has disrupted the global transportation industry with border closures, sanctions, a drop in demand for northern routes and other factors making routes through Georgia more attractive than before. This led to a rise in revenue in 2022 for both imports and exports. The Georgian transport sector recovered quickly from the pandemic, with significant improvements recorded in 2021 and 2022. In particular, preliminary data for 2022 show a 33% increase compared to 2021 and a 43% increase compared to 2019 (i.e. pre-pandemic level). Distinguishing between exports and imports, total imports increased in 2022 by 33% compared to 2021 and by 41% compared to 2019. Meanwhile, total exports increased by 32% in 2022 compared to 2021 and by 47 percent compared to 2019.

THE "INDICATIVE PROGRAM FOR THE IMPLEMENTATION OF CAPITAL INVESTMENTS OF THE TRANS-EUROPEAN TRANSPORT NETWORK (TEN-T)," JOINTLY ESTABLISHED BY THE EUROPEAN COMMISSION AND THE WORLD BANK, LAYS OUT A PLAN FOR CARRYING OUT ESSENTIAL PROJECTS IN AZERBAIJAN, BELARUS, MOLDOVA, GEORGIA, ARMENIA AND UKRAINE. THIS INITIATIVE AIMS TO FOSTER CONNECTIVITY AND ECONOMIC DEVELOPMENT IN THE EASTERN PARTNERSHIP NATIONS AND INVOLVES THE CONSTRUCTION OF 4,800 KILOMETERS OF NEW ROADS AND RAILWAYS, ALONG WITH THE ESTABLISHMENT OF 6 PORTS AND 11 LOGISTICS CENTERS.

AS PER THE PROGRAM'S PROVISIONS, THE EUROPEAN UNION HAS COMMITTED TO EXECUTING 18 PROJECTS WITHIN GEORGIA'S TRANSPORT SECTOR BY 2030, TOTALING EUR 3.4 BILLION IN INVESTMENTS. THIS INCLUDES TWO RAILWAY PROJECTS VALUED AT EUR 349 MILLION.

IMPACT OF THE COVID-19 PANDEMIC ON THE GEORGIAN TRANSPORT SECTOR

Across most of the world, the COVID-19 pandemic precipitated border closures, lockdowns and other strict regulations. The coronavirus outbreak started to have a significant impact in Georgia by late February 2020. Soon after, the Georgian Government started to take measures to contain the virus including the imposition of restrictions on cross-border movement and instructing businesses to have their employees work from home. Moreover, to enhance social distancing, schools, restaurants, cinemas and sports activities/facilities were suspended for most of 2020. During the first half of 2021, the Government of Georgia started to lift major restrictions though and Georgia's economy recovered quickly as a result. In 2021, real GDP grew by 10.5% compared to the previous year and in 2022 growth of 10.1% was reported (source: Geostat.ge).

Georgia's transportation and logistics sector was severely impacted. According to a PwC poll completed in April 2020, Georgian businesses identified the closure of borders and restricted transit as being among the biggest challenges posed by the pandemic. The second-most impacted business sector in Georgia was transportation and storage, in which 69% of the enterprises reported declines in their revenue of more than 50%. Meanwhile, 27% of businesses said they were also having issues with liquidity. In the follow-up poll, which was carried out in October 2020, 80% of respondents acknowledged that they were still dealing with issues brought on by pandemic-related supply chain disruptions, though the severity of those issues had generally decreased. The main difficulties that businesses faced in that period were rising transportation costs, mobility restrictions and a decline in economic activity as a result of changes in supplier and consumer behavior. The effects of the COVID-19 pandemic continued to interfere with supply chains even in 2022 when new waves of the virus emerged in China.

While freight transportation tended to be more resilient than its counterparts, the COVID-19 pandemic had a negative impact on the Group's Passenger SBU.

Taking into account the Group's current operational and financial performance, the management does not anticipate any more significant adverse impacts from the COVID-19 pandemic on its financial position and operating results.

The management however cannot preclude the possibility of extended lockdown periods, an escalation in the severity of such measures, or consequential adverse impacts on the economic environment negatively affecting the Group in the medium and longer term. Accordingly, the Group also prepares for negative development scenarios and is ready to adapt its operational plans accordingly. Specifically, the management continues to monitor situations closely and will respond as required to mitigate their impacts.

THE TRANSPORTATION MARKET IN THE CAUCASUS

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

TRACECA

TRACECA is a technical assistance program financed by the EU, which was first established in 1993. It is intended to develop the transport corridor between Europe and Asia across the Black Sea, as well as the countries of the South Caucasus and Central Asia.

In 1998, the Basic Multilateral Agreement on International Transport for Development of the Europe-Caucasus-Asia 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 without being a signatory member.

The main objectives of TRACECA are to: (i) enhance the role and functions of the TRACECA in international trade outside the TRACECA region as an important alternative to other corridors; (ii) ensure a sustainable multi-modal transportation network, allowing for the smooth and uninterrupted flow of trade and passengers and to maximize 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, modernized 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 and enhance maritime routes and international logistics centers and realize combined projects; (vii) identify and prioritize infrastructure-related and other projects in terms of investment and financing; and (viii) reinforce human resources and the capacity for development.

Five expert groups have been established, comprising: (i) aviation; (ii) security (for all modes of transport); (iii) road and rail transport; (iv) transport infrastructure; and (v) maritime transport. In 2000, the Intergovernmental Commission TRACECA (the "IGC") was established to regulate issues relating to the implementation and application of the TRACECA and the corresponding Basic Agreement. Moreover, 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.

TRACECA

GR's railway network is a key segment of TRACECA, representing the shortest route from Central Asia and the Caspian Sea to the Black Sea and the Mediterranean Basin. A significant portion of the Group's freight operations (about 89% of its total transportation revenue in 2022) is generated from freight transported from, or directed to, CIS countries. As a result, the Group's freight transportation volumes are sensitive to economic activity in CIS countries.

Economic growth has been a challenge in recent years for many CIS countries. Low oil prices, a spillover from Russia's recession (the largest economy among CIS countries), reduced import demand from Russia and a number of geopolitical developments/conflicts (e.g., international sanctions on Russia, the Russia-Ukraine War and the hostile relationship between Azerbaijan and Armenia) have contributed to growth slowing down in CIS countries. Concerns have also been raised by the depreciation of the Russian Ruble and currencies of other CIS countries in recent years.

In order to reduce its dependence on CIS countries and seize new opportunities, the Group is trying to reach out to new markets. After completing the BTK project *(see 8.3 Ongoing projects in the corridor)* and with the subsequent new route from China to Europe, through Georgia and Turkey, GR aims to capitalize on increased trade volumes.

According to China Railway (CR), 16,000 trains and 1.6 million TEUs travelled between China and Europe in 2022, year-on-year increases of 9% and 10%, respectively. China is also one of Turkey's biggest trading partners. Indeed, about 11.1% of Turkish imports were from China in January 2022 *(see 8.1 Diversified directions)*.

According to ADY Containers in Azerbaijan, China has started developing a new route for freight trains from Xi'an (China's northwest Shaanxi province) to Germany's Mannheim using multi-modal rail and sea transport through the Black Sea and Caspian Sea. On April 13, the first train with 42 containers (316 tons) left from Xi'an. The route to Mannheim passes through Azerbaijan, Kazakhstan, Georgia, Hungary, Romania, Slovakia and Czech Republic to Mannheim. After the train arrives at the port in Kazakhstan's Aqtau, the containers are transported by feeder ship to the port in Azerbaijan's Baku, then by rail to the Georgia's Poti port and finally via the Black Sea to Europe. Given the sanctions imposed on Russia and Iran, an increase in the volume of freight traffic through this route is anticipated. The importance of Azerbaijan in Eurasian cargo transportation is rising while the Baku-Tbilisi-Kars railway is going to be crucial here as well.

OVERVIEW OF KEY PLAYERS

The key players in the railway transport sector in the Caucasus region are Georgian Railway, 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 the management estimates that, in 2022, 90% of the Group's transit freight traffic was received from or transported to said network. The Group's rail network also connects with the South Caucasus Railways network, although the tonnage transported through this connection is much lower.

Due to war and subsequent territorial disputes, since 1992 there has been no active link through Abkhazian Railway and there is no indication that this link will be re-opened any time soon.

Upon completion of the construction of the new Baku-Tbilisi-Kars railway line, which is currently in test mode and expected to be ready in 2024, the Group's rail network will also be connected to the railway network operated by Turkish Railway *(see 8.3 Ongoing projects in the corridor).*

3. RELATIONSHIP BETWEEN GOVERNMENT AND GEORGIAN RAILWAY

The economic development of the country, as it is viewed by the GoG, is directly related to the development of the transport sector. Due to its location at the crossroads of Europe and Asia, where strategic cargo flows both east and west, one of the GoG's top priorities is to coordinate the smooth functioning of the sector, modernize infrastructure and harmonize national legislation in line with international laws in order to integrate comfortably with the Trans-European Transport Network.

JSC Georgian Railway was owned by the Georgian Government until 2012, after which up until 2022 its ownership was transferred to the Partnership Fund. The latter was established in 2011 by the Law of Georgia on the JSC Partnership Fund to promote investment activity and economic development and to create more job opportunities in Georgia. However, Georgian Railway went back under the direct control of the Georgian Government at the end of 2022.

Georgian Railway, as the largest single entity in the transport sector, is of systemic importance for the country and represents a strategic national asset. At the same time, as one of the biggest corporate employers, it represents an integral part of the social infrastructure.

3.1 JSC GEORGIAN RAILWAY'S CONTRIBUTION TO THE ECONOMY

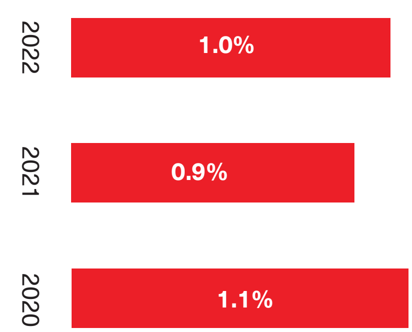
The Group is a strategic partner in national economic development, as it facilitates advances in other industrial sectors and plays a crucial role in maintaining strong economic ties between Georgia and its partner countries, including Azerbaijan, Armenia, Kazakhstan, Tajikistan, Turkey and Turkmenistan. In particular, the Government has indicated that developing the country's infrastructure is one of its highest priorities, with the aim that Georgia becomes a significant transportation hub, with the Group's railway network representing a critical component of that. Moreover, the Group's provision of key passenger transportation services at affordable prices is considered by the Government to be akin to a public service obligation, enabling the Government to promote regional development. Furthermore, the Group is a major taxpayer and a significant contributor to Georgia's GDP.

According to figures published by the National Statistics Office of Georgia (Geostat), the Group's consolidated revenue represented 1.0% of GDP in 2022, compared to 0.9% in 2021. The Group is also a leading corporate employer in Georgia, whose business also supports other employment opportunities in Georgia. In addition, it is also one of the largest taxpayers in the country.

CASH OUTFLOW TO BUDGET *(MLN GEL)*

**Data comprises all taxes paid by the Company*
Source: internal estimates

THE GROUP'S REVENUE AS A PERSENTAGE OF GEORGIA'S GDP



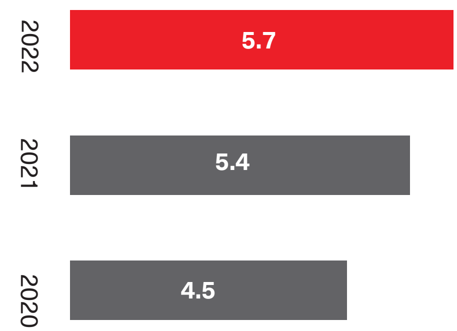
**Source: National Statistics Office of Georgia (Geostat)*

SUPPORTING PASSENGER TRANSPORTATION

Historically, the Group's passenger transportation services have generated net losses. Specifically, the passenger transportation segment reported a loss of GEL 15.5 million in 2022, following losses of GEL 21.3 million and GEL 24.8 million in 2021 and 2020, respectively. Nevertheless, passenger tariffs have remained low due to the national importance of having affordable passenger rail transportation services.

Given the social importance of its passenger services, the Group is constrained when it comes to removing or reducing services on certain passenger routes, even where such routes are not economically viable. 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 starting from 2024 or earlier *(see 7.2 Passenger transportation strategic business unit (Passenger SBU))*. This contract is expected to set out the conditions for passenger services, as well as the level of compensation to be granted to the Company for operating non-profitable passenger routes. The compensation received from the Government will have a positive impact on the Group's revenue and ultimately on its profitability.

AVERAGE TARIFF PER PASSENGER-KILOMETER(TETRI)



LARGEST CORPORATE EMPLOYER

1% of total workforce of Georgia is employed in JSC Georgian Railway

LARGEST TAXPAYER

0.5% share in tax recieves by budget

3.2 GOVERNMENT SUPPORT

The Government has shown strong support for the Group's initiatives over the years, including the contribution of land and other assets to the Group's fixed capital projects (in particular, the Modernization Project), the exemption of linear infrastructure (such as railroads and transmission lines) from property tax and an agreement to restrict dividend payments, as well as the change of ownership under the Group's Eurobond prospectus. Given the close alignment of interests between the Group and Georgia as a nation, the former's management expects that the Government will continue to support the Group's operations.

Some prominent examples of the Government's support for the Group are as follows:

- The Government handed over up to 182 hectares of land for Tbilisi Railway Bypass Project in 2010 and 2011, with a value of GEL 33 million, to GR Capital. This land comprised approximately 40% of the total land required for Tbilisi Bypass railroad.
- Contributions of land and other related assets for GR's projects (mostly for the Modernization Project and Tbilisi Bypass Project) were also made from 2012 to 2016, amounting to around GEL 10 million *(see 8.2 Ongoing projects in the Company)*;
- Linear infrastructure such as railroads and transmission lines have been made exempt from property tax in Georgia;
- In 2015 and 2016, the building of a new passenger station in Batumi was financed by shareholders' dividends;
- The signing of an agreement on limitations relating to Eurobonds which the Group hold and thus restricts its dividend payments. Relevant covenants here include a constraint according to which dividend payments must not exceed 50% of the Group's cumulative consolidated net income. Additional limitations according to covenants are related to ownership changes, but the Government's declaration to maintain full ownership is a strong indication of its long-term support for the Group.

3.3 COMPLIANCE WITH DIRECTIVE 34

Georgia has undertaken several commitments under the Association Agreement. The directives and regulations defined in the Association Agreement provide the framework for the creation of common rules for the internal market in the rail transportation sector, which are expected to impact the Group and how it conducts its business. In particular, Georgia has pledged to implement certain provisions 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").

To comply with Directive 34 ahead of required timelines, the Group started preparing and publishing independent financial reports ("Activities Report") for each of the Company's business segments since 2021.

The Group's Activities Report follows the rules outlined in Directive 2012/34/EU of the European Parliament and Council, particularly Section 2, Article 6, which focuses on Separation of Accounts. Article 6 requires Member States to ensure that the Group maintains and publicly shares separate financial reports (profit and loss accounts and balance sheets) for two specific parts of its operations: one for the transportation services provided by the railway undertakings and the other for managing railway infrastructure.

Transactions among the Group's units are priced and treated identically to transactions involving external customers, suppliers, and other units within the Group. This means that revenues from internal services (or the expenses to acquire them) are accounted in the same manner as revenues from external services (or the costs associated with acquiring them).

INTERNAL COSTS AND REVENUE (PROFIT AND LOSS STATEMENT)

The Group have three sources of internal revenues (costs) of units.

For the period ended 31 December 2022 ('000 GEL)	Freight Transporta-tion Unit	Passenger Transporta-tion Unit	Railway Infrastructure Unit	Head Office Unit	*WBS Unit*	*GR GROUP*
External Revenue	623,816	28,206	1,446	19,847	1,456	674,773
Revenue from sales to the Units	**2,502**	**0**	**85,901**	**0**	**8,458**	**96,860**
TO FREIGHT TRANSPORTATION UNIT	0	0	77,521	0	3,983	81,504
TO PASSENGER TRANSPORTATION UNIT	2,502	0	8,379	0	1,386	12,267
TO RAILWAY INFRASTRUCTURE UNIT	0	0	0	0	1,918	1,918
TO HEAD OFFICE UNIT	0	0	0	0	1,171	1,171
Other Income	1,567	2,553	3,333	8,492	-117	15,828
TOTAL REVENUE	**627,885**	**30,759**	**90,679**	**28,339**	**9,797**	**787,461**
Employee benefits expense	-93,457	-19,074	-65,781	-14,342	-5,055	-197,707
Depreciation and amortization expenses	-10,873	-12,430	-39,521	-1,266	-2,495	-66,585
Electricity, consumables and maintenance	-57,737	-7,086	-11,673	-3,195	-515	-80,208
Impairment Loss on trade receivables	561	-30	250	81	-23	840
Other expenses	-91,572	0	0	0	0	0
Cost of purchases from the Units	**-81,504**	**-12,267**	**-1,918**	**-1,171**	**0**	**-96,861**
OF FREIGHT TRANSPORTATION UNIT	0	-2,502	0	0	0	-2,502
OF RAILWAY INFRASTRUCTURE UNIT	-77,521	-8,379	0	0	0	-85,901
OF WBS UNIT	-3,983	-1,386	-1,918	-1,171	0	-8,458
TOTAL EXPENSES	**-334,583**	**-54,764**	**-143,601**	**-26,993**	**-9, 101**	**-569,043**
RESULTS FROM OPERATING ACTIVITIES	**304,172**	**-24, 005**	**-52, 921**	**-9,523**	**696**	**218,419**
Finance income	24,590	1	0	5, 887	0	30,479
Finance costs	61	-3,678	-66,595	-281	0	-70,494
Net Foreign exchange loss(gain)	-8,453	7,839	208,081	11,444	13	218,923
NET FINANCE INCOME / (COSTS)	**16,198**	**4,162**	**141,486**	**17,050**	**13**	**178,909**
PROFIT / (LOSS) BEFORE INCOME TAX	**309,500**	**-19,843**	**88,565**	**183,987**	**709**	**397,328**
Income Tax	0	0	0	-644	0	-644
NET PROFIT / (LOSS)	**309,500**	**-19,843**	**88,565**	**17,752**	**709**	**396,683**

(1) INFRASTRUCTURE CHARGES

General Description

Infrastructure charges are calculated according of Directive 2012/34/EU of the European parliament and of the council, Section 2, Article 30 (infrastructure cost and accounts). For Track access charge (TAC) The Group uses minimum access package. Train kilometer and Gross-tones kilometer charge contains: direct and indirect charges, amortization cost for infrastructure facilities excluding any kind of markups.

Factors Influencing Performance

Infrastructure charges of 2022 to Freight SBU equals to GEL 77.5 million, compared to GEL 74.9 million in 2021. Infrastructure charges of 2022 to Passenger transportation unit equals to GEL 8.4 million, compared to GEL 7.2 million in 2021.

(2) SERVICE FROM USING LOCOMOTIVES

General Description

Freight transportation unit provides additional service to passenger transportation unit, that is calculated by electric locomotive hours multiplied domestic traffic Charge per electric locomotive hour (internal charges are same as the charges to the third parties). Electric locomotive hours are taken for each trip performed in each train slot.

Factors Influencing Performance

In 2022, the Passenger Transportation Unit reduced its expenditure on using Freight Transportation Unit locomotives from GEL 4.4 million in 2021 to GEL 2.5 million, despite a substantial rise in passenger transportation. The cost reduction can be attributed to better planning and more efficient utilization of electric multiple units (EMUs) locomotive-hauled coach trains.

(3) WBS SERVICES

General Description

The unit cost of such services are calculated using indirect method - multiplying man/hour by the cost per man/hour and adding idle costs. WBS charges similar market prices to both internal and external customers.

Factors Influencing Performance

Total WBS Unit service cost in 2022 equals to GEL 8.5 million, compared to GEL 5.6 million in 2021. Around 50% increase was mainly due to additional services provided to Passenger Transportation Unit and Railway Infrastructure Unit as part of digitalization strategy.

4. ENVIRONMENTAL AND SOCIAL FOCUS

4.1 ISSUANCE OF THE GREEN EUROBOND

E

Green transportation with low carbon emissions

98% of the railway is electrified

Responsible waste management

All hazardous waste is disposed

Iron waste (old rolling stock, etc.) is sold out to third parties for recycling

Commitment to high ESG standards in new CAPEX projects

S

Over 12,000 employees

The largest employer in Georgia, providing employment opportunities all over the country

Formed HSE*policy

GEL 9.2mn spent on employees' healthcare and insurance in 2022

Established its own Railway Transport College in 2015

G

Adherence to the best governance standards

All board members are independent

Three committees established under its Supervisory Board

** Health, safety and environmental*

Since its incorporation in the 1990s, the Group's railway network has become almost entirely electrified (it is fully electrified in terms of the mainline and 98% electrified all told) and thus environmentally friendly mode of transport. The Group operates both freight and passenger transportation using electric locomotives and EMUs, while using diesel locomotives only for shunting operations and on non-electrified sidings. The Group is devoted to avoiding, minimizing and mitigating environmental harm caused by its activities and to improving its overall environmental performance. Relatedly, it carries out effective measures to protect the environment, as reflected in the implementation of long-term plans and effective emergency response measures. The Group contributes to national environmental policy. In addition, the Group has a waste management plan in place to utilize and dispose of the waste generated during its operations responsibly, 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 offering affordable domestic passenger transportation.

The Group is the largest employer in Georgia, with more than 12,000 employees as of 31 December 2022 and offers its employees a range of benefits and support systems. In particular, the Group offers medical insurance to its employees and their family members and finances certain healthcare expenditure not covered by insurance.

In order to meet the needs of the public and the state in the field of railway transportation, in 2015 the Company, the Ministry of Education and Science (MoES) and the Georgian Technical University established the Railway Transport College. The College was granted vocational education status for six years in 2016 and started running classes in 2018. Its objectives are to develop a dual vocational education method in the railway sector and to improve the railway labor market *(See 4.3 Social focus and the Railway Transport College)*.

The Group's management considers its continued focus on the above and other sustainable development matters to be one of its competitive advantages.

ISSUANCE OF GREEN EUROBONDS

In 2021, one of the most strategically important events of the year for JSC Georgian Railway and the whole national economy was the refinancing of the 2012 Eurobonds. In June 2021, the Company successfully issued USD 500 million of senior unsecured Green Eurobonds. Their maturity was extended by seven years and the coupon rate was decreased from 7.75% to 4.00%. With a reduced coupon rate, the Company will be able to save around USD 140 million by 2028.

JSC Georgian Railway is the first and only company in the Caucasus region to receive "green status" in the transportation industry. The Company's dedication to addressing environmental, social and governance challenges is clearly demonstrated by this rating.

Meanwhile, the involvement of the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB), as well as a pool of investors interested in sustainable financing, highlights the compatibility of GR's operations with international standards.

	EUROBONDS (Old)	GREEN EUROBONDS (New)
AMOUNT	USD 500,000,000	USD 500,000,000
DATE OF ISSUANCE	05/07/2012	17/06/2021
MATURITY DATE	11/07/2022 (10 years)	17/06/2028 (7 years)
INTEREST RATE	7.75%	4.00%
ANNUAL INTEREST	USD 38,800,000	USD 20,000,000

SAVING OF AROUND USD 140.0 MILLION BY 2028

TRANSACTION PARTICIPANTS

JOINT LEAD MANAGERS AND BOOKRUNNERS

CitiGroup Global Markets Limited and J.P. Morgan Securities plc.

JOINT LEAD MANAGERS CO-MANAGER (NO

Renaissance Securities (Cyprus) Limited and TBC Capital LLC.

UNDERWRITING COMMITMENT) FISCAL AGENT,

JSC Galt & Taggart.

PAYING AND TRANSFER AGENT REGISTRAR

Citibank, N.A., London Branch.

CitiGroup Global Markets Europe AG.

ANCHOR INVESTORS

European Bank for Reconstruction and Development (EBRD)

Asian Development Bank (ADB)

GREEN BOND FRAMEWORK

The Green Bond Framework is aligned with the ICMA Green Bonds Principles 2018

Under the Green Bond Framework, GR is committed to allocating an amount equivalent to the net proceeds of the green bonds issued to finance eligible green projects in clean transportation. These projects will contribute to the construction, modernization, maintenance and extension of new and existing zero direct emission electric railway lines and the acquisition and maintenance of supporting infrastructure and assets. Clean transportation is one of the project categories identified in the Framework.

POSITIVE EXTERNAL REVIEW

JSC Georgian Railway received a positive second-party opinion* on its Green Bond Framework from Standard and Poor's, which stated:

"Georgian Railway Green Bond Framework is aligned with the four core components of the Green Bond Principles 2018.

The objectives of GR's Green Bond Framework correspond to its sustainability commitments of minimizing and mitigating the environmental effects caused by its activities, as well as improving the overall environmental performance of the country's transportation sector. Project financed under the Framework will further support electrification, modernization and extension of the country's railway infrastructure."

**https://www.railway.ge/en/eurobonds/*

S&P Global Ratings

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Green Framework Alignment Opinion

Proposed Georgian Railway Green Bond Framework

May. 26, 2021

Green Bond Framework Overview

In our view, the proposed Georgian Railway (GR) green bond framework, published May 24, 2021, is aligned with the four components of the Green Bond Principles 2018 (GBP). Georgian Railway, based in Tbilisi, is the country's only railway operator. It provides freight and passenger railway transportation services, terminal services, and railway infrastructure development, and connects to Georgian ports on the Black Sea as well as rail systems in Armenia, Azerbaijan, and Turkey. The objectives of GR's green bond framework correspond to its sustainability commitments of minimizing and mitigating the environmental effects caused by its activities, as well as improving the overall environmental performance of the country's transportation sector. Projects financed under the framework will further support the electrification, modernization, and extension of the country's railway infrastructure.

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Framework Alignment Overview

1. Use of proceeds

The GR green bond framework is aligned with this component of the GBP because the company commits to using an amount equivalent to the net proceeds of bonds issued under the framework to finance or refinance eligible green projects under the category of "clean transportation". This category is recognized by the GBP.

2. Process for project evaluation and selection

The framework is aligned with this component of the GBP because the framework outlines the process used to assess whether the projects considered are eligible under the "clean transportation" category. The company's corporate and economic departments will be responsible for evaluating projects under the eligibility and exclusion criteria, and annual monitoring for continued eligibility.

3. Management of proceeds

The framework is aligned with this component of the GBP because it clearly states that allocation and expenditures for eligible projects will be tracked using an internal register.

4. Reporting

The framework is aligned with this GBP component because the company will publish a Green Bond Allocation and Impact report annually on its website until full-proceeds allocation and in the event of a material change.

spglobal.com/ratingsdirect May. 26, 2021 1

PROCEEDS ALLOCATED TO ELIGIBLE GREEN PROJECTS

According to the obligations under the Green Bond Framework, GR's Corporate and Economic Department evaluated projects against the eligibility criteria. The Company excluded activities under the following categories from financing: fossil fuel energy; fossil fuel reliant transport; nuclear energy; alcohol; and defense.

Expenditure on eligible projects is tracked using an internal register, to ensure that an amount equivalent to the net proceeds of the green bonds is allocated in accordance with the Green Bond Framework.

GR publishes an annual Green Bond Allocation and Impact Report*. This report includes details of: eligible green projects and the amounts allocated to their financing; the proportional allocation of proceeds between refinancing and new projects; and the remaining balance of cash or cash equivalents to be allocated.

According to the latest Green Bond Allocation and Impact Report, JSC Georgian Railway allocated USD 424.2 million to five different eligible green projects during the last five years , as described:

- USD 172.4 million allocated to the Modernization Project, which is designed to modernize rail infrastructure and increase the safety and capacity of the main line *(see 8.2 Ongoing projects in the Company)*;
- USD 52.3 million allocated to the acquisition and maintenance cost of the Company's wagon and locomotive fleet;
- USD 97.9 million allocated to the costs related to freight and passenger stations, logistics terminals and platforms;
- USD 70.9 million allocated to the extensions, modernization, maintenance, energy efficiency and electrification of existing railway lines; and
- USD 30.6 million allocated to the costs related to signaling, centralization and blocking systems.

see https://www.railway.ge/en/eurobonds/

BENEFITS OF THE PROJECTS

BY INVESTING IN NEW PROJECTS, GR WILL BE ABLE TO:

- Improve the efficiency and speed of freight and passenger trains;
- Reduce travel time for freight as well as passenger trains;
- Increase the allowed speed on mountainous sections as well as on the network as a whole;
- Increase the annual volume of freight and cargo transported;
- Enhance the number of railway passengers;
- Increase freight capacity volume; and
- Extend the railway network.

4.2 ENVIRONMENTAL FOCUS

Most of GR's network is electrified, making it one of the most energy-efficient and environmentally friendly means of transportation available in Georgia. Pertinently, a filtration system was installed on the railway's facilities to reduce the impact of emissions.

GR is fully devoted to avoiding, minimizing and mitigating any environmental damage caused by its activities and to improving its environmental performance overall. In that regard, it is carrying out effective measures to protect the environment, as reflected in the implementation of long-term plans and emergency response. GR makes a significant contribution to initiatives underpinning the national environmental policy.

The Group is subject to various environmental protection laws and regulations. According to the applicable laws, the construction of railway facilities, as well as the development of railway station infrastructure must be approved by an ecological expert.

According to Georgian environmental laws and regulations, the Group is required to remedy any environmental damage caused by its operations through clean-up and rehabilitation works (such as repairing damaged assets or objects).

In 2017, GR published a new document concerning the management of waste accumulated during its operational processes.

Earlier, in June 2015, changes were made to Georgia's environmental laws and regulations (e.g. the Environmental Impact Permit) according to which the Group had to conduct an environmental audit of the railway system throughout the country.

In 2020, the Group conducted environmental monitoring, with protocols on the relevant violations subsequently prepared and recommendations issued to carry out appropriate measures. GR was not penalized for any environmental impact by way of its activities or in the course of the Modernization Project in 2020 and in 2021. In addition, as of 31 December 2022, the Group has not been the subject of any material claims regarding environmental pollution.

GR has a waste management plan in place to utilize waste generated during its operations responsibly. Its annual plan is prepared in compliance with the Waste Management Code of Georgia and includes:

- Waste management goals and objectives;
- Hierarchy and principles of waste management;
- Information on waste generation;
- Information about the measures on waste prevention and recovery;
- Descriptions of waste separation methods introduced;
- Methods for and conditions of temporary storage and waste;
- Waste transportation rules and waste treatment methods used;
- Information about which organization(s) is/are responsible for further treatment of waste; and
- Requirements for the safe handling of waste and waste control methods.

Once a year, GR transfers hazardous waste for disposal and/or remediation.

The ISO 9001:2015 has been introduced in GR at Corporate Governance Department level and in the Passenger SBU *(see 7.2 Passenger transportation strategic business unit (Passenger SBU))*. Risks are identified on an annual basis, agreed with the Group's management and action plans are implemented in accordance with the following standards:

- the trains and passenger coaches produce zero direct (tailpipe) CO_2 emissions;
- the trains and passenger coaches produce zero direct (tailpipe) CO_2 emissions when operating on a track with the necessary infrastructure and use a conventional engine where such infrastructure is not available (bi-mode).

ENVIRONMENTALLYFRIENDLY TRANSPORTATION MODE

98% of Georgian Railway is electrified

Waste management plan established in compliance with Waste Management Code of Georgia

Both freight and passenger transportation use electric locomotives and EMUs, while diesel locomotives are used only for shunting operations and on non-electrified sidings

Realization of strategic green projects, such as the Modernization Project, aiming to lower GR's environmental impact (reduced electricity consumption and lower CO2 emissions) and make operations safer

Environmental Protection Unit established at GR's corporate level

Fully compliant with applicable environmental protection laws and regulations

Regularly conducting environmental audits and monitoring of the railway throughout the country

AVOIDED CO2 EMISSIONS

To estimate the extent of GHG emissions avoided in Georgia courtesy of JSC Georgian Railway, the Company compared the volume of greenhouse gases emitted into the atmosphere by energy consumed as a result of rail transport against the volume of the emissions in the absence of railway network available. Minibus – in the place of passengers and trailers – for freight was used as an alternative type of transportation for this comparison.

AVOIDED THE EQUIVALENT OF ABOUT 700,000 TONS OF CO2 FROM 2018 TO 2022

ZERO DIRECT EMISSIONS

tons CO2 eq.	2022	2021	2020	2019	2018
TOTAL AVOIDED EMISSIONS	181,847	139,931	120,344	125,689	113,752

Avoided more than the equivalent of 42,000 tons of CO2 in 2022, compared to 2021.

**The international IPCC 2006 methodology is used to calculate greenhouse gas (CO2, CH4, N2O) emissions from the railway sector (Publications - IPCC-TFI (iges.or.jp)*

4.3 SOCIAL FOCUS

The Group operates the Passenger SBU, which primarily transports passengers within Georgia and on international routes, connecting Georgia with Azerbaijan and Armenia. One of GR's main objectives is to provide accessible and comfortable travel for people. Therefore, historically, passenger tariffs have remained relatively low due to the importance of affordable transportation services to the GoG, the sole shareholder of the Group *(see 7.2 Passenger SBU)*.

Health and safety of employees and operations is critical for the Company, which acts in full compliance with local and international law. Each health and safety incident is thoroughly investigated to identify causes and inform appropriate measures to be taken to prevent them in the future.

GR offers medical insurance to its employees together with their family members and finances certain healthcare expenditure not covered by insurance policies. Moreover, the Company also offers other financial aid for special 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, etc.

In order to meet the needs of the public and the state in terms of railway transport, JSC Georgian Railway together with the MoES and the Georgian Technical University co-founded the Railway Transport College (RTC) in 2015. The purpose of the RTC is to supply the Company with qualified graduates with relevant vocational backgrounds to meet the requirements of the modern international labor and rail market, enshrining national and international values and creating conditions for candidates to achieve their educational goals and successfully obtain employment. In addition, the RTC building has been renovated and adapted in line with the necessary standards for inclusive learning, to better accommodate students with a range of disabilities.

STRONG SOCIAL IMPACT AND COMMITMENT TO ENSURING A SAFE WORKING ENVIRONMENT

- GR is one of the largest employers and taxpayers in Georgia, providing a workplace for more than 12,000 people all over the country
- GR provides passenger transportation at affordable tariffs, which is socially important and benefits the development of all regions of the country
- GR adheres to the best health and safety standards and management systems (ISO certification and SAP and 6 SIGMA programs)
- GR has an established health and safety policy
- 60% of the Group's employees are a member of one or more trade unions

EMPLOYEES

The Group is one of the largest corporate employers in Georgia, with more than 12,000 employees as of 31 December 2022. The Company also creates additional employment in related industries, such as railcar manufacturing and construction.

The following table sets forth the distribution of the Group's employees, by business unit, as at the dates indicated:

	2022	2021	2020	*2022*	*2021*	*2020*
HEAD OFFICE	767	772	636	*6%*	*6%*	*5%*
INFRASTRUCTURE SBU	4,670	4,748	4,806	*38%*	*38%*	*39%*
FREIGHT SBU	5,253	5,233	5,262	*42%*	*42%*	*42%*
PASSENGER SBU	1,197	1,172	1,195	*10%*	*9%*	*10%*
SUBSIDIARIES	491	489	470	*4%*	*4%*	*4%*
TOTAL	**12,378**	**12,414**	**12,369**	***100%***	***100%***	***100%***

see 7. Focus on core business activities

The Group's management believes that a common understanding at all levels of the organization regarding the strategic objectives and business principles of the Company is essential for its success. To achieve this, the Company promotes business education among its mid-level technical staff and engages lower-level managers in the decision-making processes, while incentivizing employees through its group-wide, value-creation-oriented bonus scheme.

Meanwhile, the Group offers medical insurance to its employees together with their family members and finances certain healthcare expenditure not covered by insurance. In 2022, the amount spent on employees' healthcare expenses totaled GEL 304,000.

The Group's average employment package (salary, bonuses, etc.) correlates quite closely to the average national salary. The Group also has a bonus system, according to which bonuses are distributed to all employees twice a year.

AVERAGE EMPLOYEE BENEFITS

'GEL

For the year ended 31 December	2022	2021	2020
JSC GEORGIAN RAILWAY	1,329	1,215	1,135
GEORGIA *(Source: National Statistics Office of Georgia)*	1,591	1,305	1,191

ADDITIONAL BENEFITS

'000 GEL

For the year ended 31 December	2022	2021	2020
LOYALTY PROGRAM	762	475	432
HEALTHCARE FUNDING	304	304	350
Total	**1,066**	**779**	**782**

There is huge competition among companies and organizations in Georgia for executives and other personnel who are both sufficiently qualified and experienced. However, due to the favorable work environment afforded by the Company to its employees including a competitive compensation package, career opportunities and other advantages, its employee turnover rate is relatively low. Specifically, the Company's employee turnover rate was 6% in 2022, 8% in 2021 and 6% in 2020 (excluding subsidiaries).

EMPLOYEE TURNOVER RATE BY BUSINESS UNIT

	31-Dec-22	31-Dec-21	31-Dec-20
HEAD OFFICE	*13%*	*9%*	*7%*
FREIGHT TRANSPORTATION SBU	*6%*	*7%*	*5%*
INFRASTRUCTURE SBU	*7%*	*9%*	*8%*
PASSENGER TRANSPORTATION SBU	*5%*	*5%*	*5%*
WBS	*6%*	*3%*	*7%*
Average turnover	*6%*	*8%*	*6%*

EMPLOYEE DISTRIBUTION BY AGE

AGE RANGE	31-Dec-22
<20	*0.66%*
21-30	*6.79%*
31-40	*17.66%*
41-50	*22.12%*
51-60	*27.06%*
>60	*25.72%*

The table on the right shows the various age groups of the Company's personnel. The majority of GR employees are aged between 51 and 60. Pertinently, the Group involves its workers in decision-making processes, which boosts their workplace engagement, while it also offers them opportunities for career advancement. This approach in turn benefits the Group through the sharing of innovative ideas.

LABOR PRODUCTIVITY MEASURES

For the year ended 31 December	**2022**	**2021**	2020
Ton-km per average number of Freight SBU employees (millions)	0.8	0.6	0.5
Freight revenue per average number of Freight SBU employees (GEL '000)	98.4	83.2	79.1
Average number of Infrastructure SBU employees per average expanded length (km) of infrastructure	2.5	2.5	2.4
Passenger-km per average number of Passenger SBU employees (millions)	0.4	0.2	0.2
Passenger revenue per average number of Passenger SBU employees (GEL '000)	12.5	12.5	9.2

**See heading 7. Focus on core business activities*

As of 31 December 2022, approximately 60% of the Group's employees were a member of one of two labor unions (the NNLE Union and the Trade Union of Georgian Railway Employees). The Group does not have any collective bargaining agreements with its employees or a trade union, although it has in the past been party to arrangements with certain unions. In addition, pursuant to the requirements of Georgian law, if 20 or more employees raise a singular concern, it transforms into an employee collective dispute, necessitating the Group to conduct roundtable meetings with trade unions.

RAILWAY TRANSPORT COLLEGE (RTC)

In 2015, the Railway Transport College (RTC) was established and in 2016 it was granted professional education status for six years. The RTC started running classes in 2018.

The RTC was founded by:

- JSC Georgian Railway;
- Ministry of Education and Science of Georgia;
- Georgian Technical University.

The partners are:

- DB Engineering and Consulting (a subsidiary of German railway company DB)
- Iowa State University.

The objectives of the RTC are to develop a dual vocational education method in the railway sector and to improve the railway labor market.

The RTC is financed by GR, the MoES and Georgian Technical University, while it was also granted around USD 2.3 million from the U.S. Millennium Challenge Account.

In 2018, the college building was renovated and adapted to meet the necessary standards for inclusive learning, in order to better accommodate students with a range of disabilities, as well as to provide the RTC with suitable training inventories, computer equipment and locomotive simulators. The cost of the refurbishment was covered by the MoES and GR.

A machine operator vocational training program was introduced at the institution in 2019, marking a first for Georgia. Moreover, a training laboratory was built up and furnished for one of the most in-demand professions on the labor market.

Initiatives providing short-term training to people with disabilities (PwDs) to improve their competitiveness on the labor market were launched in 2020 by the Georgian Government Administration Coordination Group for the Rights of Persons with Disabilities, the Ministry of Education and Science of Georgia and Tbilisi Office of the United Nations High Commissioner for Human Rights. Involved in the initiative, the RTC created a specific course called "Office Task Management" and made it available to any interested parties

The RTC joined the "Professional Training and Qualification Enhancement" State Program in 2021. Meanwhile, two training programs submitted for financing were "Office Management" and "Accounting for Construction and Service Organizations."

The modern electronic program "OPENBIBLIO" was also purchased, through which an electronic catalog was put to use, including extensive library resources of 549 printed units and 86 e-books. The catalog can be used remotely by teachers, professional students and any other interested persons.

As of the end of 2022, the RTC was eligible to implement a total of 17 professional educational programs (railroad gauge construction, railroad gauge monitoring, railway power supply, electric rolling stock of the railway, railway transportation, railway transportation (integrated), signaling, centralization and blocking of railway transport, railcar management, locomotive management, freight transportation logistics, freight transportation logistics (integrated), machine tool operator, railway power supply (integrated), railcar management (integrated) and signaling, centralization and blocking of railway transport (integrated)).

In 2022, a total of 105 professional students completed their chosen professional education program and were awarded the relevant professional qualifications provided by the program. There have been 254 graduates since the RTC's inception while the share of female students increased by 9% in 2022, compared to 2021.

Georgian Railway and the RTC launched a new initiative entitled "Equal Opportunities in the Railway Sector of Georgia and Strengthening the Technical Skills of Young People" with the support of the European Bank for Reconstruction and Development (EBRD), details of which are presented below:

- "Equal Opportunities in the Railway Sector of Georgia and Strengthening the Technical Skills of Young People" is a two-year project, within the framework of which both new and updated professional short-term educational programs of the RTC will be created; and

- In addition, gender-sensitive human resources management policies and procedures will be developed in order to better implement the principles of gender equality in Georgian Railway and in the RTC. The equal opportunities action plan outlines all steps the Company is to take to improve gender equality.

The project is part of the railway modernization program funded by the EBRD and is being implemented by the French company, AETS, with the participation of foreign and local experts.

5. THE GROUP'S INFRASTRUCTURE

5.1 RAILWAY PROPERTY

The Group owns different types of real estate, machinery, rolling stock and other assets. The net book value of its property, plant and equipment as at 31 December 2022 was approximately GEL 1.8 billion. Specifically, it owns and operates the following assets:

RAIL NETWORK	1,408 km
FREIGHT RAILCARS	4,504
PASSENGER WAGONS	36
CONTAINERS	586
LOCOMOTIVES *(diesel/electric)*	97
ELECTRIC MULTIPLE UNITS *(EMUs)*	20

FREIGHT STATIONS	100 *(65 are commercial)*
PASSENGER STATIONS	31
LAND	52 km2
TUNNELS	42
PEDESTRIAN TUNNELS	21
BRIDGES	1,348

**Table includes working fleet*
** Table does not include property owned by Borjomi-Bakuriani Railway (see 7.4 Subsidiaries and affiliates)*

Some of the infrastructure, such as interlocking systems and power substations and some related assets owned and operated by the Group, such as rolling stock, are relatively old. Although the condition of this infrastructure is sufficient for carrying out the Group's current and planned railway operations without significant disruption, the Group continues to carry out significant maintenance and improvement works on much of its infrastructure. The Group has already made and intends to continue making substantial investments to modernize its infrastructure, including the Modernization Project *(see 8.2 Ongoing projects in the Company)*.

RAIL NETWORK

GENERAL DESCRIPTION

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 TRACECA. The Group's mainline rail network is thus a key link in the shortest route from Central Asia and the Caspian Sea to the Black Sea and the Mediterranean Basin.

GR owns and operates a 1,408-km-long railway network, 293 km of which is double-track line. The Company's network is 98% electrified.

GR's network is connected to both the Azerbaijani and Armenian railways.

On 30 October 2017, the Baku-Tbilisi-Kars (BTK) railway line became operational. The BTK link directly connects Azerbaijan, Georgia and Turkey. In 2017, the first train passed through the line *(see 8.3 Ongoing projects in the corridor)*.

The Company also has a line connecting with Russia through the Georgian region of Abkhazia, which is currently not operational.

1,408km
Network length

293km
Double-Track line length

98%
Fully electrified

CAPACITY

The Company's infrastructure capacity varies across different sections. The main bottleneck is a mountainous region located in the center of Georgia, referred to as the gorge section. Most of the Group's freight is transported through this region, as the gorge section is part of the network's mainline. Currently, the estimated annual capacity of the gorge section is 27 million tons of cargo. The ongoing works in the Modernization Project are designed to increase the possible throughput capacity of the rail line to 48 million tons annually, with the potential to increase the capacity to 100 million tons with relatively minor further investments.

An increase in the capacity of the rail lines would boost the capacity of the entire TRACECA, along with other planned or implemented projects such as the development of a deep-sea port on the Black Sea shore, the modernization of the Azerbaijani railway network and the development of ports on the Caspian Sea in Kazakhstan.

ROLLING STOCK

As of 31 December 2022, the Group had 4,504 active freight railcars and 36 active passenger wagons. Earlier, in 2014, the Group purchased 480 containers to facilitate container transportation within the corridor.

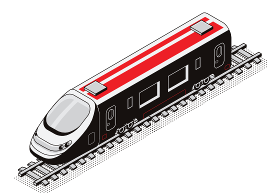
	31-Dec-22	31-Dec-21	31-Dec-20
ACTIVE FREIGHT RAILCARS	4,504	4,469	4,407

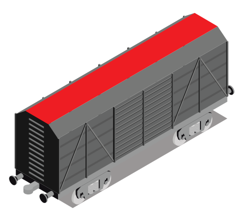
GENERAL DESCRIPTION

The Group's rolling stock undergoes regular maintenance and repair. Such 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 the railcars. Scheduled repairs are carried out based on either the period or mileage of operation. The Group's rolling stock is generally inspected regularly before loading, after unloading and during transportation through freight stations.

36

PASSENGER WAGONS





4'504

FREIGHT RAILCARS

Under Group procedures, its maintenance staff perform routine depot repairs once every 1-3 years on average after manufacturing (depending on the class, the usage and condition of the railcar) and, thereafter, once every two years. Around 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 the useful life is extended. After this extension ends, another similar extension with third-party providers for a second time. In that case, once the second extended useful life ends, the Group may yet make two further life extensions, each lasting five years.

Unscheduled repairs are dictated 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 its network.

The Group prepares an annual renovation and repair program with respect to its rolling stock, to ensure the availability of sufficient locomotives and railcars to service its ongoing operations.

The following table presents the distribution of the Freight SBU's total working freight railcars by age, as at 31 December 2022:

Age	Total Workforce (%)
Less than 21 years	9
21-25 years	11
26-30 years	1
31-35 years	25
More than 35 years	54

**See 7.1 Freight SBU*

The following table sets out the distribution of the Passenger SBU's total active passenger wagons by age, as at 31 December 2022:

Age	Total Workforce (%)
Less than 21 years	0
21-25 years	0
26-30 years	0
31-35 years	3
More than 35 years	97

**See 7.2 Passenger SBU*

CAPACITY

One of the main components determining the capacity of the rolling stock is the number of railcars and containers available for transportation. Currently, the Group can use railcars from three different sources: the Group's railcars; railcars owned by other railways; and the railcars of private companies.

The information presented below indicates the Group's dependency on its wagons as less than half of the Group's overall freight transportation in 2022 was performed by its railcars.

SHARE OF FREIGHT TRANSPORTED BY RAILCAR OWNERS

For the year ended 31 December	*2022*	*2021*	*2020*
The Group's railcars	*38%*	*47%*	*51%*
Railcars owned by other railways	*18%*	*23%*	*21%*
Railcars of private companies	*44%*	*30%*	*28%*

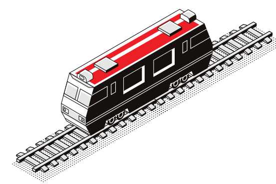
The Group's management believes that its current rolling stock allows it to operate efficiently, provided that the required maintenance and capital repairs are performed. It also understands that utilizing the existing rolling stock would be significantly more cost-efficient than purchasing new rolling stock or leasing more modern equipment, as it estimates that the cost of capital repairs to extend the useful life of the Group's existing rolling stock would be approximately one-third of the cost of acquiring new rolling stock. Given the spare capacity of its rolling stock fleet, the Group's management does not intend to aggressively expand the fleet. When the Group experiences a shortage of specific types of railcar, it typically addresses that through a combination of capital repairs of rolling stock from the inventory, selective acquisition of new railcars, or adjusting tariffs to attract private railcar owners.

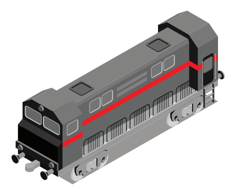
LOCOMOTIVES AND EMUs

As of 31 December 2022, the Group owned 20 units of active EMUs and 97 active locomotives of which 70 were electric and 27 were diesel. In addition, the Group has another five EMUs as well as 23 electric and 31 diesel locomotives that will be fully operational after capital repairs. Diesel locomotives are mainly used for shunting operations at stations, while electric locomotives are used to move railcars along with the electrified railway network.

20

PASSENGER TRAINS (EMUs)





97

ELECTRIC LOCOMOTIVES

The following table sets out the distribution of the Freight SBU's total active locomotives by age, as of 31 December 2022:

Age	Total Fleet (%)
Less than 30 years	0
31-37 years	0
38-44 years	1
45-51 years	28
More than 51 years	71

**See 7.1 Freight SBU*

The following table details the distribution of the Passenger SBU's total working EMUs by age, as of 31 December 2022:

Age	Total Fleet (%)
Less than 21 years	45
21-25 years	0
26-30 years	0
31-35 years	0
More than 35 years	55

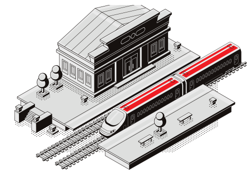
**See 7.2 Passenger SBU*

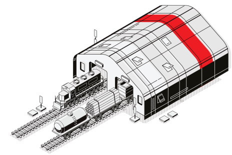
STATIONS AND ADMINISTRATIVE BUILDINGS

As of 31 December 2022, the Group owned and operated 100 freight stations in Georgia, 65 of which are fit for commercial purposes. Ten freight stations have been closed since 2016 following a management decision and the fleet from these stations has been transferred to other stations to boost efficiency. The Group also owned and ran 31 passenger stations with 51 ticket booths as of 31 December 2022. The Group's headquarter building is located in central Tbilisi.

31

PASSENGER STATIONS



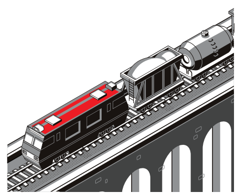


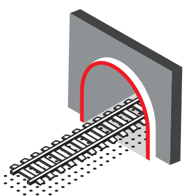
100

FREIGHT STATIONS

1'348

BRIDGES





42

RAILROAD TUNNELS

TUNNELS AND BRIDGES

The Group's infrastructure assets comprise 42 railroad tunnels, 26 railroads and 1,322 bridges of various functions. It also owns signal equipment and other assets related to ensuring the safety of operations.

SIGNALING CENTRALIZATION AND BLOCKING

Its signaling, centralization and blocking infrastructure is among the most important assets owned and operated by the Group. These assets are used to regulate and manage locomotive movement along GR's lines. In addition, the reliability of their functioning directly affects the efficiency and safety of movement along the line.

It is crucial that investments be made in new technology and that outdated infrastructure be renewed or replaced in order to maintain good performance. Relatedly, new relay-microprocessor devices were selected that meet the SIL-4 level of accuracy and safety set by the European Committee for Electrical Standardization (CENELEC). The mentioned systems will increase the safety and simplicity of technical operations. Furthermore, the introduction of an electrical relay-microprocessor also creates new opportunities and increases capabilities, including:

- Enhanced reliability due to the replication of several nodes, including the MPS kernel CPU. Information is continuously exchanged between the control, control objects and the processor (which also serves to boost safety);
- The capacity to combine the SCB's control and rolling stock control tools into a single station processor and establishing a more comprehensive set of technical features;
- Reducing the size of equipment by 3-4 times;
- Facilitates expansion thanks to its modular design (in accordance with track development);
- The ability to recover field equipment's operational characteristics from the archive, forecast its status, or schedule repairs and modifications to prevent misrepresentation; and
- Significant reduction in system energy costs.

In 2016, for the first time in Georgia, in the course of the Modernization Project, a modern-type relay-microprocessor (hybrid) electrical centralization system was installed and put into operation at the Batumi passenger station. In the same year, an alternative system of relay circuits was also introduced.

Furthermore, to replace relay semi-automatic blocking, microprocessor semi-automatic blocking was installed and put into operation on 11 inter-station crossings on the Samtredia-Batumi segment (within the Modernization Project). The link ensuring electrical centralization on this route was built using an optical fiber cable, which greatly improves the safety of train traffic between stations *(see 8.2 Ongoing projects in the Company).*

Within the same project, a tender to upgrade five stations along the Khashuri-Zestaponi segment (Kvishkheti, Moliti, Marelisi, Kharagauli and Dzirula) with contemporary relay-microprocessor systems was announced in 2021. The tender for that includes three stages and the work will be completed in 2024.

As part of the mentioned project, in February 2023, the construction of the relay-microprocessor electrical centralization system in Marelisi station was put into operation. In Kharagauli, Dzirula and Kvishkheti, construction of the relay-microprocessor centralization system is already underway. The installation of Moliti station's relay-microprocessor centralization system is scheduled for 2024.

The process of designing and construction construction at nine stations (Poti, Senaki, Chakvi, Kobuleti, Poti, Supsa, Ochkhamuri, Sajavakho, Tbilisi-Satvirto and Tbilisi-Sakvandzo) is already underway. In particular, this includes the replacement of relay electrical centralization systems in stations with relay-microprocessor (hybrid) electrical centralization systems.

As the transition to new systems is a gradual and time-consuming process, GR is undertaking the removal of postal equipment from depreciated buildings and system rehabilitation, installation and replacement of board cables, among other work. The renewal process is ongoing throughout the year and across the Company as a whole.

5.2 INSURANCE, SAFETY AND FAILURES

INSURANCE

The insurance industry in Georgia is still developing and many forms of insurance protection common in other parts of the world are not yet available. Moreover, to the extent insurance may be available to the Group outside Georgia (if at all), based on statistics relating to past incidents on the railway, the Group does not believe taking insurance out with a foreign provider would be cost-effective. Accordingly, the Group does not have insurance coverage for its infrastructure and other assets, business interruption, or third-party liability with regard to property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. The Group's customers typically purchase insurance covering only the cargo transported by the Group.

Nonetheless, the Group is examining the insurance market and potential risks on a regular basis. Based on a cost-benefit analysis, the Group may yet decide to purchase insurance coverage in the future.

RAIL SAFETY AND FAILURES

As stipulated by the Railway Code, the Group operates under a policy of self-regulation with respect to rail safety. Accordingly, it has developed and implemented its own safety policies.

The Group reports minor derailments from time to time, which occasionally result in damage to the track or cargo spillages. The latter, especially 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 and addressed accordingly. In 2022, the Group did not experience any freight train derailments.

The following table outlines details of train crashes for the years indicated:

TRAIN CRASHES

For the year ended 31 December	2022	2021	2020
HUMAN	13	16	14
AUTOMOBILE	21	15	10
ANIMAL	142	118	102
TOTAL	176	149	126

The table below sets out details of accidents for the years indicated:

ACCIDENTS

For the year ended 31 December	2022	2021	2020
Number of employees injured due to accidents	7	7	12
Number of employees died due to accidents	1	1	2

The Group provides compensation or alternative benefits for losses suffered due to accidents to the affected employees or their families. In order to help prevent future employee fatalities, the Group delivers training to employees, as well as first aid kits and has introduced its Occupational Health, Safety and Environment Policy, which, inter alia, outlines procedures for the investigation of incidents, obligates quarterly trend reports, promotes employee and contractor awareness of safety issues and ways to avoid, minimize and mitigate the Group's environmental impact and includes long-term plans and emergency response measures. One of the key objectives of the Modernization Project is to improve the Group's operational and overall safety. Moreover, special employee training sessions are held, introducing new methods to increase safety standards to contractors.

The employee injury rate in 2022 was one of the lowest per year during the last 10 years, standing at about 0.06%.

THE PROCEDURE FOR HANDLING INTERRUPTIONS AND INFRACTIONS THAT TAKE PLACE WITHIN THE COMPANY

TRANSPORTATION SYSTEM → DETECTION OF INTERRUPTIONS/INFRACTIONS → RESEARCH → DECISION MAKING → IMPLEMENTATION → ELIMINATING THE PROBLEM

In June 2021, the General Traffic Safety Inspection regulation was changed. In particular, if before the change the inspections were to control, analyze and supervise safety measures, after it the they were to encompass control, analysis and supervision, as well as regulation of traffic safety.

The main tasks of the General Inspectorate are to:

- Control, regulate and analyze train traffic safety on Georgian railways and prevent traffic safety violations;
- Conduct official investigations into violations of train traffic safety;
- Regulate and analyze the security situation for trains on Georgian railways and identify risks and develop appropriate recommendations;
- Determine strategic goals in terms of safe movement of trains during the operation of Georgian railway transport;
- Perfect existing normative documentation on the Georgian railways in the field of traffic safety, develop appropriate regulations and methodologies with identified deficiencies in mind and input existing regulations into a centralized database;
- Plan and participate in training, raising qualification levels and retraining production personnel.

In order to perform the main tasks and functions of the structural subdivisions of the General Inspectorate, GR uses internal instructions and an action plan, based on the experience of the Company and its apparatus, as well as the best practices of foreign railways.

In 2020, the rules for the organization of maneuvering work on the tracks of locomotive depots (e.g. turning points) and local instructions for the protection of rolling stock were developed, according to which the internal maneuvering instructions for depots were reworked on the road and issued in a uniform manner. Accordingly, the extent of maneuvering work in the depots was reduced. When traffic safety violations are detected, the mentioned instruction eases the identification and investigation of the facts.

In order to carry out inspections effectively and align them as part of a unified system, the rules for the implementation of systematic measures aimed at ensuring the safety of train traffic on the tracks of JSC Georgian Railway (technical regulations) were developed.

Taking modern standards into account, the updated "Instructions on Registration, Investigation and Review of Classification of Traffic Safety Violations on JSC Georgian Railway" were prepared. The new classification system allows for more accurate recording and description of violations and the production of transparent statistics.

The work of the general inspection of traffic safety-inspection-related employees/supervisors, road and regional inspectors is carried out in accordance with the basic norms of personal participation in the organization of traffic safety as well as the new unified company standard developed and approved in 2021. Accordingly, the management is informed of inspected objects and detected violations on a weekly basis and any problems and ways to eliminate them are discussed immediately. The basic norms of personal participation in the organization of traffic safety were developed and will be assigned to the heads of all technical departments of the functional branches of GR, as well as to the heads of all line enterprises subordinate to them, according to which all links are involved in the observance of safety norms at the relevant sites.

In 2023, another new normative document entered into force entitled "Instructions for Registration, Storage and Issuance of Brake Blocks to be Attached to the Rail of Rolling Stock."

GR also actively refers to the Railway Safety Basics established by the European Union Railway Agency, which covers various railway issues including existing safety standards in high-risk industries.

SAFETY MANAGEMENT SYSTEM (SMS)

As part of “the Twinning Project”, the safety management system (SMS) is being developed by the Group together with Polish colleagues. The purpose of the SMS is to ensure that the organization safely controls risks arising from business objectives and fulfills all security obligations.

The plan-do-check-act (PDCA) cycle, which includes the following components, can be used to observe the SMS:

PLANNING: Identification of risks and opportunities and determination of safety goals and corresponding action plan required to accomplish outcomes in accordance with the Company’s Security Policy;

OPERATION: Process development and implementation according to the action plan;

EVALUATION OF WORK PERFORMANCE: Monitoring and evaluation of procedures and actions in relation to objectives, as well as reporting outcomes;

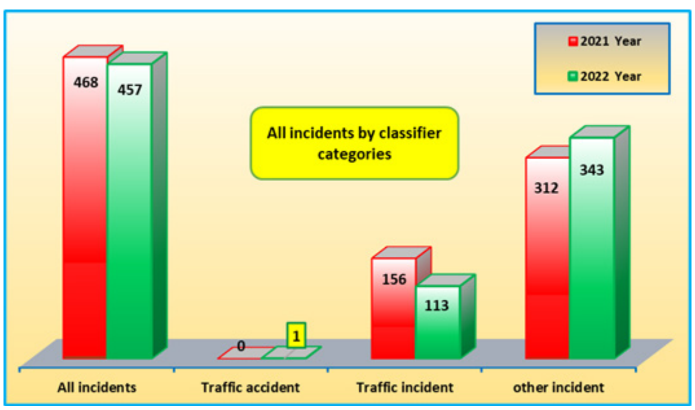
IMPROVEMENT: Establishing procedures to regularly improve the SMS and fulfill safety objectives.

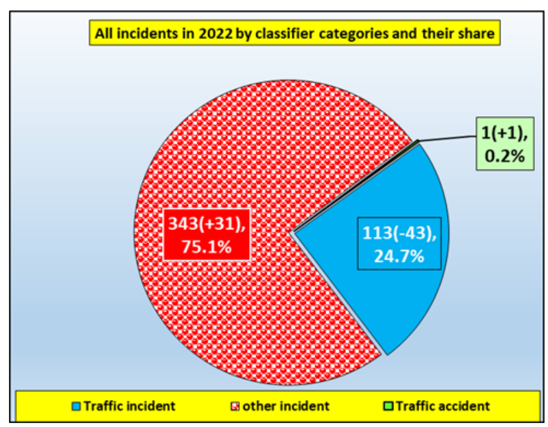
The safety level indicator has improved consecutively for GR’s network three times since 2021.

The volume of train traffic (i.e. the rate of transport work per train-kilometer) has a bearing on safety and pertinently the volume of shipments is expected to increase. As statistics and studies show, an increase in the volume of shipments by 20-30% can disproportionately increase related violations of traffic safety by 40-80%.

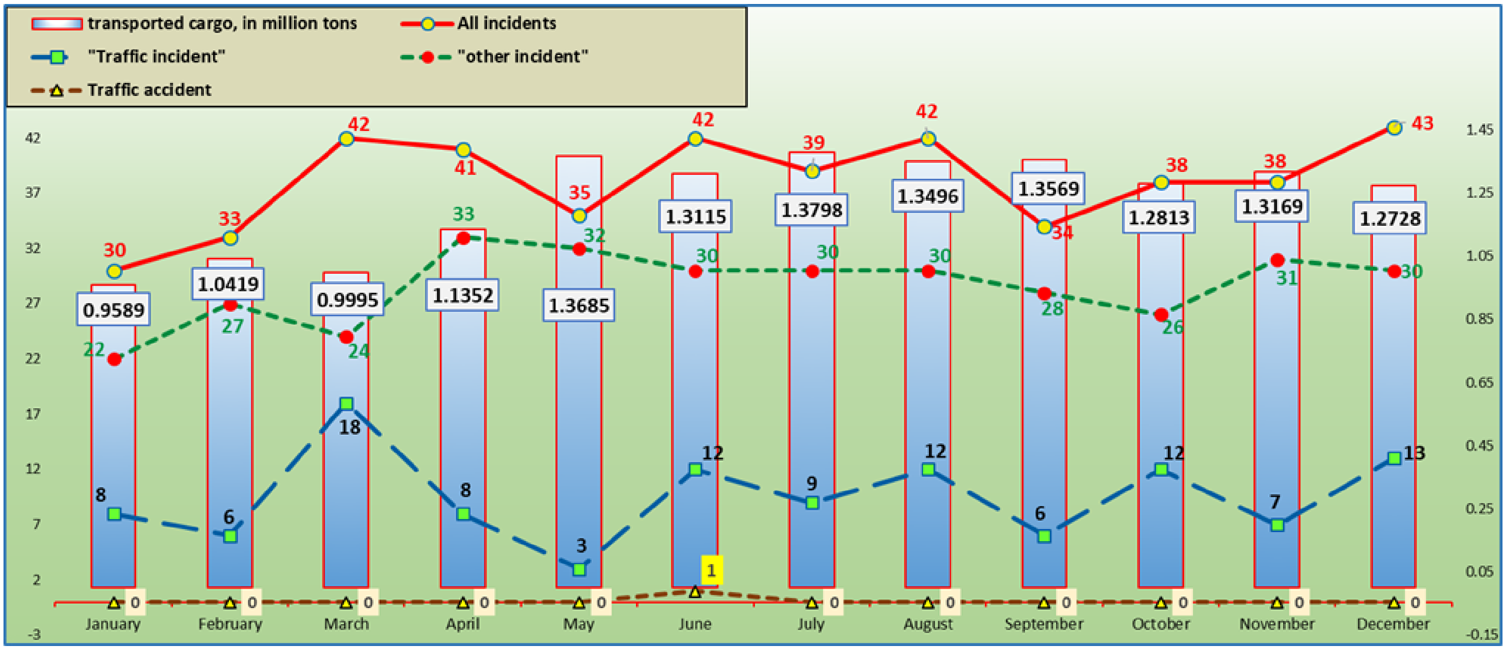
However, according to current data, the volume of train traffic increased by 17.8% in 2022 and traffic safety violations decreased by 2.4%, suggesting that traffic safety improved.

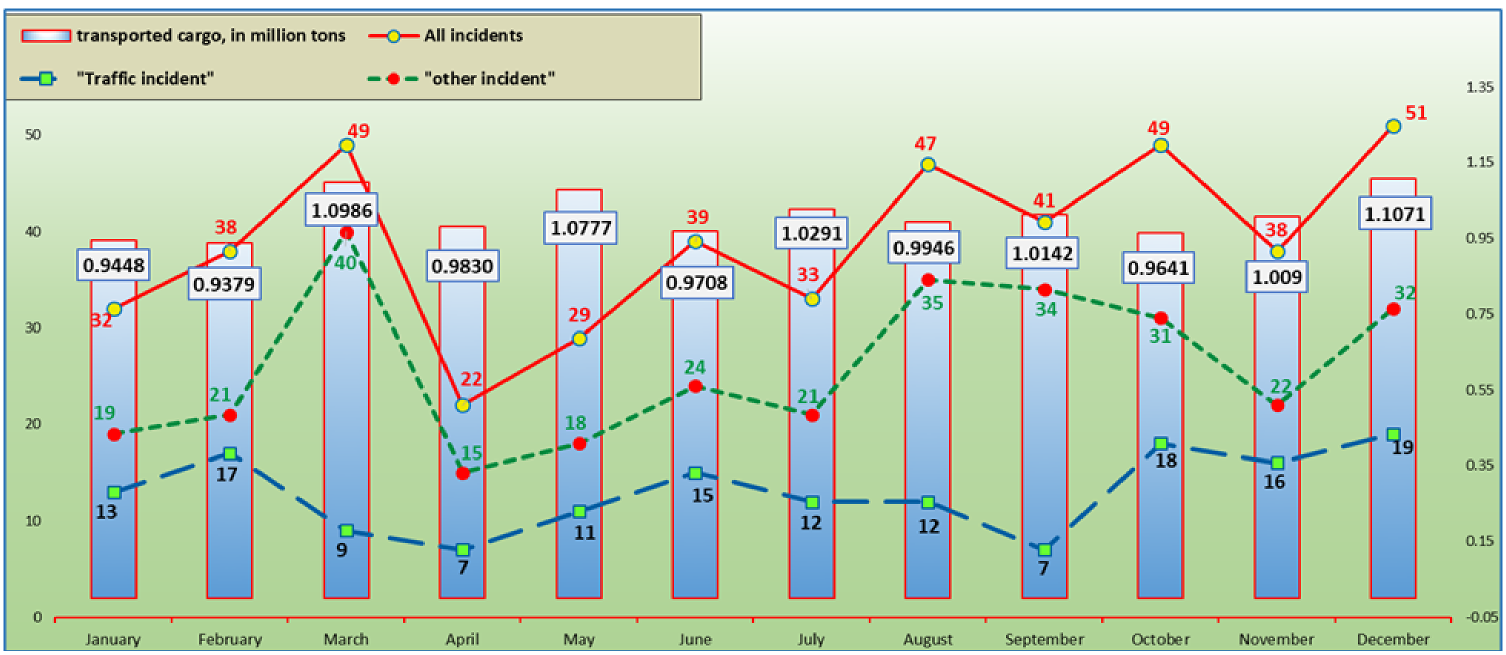
CLASSIFICATION OF TRAFFIC SAFETY VIOLATIONS IN 2021/2022





RATIOS OF ALL INCIDENTS IN 2021 AND 2022 FOR TRANSPORTED CARGO





6. THE COMPANY'S STRATEGY FOR A SUSTAINABLE FUTURE

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

CONTINUE TO GROW ITS FREIGHT SERVICE BUSINESS

MAINTAIN STRONG CUSTOMER RELATIONS THROUGH A FLEXIBLE TARIFF POLICY

DEVELOP AND MODERNIZE EXISTING INFRASTRUCTURE

INCREASE CONTAINERIZATION OF FREIGHT TRANSPORTATION

INCREASE THE SHARE OF PREMIUM PASSENGER SERVICES

CONTINUE TO GROW ITS FREIGHT SERVICE BUSINESS

One of the Company's strategic goals is to achieve continuous growth in its freight service business while expanding geographical reach through diversification. By upgrading its infrastructure, investing in new capacities and enhancing the rolling stock, the Group aims to capitalize on the expected increases in freight volumes in its core markets.

> "By diversifying the freight mix across different regions, GR can mitigate risks and capitalize on growth opportunities"

The primary focus is on capturing volume growth by diversifying the freight mix, with a particular emphasis on dry cargo. Through these efforts, its aim is to strengthen the Company's position as a leading provider of freight services in the region while expanding into new markets.

To accomplish this particular strategic goal, the following key approaches are being taken:

INFRASTRUCTURE ENHANCEMENT: The Company is prioritizing the upgrade of its infrastructure to support the growth of its freight service business. This includes the development of container terminals and the necessary infrastructure to promote containerization within the corridor. In 2009, the Group established GR Logistics and Terminals to promote the containerization of the corridor. Its corporate objective is to help strengthen the Group's presence in the container transportation market, primarily by putting in place the necessary infrastructure, such as container terminals.

Furthermore, the Baku-Tbilisi-Kars (BTK) route, which is expected to be completed in 2024, will provide a new single modal railway corridor from the Caspian Sea to Europe via Turkey. The Group intends to capture volume growth here through longer-term expansion into this new trade avenue. The capacity of the line is set to be 5.0 million tons per year. The Group's management expects the route to be loaded to its optimal rate upon full completion of the construction works *(see 8.3 Ongoing projects in the corridor)*.

In addition, a new route from China to Georgia and through Georgia to Turkey and Europe the Mediterranean Basin provides an alternative to the existing sea route and opens up the possibility of attracting cargo from new markets.

GEOGRAPHICAL DIVERSIFICATION: Building on its existing relationships, GR will strategically expand into new geographical markets. This will include leveraging expertise and strengthening cross-border partnerships with railway and infrastructure companies. By diversifying the freight mix across different regions, GR can mitigate risks and capitalize on growth opportunities.

MARKET POSITIONING: The Company recognizes the importance of maintaining a competitive position in the freight service industry. Therefore, it continuously analyzes market demand and adjusts tariff policy accordingly, ensuring that it remains attractive and flexible for customers. The Company's customer-centric approach involve fostering long-term partnerships, engaging in dialogue to understand their transportation needs and providing innovative solutions within an expanded geographical coverage.

OPERATIONAL EFFICIENCY: The Company is committed to maximizing the efficiency of operations to support sustained growth. Through ongoing investments in digitalization and information exchange systems, it aims to minimize idle time and streamline document processing. This will optimize freight traffic capacity, reduce costs and enhance competitiveness.

MAINTAIN STRONG CUSTOMER RELATIONS THROUGH A FLEXIBLE TARIFF POLICY

Another strategic goal is to maintain strong and enduring relationships with customers by implementing a flexible tariff policy. The Company recognizes the importance of providing high-quality services and offering competitive pricing options that meet the evolving needs of customers. Through continuously analyzing market demand and engaging in ongoing dialogue, the aim is to optimize the tariff system to enhance the attractiveness of services, while strengthening GR's competitive position in the railway industry.

To achieve this particular strategic goal, the following key approaches are being taken:

CUSTOMER-CENTRIC TARIFF SYSTEM: The Company is committed to maintaining a tariff system that is customer-centric and responsive to market dynamics. Moreover, the Group frequently analyzes market demand to maintain a tariff system ensuring the long-term attractiveness of the Caucasus Corridor. The Group also engages in ongoing dialogue with its customers to help them find transportation solutions within this corridor, including managing relationships with neighboring railway networks.

> "The Company recognizes the importance of providing high-quality services and offering competitive pricing options that meet the evolving needs of customers."

DIALOGUE AND COLLABORATION: The Company values open communication with customers and believes in building strong relationships based on trust and collaboration. It actively engages in dialogue to understand their specific transportation needs and challenges. By listening to their feedback and addressing their concerns, GR can tailor its tariff policy and service offerings to better meet customers' expectations.

TRANSPORTATION SOLUTIONS: As part of its commitment to strong customer relations, the Company proactively assists customers in finding transportation solutions within the railway network. This includes exploring opportunities for collaboration with neighboring railway networks and identifying synergies that can enhance the efficiency and effectiveness of freight transportation along the corridor. The focus here is on providing comprehensive, end-to-end solutions that streamline the logistics process for customers.

PREDICTABLE AND TRANSPARENT COSTS: The Company recognizes the importance of offering predictable costs to customers. By adopting a measured approach to tariff setting, GR aims to provide cost certainty and transparency. Predictability not only encourages customers to invest in infrastructure linked to the Group's railway network but also strengthens the long-term predictability of operations.

ECO-FRIENDLY AND SOCIALLY RESPONSIBLE IMAGE: In response to increasing competition from trucking companies, the Company promotes its railway transportation services as a more eco-friendly and socially responsible choice. By highlighting the benefits of rail transport, such as lower CO2 emissions, reduced traffic delays and decreased risk of accidents, it aims to position itself as a sustainable alternative. The Group also emphasizes the cost advantages of railway transportation, including lower maintenance and repair costs compared to road networks.

DEVELOP AND MODERNIZE EXISTING INFRASTRUCTURE

A further strategic goal is to continually develop and modernize the existing infrastructure to ensure the efficient and smooth operation of its railway business. By making strategic investments in infrastructure development, the Group aims to enhance operational efficiency, increase throughput capacity and optimize the utilization of assets. GR's commitment to infrastructure development aligns with its vision to provide reliable and cutting-edge railway services that meet the evolving needs of customers.

To accomplish this particular strategic goal, the following key approaches are being taken:

EFFICIENT ASSET UTILIZATION: The Company is dedicated to maximizing the efficiency of its existing assets. Through rigorous asset management practices and ongoing assessment of utilization rates, it identifies opportunities to optimize the usage of its infrastructure. This includes improving track layout, optimizing maintenance schedules and leveraging technology.

MODERNIZATION PROJECT: Together with the maintenance capital repair works performed in the ordinary course of business, the Group is undertaking the Modernization Project to increase the operational efficiencies and throughput capacity of the mainline infrastructure. Once the project is completed, capacity will be sufficient for medium-to-long-term operations.

One of the key parts of the Modernization Project entails decreasing the track gradient in mountainous sections. Doing so will reduce wear and tear on wheels and tracks, will decrease the need for additional pushing locomotives and will eliminate the need for extra stops to cool down train brakes. In addition, the Group plans to improve tunnels, bridges and level crossings and to procure new rolling stock. As a result of the Modernization Project, the Group expects diminished maintenance costs and an extended life-cycle of certain infrastructure assets. The Group's management estimates that the completion of the Modernization Project will result in a saving in operating costs of up to 10% on the concerned sections. The Group's objectives here are to match the development of its rail network infrastructure with its planned volume growth and for investments in rolling stock to keep pace with the rising volume *(see 8.2 Ongoing projects in the Company).*

CAPACITY EXPANSION: The company recognizes the importance of expanding its infrastructure capacity to accommodate future growth and demand. It will invest in expanding mainline infrastructure, including tracks, tunnels, bridges and level crossings, to handle increased freight and passenger volumes. This expansion will align with projected volume growth and strategic plans.

The Modernization Project, once completed, will increase the capacity of the Group's mainline infrastructure to 48 million tons per annum, which is enough to accommodate the cargo flows expected within the medium to long term *(see 8.2 Ongoing projects in the Company)*.

TECHNOLOGY INTEGRATION: The Group is embracing digitalization and innovative technologies to optimize infrastructure operations. By implementing advanced information exchange systems, automation and artificial intelligence, it can minimize delays, reduce paperwork and enhance the overall efficiency of the railway network. This digital transformation will improve the reliability and competitiveness of GR's services.

SAFETY AND REGULATORY COMPLIANCE: The development and modernization of the Group's infrastructure treats safety and regulatory compliance as a priority. GR is committed to meeting or exceeding industry standards and regulations to ensure the well-being of passengers, employees and the communities served. Safety initiatives, training programs and continuous monitoring are integral parts of our infrastructure development strategy.

INCREASE CONTAINERIZATION OF FREIGHT TRANSPORTATION

Among the Company's strategic goals is the increased containerization of freight transportation within its railway operations. Containerization offers numerous advantages, including cost-effectiveness, efficiency and intermodal compatibility, making it a vital component of modern logistics. By focusing on expanding containerized freight services, the aim is to capture market opportunities, meet customer demands and further enhance GR's competitive position in the industry. An increase in containerization rates in the Caucasus and Central Asia corridor will significantly contribute to it progress. Container traffic has significant value for freight operators, as container transportation services are much cheaper than regular wagons and better suited to the intermodal corridor.

To achieve this strategic goal, the following key approaches are being taken:

INFRASTRUCTURE DEVELOPMENT: GR is investing in the development of container infrastructure and facilities along key routes. This includes the establishment of container terminals, depots and intermodal transfer points that support seamless container movement within its network. By improving infrastructure, it will be possible to facilitate more efficient handling, storage and transshipment of containers, thereby promoting the growth of containerized freight transportation.

COLLABORATIVE PARTNERSHIPS: The Company seeks strategic partnerships with shipping lines, freight forwarders, logistics providers and other industry stakeholders to enhance its containerized freight services. Collaborative efforts will focus on improving end-to-end supply chain solutions, streamlining processes and expanding containerized service offerings. By leveraging the expertise and networks of its partners, GR can create synergies and unlock new business opportunities.

MARKET PROMOTION AND EDUCATION: The Company will actively promote the benefits of containerization to existing and potential customers. Through targeted marketing campaigns, industry events and educational initiatives, it will raise awareness about the advantages of containerized freight transportation, such as improved security, reduced handling costs and enhanced intermodal connectivity. By highlighting these benefits, we aim to stimulate demand and encourage the adoption of containerized shipping solutions.

> The Company will actively promote the benefits of containerization to existing and potential customers."

EQUIPMENT AND TECHNOLOGY UPGRADES: To support increased containerization, the Company is investing in appropriate equipment and technology. This includes procuring specialized container wagons, handling equipment and digital systems that enable efficient container tracking, monitoring and data exchange. By embracing technological advancements, it will be possible to enhance the reliability, transparency and operational efficiency of containerized freight services.

CUSTOMER-CENTRIC SOLUTIONS: GR focuses on developing tailored solutions that cater to the specific needs of customers in containerized freight transportation. This includes offering value-added services such as container tracking , real-time information sharing and customized delivery options. By providing flexible and customer-centric solutions, the aim is to attract and retain clients seeking reliable, efficient and cost-effective containerized freight services.

In order to boost containerization, 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 in Tbilisi. In 2014, the Group purchased 480 containers earmarked for moving cargo through the corridor, intending to address the limited container transportation to Central Asia. The Group's management believes that the availability of sufficient infrastructure would boost containerization rates and potentially attract completely new types of cargo to the corridor.

INCREASE THE SHARE OF PREMIUM PASSENGER SERVICES

A further strategic goal is to enhance the scale of premium passenger services within the Company's railway operations. By focusing on delivering high-quality, comfortable and efficient travel experiences, the aim is to attract a larger customer base and increase market presence with regard to the premium passenger segment. Through a combination of service enhancements, infrastructure upgrades and targeted marketing efforts, GR is committed to offering superior passenger services that meet the evolving expectations of discerning travelers.

Investing in new railcars and improving existing ones represent the only ways of providing improved speed and comfort for passengers. The Group aims to do so by taking, inter alia, the following measures:

- Adjusting passenger train timetables to optimize utilization level;
- Easing the accessibility of tickets via different sales channels;
- Launching a marketing campaign to attract potential customers.

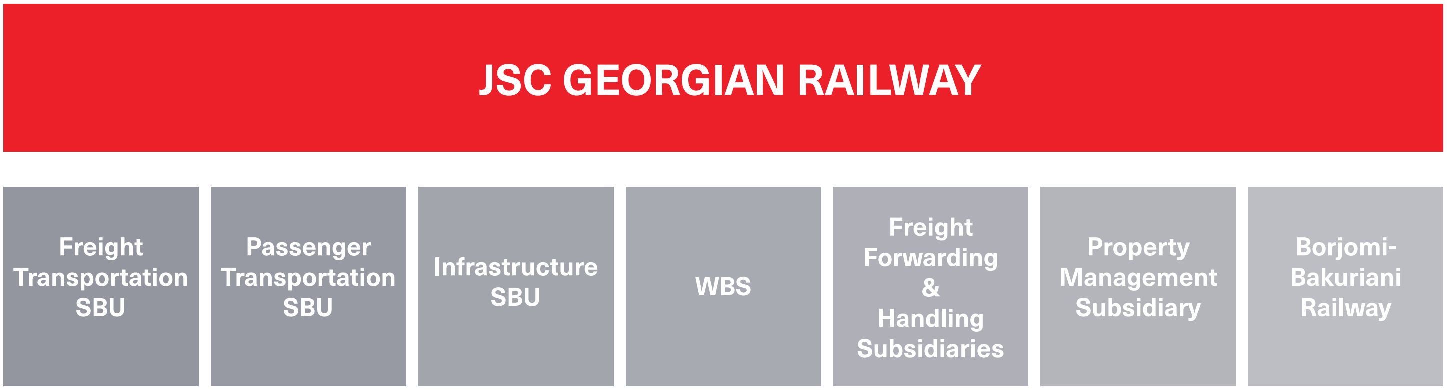
In undertaking these measures, the Group aims to attract higher-income commuters and other passengers who might otherwise travel by car. Some examples of the execution of these measures include:

- The purchase of two double-decker EMUs in July 2016 and an additional two in 2017. These EMUs are in compliance with modern European standards, including safety and accommodation for PwDs;
- Adjustment of train timetables to add additional trains when demand peaks;
- Rehabilitation of the existing railway station near Kutaisi International Airport and running regular shuttles thereto;
- The rehabilitation of three passenger railway stations in 2019 and 2020;
- The introduction of certain discounts for various types of passengers (including veterans, students and Group employees);
- The introduction of several online platforms for ticket sales (the Group is also taking active steps in response to the COVID-19 pandemic, in order to ensure the safety and comfort of its customers).

Marketing and increasing consumer awareness about the benefits of rail transport, such as ecology, safety and efficiency, compared to road, are among the measures intended to further attract tourists and new passengers to GR *(Se 7.2 Passenger SBU)*.

7. FOCUS ON CORE BUSINESS ACTIVITIES

The Group principally provides freight and passenger transportation services, while also operating its own railway infrastructure. Since 2013, the Group has engaged in freight forwarding services through its subsidiaries. Its main operations are organized into three strategic business units (SBUs).



Each SBU represents a separate business segment, with its own mission, governance bodies and operating and administrative personnel. Each SBU is led by a director and a member of the Management Board, who reports directly to the Chief Executive Officer/General Director of the Company.

The Company's subsidiaries support the SBUs to increase the quality of services by concentrating on their specific operations and thus creating a complete logistics chain for the client.

7.1 FREIGHT TRANSPORTATION STRATEGIC BUSINESS UNIT (FREIGHT SBU)

The Group's Freight SBU generates revenue from three main sources: freight transportation; freight handling; and freight car cross-border charges.

Freight transportation services encompass the transportation of cargo along with GR's railway network within Georgia. Meanwhile, freight handling services, including railcar marshaling and the delivery of freight to and from customer facilities, are provided at the stations running commercial freight services. Finally, freight car cross-border charge revenue is generated by allowing foreign railways to use GR's railcars in the transportation process.

The Freight SBU is the principal source of the Group's revenue, accounting for 73% of its total revenue in 2022. The share of revenue from freight transportation was 77% of the Freight SBU's revenue in 2022.

Responsibility for train dispatching, one of the key operations in any railway business, lies with the Freight SBU. This entails devising the dispatch personnel schedule and, in the event of a delay, rescheduling all freight and passenger trains. Although dispatching covers both freight and passenger services, the Group's management believes that placing the dispatching function within the Freight SBU promotes efficiency given the importance of freight transportation to the Group. At the same time, it understands the drawbacks of the structure and, to minimize conflicts of interest, it is planned to move this function under the Infrastructure SBU. This approach is in line with EU directives related to railway transport.

FREIGHT COMPOSITION

The Freight SBU transports both dry and liquid cargoes. The cargo mix is highly diversified and includes ores, construction freight, grains, ferrous metals and scrap, chemicals and fertilizers, cement, sugar, industrial freight and other dry cargoes, with no dominant concentration of any single type of freight. Dry cargo is more diversified than liquid cargo among local, export, import and transit shipments, although, as is the case with liquid cargo, transit shipments also make up the largest component of dry cargo transportation volumes.

The following table outlines the breakdown of the Freight SBU's freight transportation volumes by thousand tons:

FREIGHT TRANSPORTATION VOLUME

	'000 tons			% of total		
For the year ended 31 December	2022	2021	2020	2022	2021	2020
LIQUID CARGOES	4,771	3,762	3,046	*32.3%*	*31.0%*	*27.5%*
OIL PRODUCTS	4,496	3,690	3,040	*30.4%*	*30.4%*	*27.5%*
CRUDE OIL	275	72	6	*1.9%*	*0.6%*	*0.1%*
DRY CARGOES	10,002	8,369	8,018	*67.7%*	*69.0%*	*72.5%*
ORES	1,925	1,874	1,878	*13.0%*	*15.4%*	*17.0%*
GRAIN AND GRAIN PRODUCTS	329	189	308	*2.2%*	*1.6%*	*2.8%*
FERROUS METALS AND SCRAP	625	576	535	*4.2%*	*4.8%*	*4.8%*
SUGAR	719	420	285	*4.9%*	*3.5%*	*2.6%*
CHEMICALS AND FERTILIZERS	1,859	1,337	940	*12.6%*	*11.0%*	*8.5%*
CONSTRUCTION FREIGHT	1,072	933	909	*7.3%*	*7.7%*	*8.2%*
INDUSTRIAL FREIGHT	594	415	365	*4.0%*	*3.4%*	*3.3%*
CEMENT	44	35	46	*0.3%*	*0.3%*	*0.4%*
OTHER	2,834	2,590	2,751	*19.2%*	*21.4%*	*24.9%*
TOTAL	14,773	12,131	11,063	*100.0%*	*100.0%*	*100.0%*

The Group's management intends to increase its profitability and at the same time decrease concentration risk by further diversifying the types of cargo that it transports internationally and within Georgia. In this respect, the Group has entered into and renewed contracts with other participants in the TRACECA, including the national railway companies of Azerbaijan, Kazakhstan, Turkey and Ukraine, as well as with Caspian and Black Sea ports and carriers. As a result of these contracts, the Group has been able to offer seamless shipping conditions to customers, which is important for a transit corridor in which the single transportation of cargo routinely involves many different carriers. This format encompasses both container and wagon shipments.

The Group is upgrading its container and multimodal shipping services. Furthermore, container transportation is conducted on the following routes: (i) China-Europe (connecting through 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 the primary direction of certain cargo transported by the Freight SBU:

LIQUID CARGOS	
CRUDE OIL	From Kazakhstan and Russia to Georgia and Bermuda
OIL PRODUCTS	From, Russia, Kazakhstan, Turkmenistan and Azerbaijan to Georgia, Turkey, Armenia and Netherlands
DRY CARGOS	
ORES	From Georgia, Armenia, Russia and Kazakhstan to Georgia,China, Turkey and Bulgaria
CONSTRUCTION FREIGHT	From Georgia, Azerbaijan and Kazakhstan to Georgia, India,and Armenia
FERROUS METALS AND SCRAP	From Kazakhstan, Georgia and Russia to Georgia, Turkey,Italy and Romania.
GRAIN	From Russia, Ukraine and Kazakhstan to Armenia, Georgia,Azerbaijan and Italy.
CHEMICALS AND FERTILIZERS	From Turkmenistan, Georgia, Azerbaijan and Uzbekistan,to Georgia, Bulgaria, Greece and Turkey.
CEMENT	From Georgia and Germany to Georgia and Azerbaijan.
INDUSTRIAL FREIGHT	From Azerbaijan, Georgia and Turkey to Georgia, Armenia and Turkmenistan.
SUGAR	From Brazil and Mexico to Azerbaijan, Uzbekistan, Georgia,Armenia and Kazakhstan.

The following table details the primary directions for import, export, domestic and transit transportation:

IMPORT	From Russia, Azerbaijan, Armenia, Turkmenistan, Bulgaria and Romania.
EXPORT	To Armenia, Kazakhstan and Russia.
DOMESTIC	From Chiatura to Zestaponi, from Dedoplistskaro to Rustavi, from Chiatura to Chiatura, from Kaspi to Rustavi, and from Dedoplistskaro to Kaspi.
TRANSIT	From Kazakhstan, Turkmenistan, Azerbaijan, Russia, Brazil and Uzbekistan to Turkey, Azerbaijan, Netherlands, Armenia, Italy and China.

FREIGHT VOLUMES BY DIRECTION

	Million tons			% of total		
For the year ended 31 December	2022	2021	2020	2022	2021	2020
LIQUID CARGOES	4.8	3.8	3.0	*32.3%*	*31.0%*	*27.5%*
TRANSIT	3.4	2.6	1.8	*22.8%*	*21.4%*	*16.2%*
EXPORT	0.0	0.0	0.0	*0.3%*	*0.2%*	*0.1%*
IMPORT	1.2	1.1	1.1	*8.1%*	*8.7%*	*10.0%*
LOCAL	0.2	0.1	0.1	*1.1%*	*0.7%*	*1.3%*
DRY CARGOES	10.0	8.4	8.0	*67.7%*	*69.0%*	*72.5%*
TRANSIT	5.3	4.1	3.8	*35.7%*	*34.1%*	*33.9%*
EXPORT	1.2	1.1	1.1	*8.3%*	*9.4%*	*9.8%*
IMPORT	1.8	1.3	1.4	*11.9%*	*11.0%*	*12.9%*
LOCAL	1.7	1.8	1.8	*11.7%*	*14.5%*	*15.9%*
TOTAL	14.8	12.1	11.1	*100.0%*	*100.0%*	*100.0%*

The following table sets forth information about number of railcars and containers:

NUMBER OF RAILCARS TRANSPORTED

For the year ended 31 December	2022	2021	2020
NUMBER OF WAGONS	221,720	180,419	221,720
% change	*23%*	*11%*	*-4%*
NUMBER OF CONTAINERS	68,357	57,111	65,716
% change	*20%*	*-13%*	*3%*
NUMBER OF CONTAINERS IN TEU	88,363	74,196	82,526
% change	*19%*	*-10%*	*5%*

The following table sets forth information in respect of the volumes of freight transported in containers for the periods indicated:

CONTAINERIZED FREIGHT

'000 tons

For the year ended 31 December	2022	2021	2020
DRY CARGOES	10,002	8,369	8,018
of which: container cargoes	*1,503*	*1,202*	*1,318*
TOTAL CARGOES	14,773	12,131	11,064
Containers as % of total cargoes (%)	*10%*	*10%*	*12%*
Containers as % of dry cargoes (%)	*15%*	*14%*	*16%*

To foster containerization, GR Logistics and Terminals, the Company's wholly owned subsidiary *(see 7.4 Subsidiaries and affiliates)*, has built and currently operates Tbilisi Container Terminal (capacity: 25,000 TEUs).

In 2014, the Company and its subsidiaries purchased 480 containers for the purpose of moving cargo through Georgia, which it continues to hold and utilize. The Company believes that the availability of sufficient infrastructure will boost containerization rates and potentially bring completely new types of cargo to the corridor.

The Group owns and operates various types of railcars, that are essential to carry out business operations.

PRODUCT TYPES	PLATFORM CAR	BOX CAR	OPEN TOP BOX CAR	CEMENT HOPPER	TANK CAR	GRAIN HOPPER	CONTAINER	OTHER
CRUDE OIL					✓			
OIL PRODUCTS		✓	✓		✓		✓	
GRAIN		✓				✓	✓	✓
ORES		✓	✓			✓	✓	✓
INDUSTRIAL FREIGHT	✓	✓	✓				✓	
CONSTRUCTION FREIGHT	✓	✓	✓				✓	✓
CHEMICALS AND FERTILIZERS	✓	✓			✓			
FERROUS METALS AND SCRAP	✓	✓	✓				✓	✓
SUGAR		✓				✓	✓	
CEMENT				✓			✓	
OTHER	✓	✓	✓	✓	✓	✓	✓	✓

FREIGHT CAR CROSS-BORDER CHARGE

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 utilize the Group's railcars on freight routes through their country. Payment for these services is based on agreement with the relevant railway companies and carriers.

STATION SERVICES

The Freight SBU also provides a cargo/railcar delivery service to and from private sidings via locomotives owned by the Group. In addition, the Group offers terminal services through its subsidiaries.

CUSTOMERS

The Freight SBU accepts freight from both direct cargo owners and freight forwarders. It works with freight forwarders in order to expand its marketing reach and to increase and diversify its customer and product base. As the Freight SBU does not generally enter into long-term contracts with the customers it serves through freight forwarders, it is able to maintain operational flexibility and set 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. Only demurrage is paid in arrears, thus keeping credit risk to a minimum.

To provide a better service to its customers and to increase its competitiveness, GR entered into the freight forwarding business in 2013. The Group also negotiates with neighboring railways to ensure competitive pricing for the TRACECA.

Its top five customers of liquid cargo accounted for 46% of total liquid freight transported in 2022. In terms of dry cargo, the top five customers accounted for 35% of total dry freight transportation in 2022. In addition, it is essential to mention that 90% of the volume transported by GR during the last five years were from repeat companies, which indicates the stability of the list of customers.

The Freight SBU does not generally enter into binding long-term contracts with its customers, allowing it to maintain operational flexibility and to set its prices in accordance with market conditions.

TARIFFS

Independent Tariff Setting - Although rail transportation in Georgia is a statutory monopoly, the Group's pricing policies are not subject to direct government regulation. Currently, the railway business is fully deregulated in Georgia. The Group sets its tariff policy independently for all services, including tariffs for freight transportation and related services. In addition, the Group can change its tariffs with one month's prior notice to its customers.

The Group has a written tariff policy (published on its website) specifying methods and formulas for determining the various tariffs applicable to its services. It provides various services, with each activity having its own tariff, including:

- Transportation tariffs, for transportation from one station to another;

- Station charge, which is for the provision of 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 locomotives for maneuvering, 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, the market environment and industry developments, as well as domestic and global economic developments.

Tariff Currency – the Group's freight transportation tariffs are set in USD except for container transportation for domestic routes and import/export from/to Azerbaijan, which comprised only 2% of total transportation revenue in 2022 (before May 2017, when this tariff policy change was made, these services were also charged in USD). As a result, the Group received most of its total revenue (about 67.5%) in USD in 2022, about 1.4% of total revenue was in Swiss Francs (CHF) and 31.1% was in GEL. Before 2012, the Group's freight tariffs were quoted in CHF. However, in 2012, before Eurobonds were issued in USD, the Group switched its tariffs from CHF to USD as a hedge against foreign exchange risk.

AVERAGE TARIFF PER THOUSAND TON-KILOMETERS

'tetri

For the year ended 31 December	2022	2021	2020
Oil products	10.1	12.8	13.7
Crude oil	4.2	4.8	12
Dry cargo	9.1	9.7	9.7

Average tariffs are calculated as freight traffic revenue (not including any handling charges) per thousand ton-kilometer. 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 Tetri per ton-kilometer, unless otherwise indicated.

The Group offers a discount on its freight tariffs to customers who transport cargo with their own railcars and are charged, basically, only for infrastructure usage and locomotive traction. Looking ahead, the Group is closely considering offering other discounted tariffs to its customers who provide guaranteed volumes for railcar and container transportation.

7.2 PASSENGER TRANSPORTATION STRATEGIC BUSINESS UNIT (PASSENGER SBU)

The Passenger SBU's primary activity is the transportation of passengers, while it also transports unaccompanied luggage within Georgia and on international routes to Azerbaijan and Armenia. The passenger transportation segment accounted for 4% of the Group's total revenue for the year ended 31 December 2022.

Among the Group's medium-term strategic objectives are to optimize expenses and increase the revenue of the Passenger SBU by increasing the number of passengers and 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, 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 optimize utilization;
- Easing the accessibility of tickets via different sales channels; and
- Launching a marketing campaign to attract new customers.

(See 6. The Company's strategy for a sustainable future)

Pursuant to Georgia's obligations to implement laws in line with certain EU legislation under the Association Agreement, the GoG has an obligation under the EU social market economy principle to compensate the Group for its loss-making passenger transportation business and to subsidize certain activities of the Infrastructure SBU. In 2020, the Parliament of Georgia adopted an amendment to the Railway Code recognizing railway passenger transportation services as a public service obligation and prohibited cross subsidies from the freight transportation operator as required by principles set out in the EU Passenger Transportation Regulation. Accordingly, the Company and the Government are expected to enter into a public service contract for the compensation of the Passenger SBU losses by 2024. 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 the relevant competent authority, as well as the compensation to be granted to the Company for operating non-profitable passenger routes. This is anticipated to have a positive impact on the Group's revenues, although to what extent exactly will not be known until the final terms and conditions of the contract have been agreed.

REPORTABLE SEGMENT LOSS BEFORE INFRASTRUCTURE COSTS, NET IMPAIRMENT, INTEREST AND INCOME TAX

GEL '000

For the year ended 31 December	2022	2021	2020
	15,533	21,307	24,797

In line with the Government regulations, passenger transportation was ceased from the second half of March 2020 until 15 June 2020 and, subject to certain exceptions, from 28 November 2020 until 27 February 2021. After resuming normal operational activity, the Group took the following precautionary measures to protect customers:

- Social distance was required from passengers;
- Thermal screening and disinfection barriers have been introduced;
- Passenger EMUs have been sterilized on permanent bases.

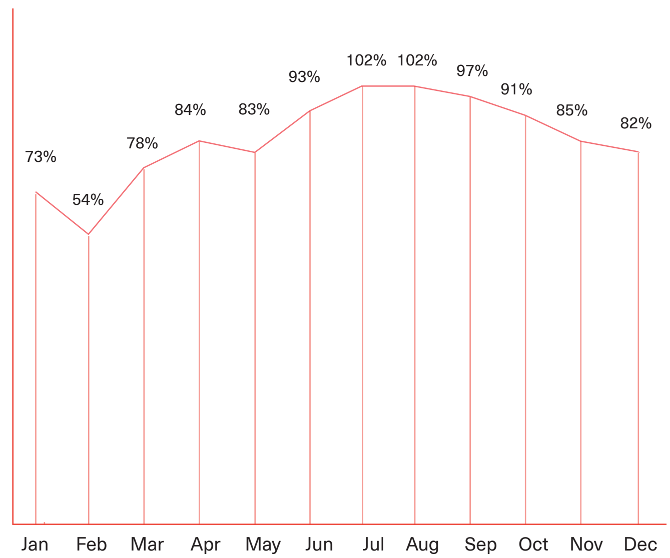
CUSTOMERS

The Passenger SBU provides domestic and international transportation services.

As GR's lines are linked to Azerbaijan and Armenia, international rail transportation is offered to these countries. After the completion of the BTK project *(see 8.3 Ongoing projects in the corridor)*, it will be possible to transport passengers to Turkey and onward to Europe.

The Passenger SBU provides domestic transportation within Georgia as well as regional and long-distance transportation. Domestic transportation is most popular in summer when the number of passengers traveling to the Black Sea peaks.

PASSENGER OCCUPANCY RATE ON MAIN LINE IN 2022



VALUE CREATION FOR CUSTOMERS

In July 2016, Georgian Railway purchased two double-decker EMUs from the Swiss company Stadler Bussnang AG. In 2017, the Company acquired two more trains from the same company. These trains are equipped with all necessary modern equipment and security systems, are in full compliance with European safety standards and have been completely adjusted to the needs of PwDs.

The Passenger SBU adjusts its train schedules to meet customers' needs, so trains are added when the demand is sufficiently high.

In 2017, GR set out to repair a passenger railway station near Kutaisi International Airport in order to offer more comfortable travel to people traveling from and to the airport. In 2022, the station opened and received about 11,000 passengers.

As a result of the Government restrictions due to the COVID-19 pandemic, the number of passengers decreased by around 69% in 2020 compared to 2019. Though the number of passengers continued to decline in 2021, in 2022 the number of passengers increased by 97% compared to 2021, leading to a substantial revenue increase.

The following table shows revenue, number of passengers and number of journeys for the years indicated:

For the year ended 31 December	2022	2021	2020
REVENUE			*GEL '000*
MAINLINE	25,854	14,239	10,697
REGIONAL	319	57	245
INTERNATIONAL	1,250	511	229
TOTAL	27,423	14,808	11,171
NUMBER OF PASSENGERS			*'000*
MAINLINE	1,161	708	622
REGIONAL	395	92	295
INTERNATIONAL	48	16	22
TOTAL	1,605	816	939
NUMBER OF TRIPS*			
MAINLINE	2,407	1,903	2,182
REGIONAL	2,491	955	1,684
INTERNATIONAL	233	184	94
TOTAL	5,131	3,042	3,960

**Trip means – The train travels from one station to another and from the same direction.*

The primary customer relations and sales and marketing element for the Passenger SBU are points of sale for tickets. Passengers can buy tickets directly at stations before travel, aboard certain trains, through tourist agencies, or via the internet. However, because only a relatively small percentage of the Georgian population uses the credit cards necessary to make internet purchases, the Group has also established points of sale at so-called "Pay Boxes," where customers can buy tickets and find 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 center that handles approximately 11,000 calls per month.

TARIFFS

Similar to freight transportation tariffs, the Group is not subject to government regulation with regard to establishing prices for passenger transportation and luggage services. In many cases, however, passenger transportation tariffs are not determined by market forces but are instead kept stable to reflect the significant social importance to the state of providing affordable passenger transportation services. As electricity, train maintenance, materials and other costs have significantly increased, the Group raised the tariff on Tbilisi-Batumi-Tbilisi Stadler trains by 40% in 25 July 2022, but prices for other services remained unchanged. It should be noted here that tariffs for travel by alternative transport have been increasing systematically. Despite the rise in tariffs to partially offset the company's costs, rail tariffs are still cheaper than alternative modes of transportation.

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

AVERAGE TARIFF PER PASSENGER-KILOMETRE

'tetri

For the year ended 31 December	2022	2021	2020
Average revenue per passenger-km	5.7	5.4	4.5

**Average tariffs are calculated as passenger traffic revenue per passenger-kilometre.*

Average revenue per passenger-km increased by around 5% in 2022, compared to 2021. This rise was driven by an increased share of more profitable routes and services (such as the mainline) and increased demand for business class tickets. The number of passengers on the mainline represented 72% of total passengers transported by the Group in 2022, compared to 87% in 2021. The decrease in the share of the mainline was due to regional transportation increasing by 3.3 times in 2022, compared to 2021.

AVERAGE REVENUE PER PASSENGER

GEL

For the year ended 31 December	2022	2021	2020
MAINLINE	22.3	20.1	17.2
REGIONAL	0.8	0.6	0.8
INTERNATIONAL	25.8	32.2	10.4
AVERAGE TARIFF	17.1	18.2	11.9

**Average revenue per passenger is calculated as passenger traffic revenue divided by the number of passengers.*

Tariffs for domestic transportation of passengers and luggage are approved by the Company's Board of Directors and are denominated in GEL. Meanwhile, 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 CHF.

The Company offers discounts to various types of passengers (including veterans, students, Ukrainians IDPs and Group employees). In 2022, the total discounted amount was GEL 1.5 million, compared to GEL 0.9 million in 2021.

The Group offers three classes of passenger service and tariffs are further differentiated between modern and older trains. Tickets in the lowest class are generally less expensive than bus transportation. It is the intention of the Group's management that any increases in tariffs be made in line with improvements in its services, the provision of new trains and inflation. Moreover, it endeavors to make the Group's tariffs competitive with those for bus transportation and other passenger transportation services in Georgia, such as minibuses. With regard to regional passenger traffic, where the majority of passengers are from low-income households and are thus sensitive to price increases, the Group's management intends to consider price increases only when new modern trains have been commissioned by the Group and even then such tariffs should be in line with the cost of travelling on alternative modes of transport.

7.3 INFRASTRUCTURE STRATEGIC BUSINESS UNIT (SBU)

The Infrastructure SBU operates, maintains and manages the Group's principal infrastructure assets, including its track, embankments, signaling, land, electric power lines and other equipment. Effectively, it is a cost center providing services to the Freight and Passenger SBUs.

The principal aims of the Infrastructure SBU are to ensure safety, promote the efficient use of the Group's infrastructure assets and decrease maintenance costs. The Infrastructure SBU promotes safety by setting speed limits and loading standards on lines and at stations. It is also in charge of controlling signaling and blocking systems.

The main infrastructure assets comprise a railway network of 1,408 km of track (293 km of which is double-track line), of which 98% is electrified, including a 527-km-long electrified mainline from the Azerbaijani and Armenian borders to the Black Sea, 42 railroad tunnels, 21 pedestrian tunnels, 26 railroads and 1,322 bridges of various functions, as well as signal equipment and other assets related to ensuring the safety of its operations. The Company's rail network is now connected to the Turkish railway as well after the BTK railway line became operational in 2017 *(see 8.3 Ongoing projects in the corridor).*

The Infrastructure SBU focuses on keeping the Group's infrastructure assets in good working condition. Capacity varies across the Group's different lines. As of 31 December 2022, the estimated capacity of the gorge section, which is the main bottleneck on the mainline, was 27 million tons of cargo annually. In 2022, in connection with the Modernization Project, the Infrastructure SBU made capital repairs (not including minor, non-technical repairs) to, or renovated, approximately 17.9 km of track, slightly more than the 16.8 km covered in 2021. In total, 26.0 km and 26.7 km of railway were repaired in 2021 and 2022, respectively. During the year ended 31 December 2022, the Group paid GEL 135.0 million on the acquisition of property and 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 compared to GEL 77.2 million in 2021 and GEL 55.9 million in 2020, respectively.

PROJECTS

COMMERCIAL PROJECT

The Railway Modernization Project is designed as a profitable project seeking to improve existing infrastructure, increase safety, reduce operational expenses and significantly increase the throughput capacity from about 27 million tons of cargo per annum to 48 million, with the possibility of further expansion to a potential 100 million tons per annum *(see 8.2 Ongoing projects in the Company).*

SOCIO-COMMERCIAL PROJECT

The Kutaisi Airport Station Project
is serving passengers traveling from/to Kutaisi International Airport already after its completion in 2022.

7.4 SUBSIDIARIES AND AFFILIATES

The Company carries out its other activities through its freight forwarding and handling subsidiaries and its property management subsidiary.

The share of revenue from logistics services (revenue generated by GR's subsidiaries) in total revenue amounted to 18.2% in 2022 (compared to 12.7% in 2021).

LOGISTICS REVENUE

GEL '000

For the year ended 31 December	2022	2021	2020
REVENUE FROM LOGISTICAL SERVICE	123,071	69,371	54,106
% share in total revenue	*18%*	*13%*	*11%*

LOGISTICS REVENUE FROM SUBSIDIARIES

GEL '000

For the year ended 31 December	2022	2021	2020
GR LOGISTICS AND TERMINALS LLC	58,409	25,222	20,606
% share in total	*48%*	*36%*	*38%*
GR TRANSIT LINE LLC	23,993	22,703	20,161
% share in total	*19%*	*33%*	*37%*
GR TRANSIT LLC	40,668	21,445	13,339
% share in total	*33%*	*31%*	*25%*
TOTAL REVENUE FROM LOGISTIC SERVICE	**123,071**	**69,371**	**54,106**

GR LOGISTICS AND TERMINALS LLC

GR Logistics and Terminals LLC (formerly Railway Trans-Container LLC) is a Georgian limited liability company, wholly owned by the Company, established in October 2009 to promote the containerization 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 and to promote the containerization of the Caucasus corridor. To foster containerization, GR Logistics and Terminals has built and currently operates two terminals, one in Poti and the second in Tbilisi. The share of revenue from GR Logistics and Terminals LLC in the total logistics revenue amounted to 47.5% in 2022 (compared to 36.4% in 2020).

For the year ended 31 December	2022	2021	2020
NUMBER OF CONTAINERS TRANSPORTED	47,391	36,164	32,937
NUMBER OF CONTAINERS IN TEU	63,531	46,684	40,657

GR TRANSIT LLC

In 2013, the Company acquired Georgia Transit LLC (later renamed GR Transit LLC) to integrate liquid cargo logistics services into the business. This subsidiary engages in freight forwarding and serves crude oil and oil product transportation mainly from Azerbaijan, Kazakhstan and Turkmenistan. The share of revenue from GR Transit LLC in the total logistics revenue amounted to 33.0% in 2022 (compared to 30.9% in 2021).

'000 tons

For the year ended 31 December	2022	2021	2020
CRUDE OIL	266.9	70.0	-
OIL PRODUCTS	2,466	2,495	2,057

GR TRANSIT LINE LLC

In 2014, GR established GR Transit Line LLC, another freight forwarder that carries oil products mainly to Azerbaijan and Armenia. The share of revenue from GR Transit Line LLC in the total logistics revenue amounted to 19.5% in 2022 (compared to 32.7% in 2021).

'000 tons

For the year ended 31 December	2022	2021	2020
AZERBAIJANIAN DIRECTION	49.3	27.8	3.2
ARMENIAN DIRECTION	439.4	384.7	350.3

PROPERTY MANAGEMENT

GR Property Management LLC (formerly Railway Property Management LLC) was established in 2009 to determine the best way of using railway-related assets such as land, depots and stations, as well as to utilize non-core assets and to ensure the commercialization of these assets.

BORJOMI-BAKURIANI RAILWAY

Borjomi-Bakuriani Railway LLC is a subsidiary of GR Property Management LLC. It owns a 40-km-long narrow-gauge railway network that runs between the two resort towns. Borjomi-Bakuriani LLC first entered into operation between 1898 and 1902 and the line has been fully electrified since 1966.

Some of the infrastructure and related assets owned and operated by the Company, such as rolling stock, are relatively old. Although the infrastructure is in sufficient condition to carry out the Group's current and planned railway operations, the Company is planning to carry out significant maintenance and improvement works.

** Due to Covid-19 Pandemic, mentioned direction was stopped in 2020 and it has not been resumed since.*

7.5 WORLD BUSINESS SOLUTIONS

GR has accumulated significant experience in creating IT solutions and serving domestic and international clients. In 2016, additional flexibility was afforded to its IT division which was renamed World Business Solutions (WBS) was created. As technology advances, WBS is now one of the most important divisions of the Company.

INFORMATION TECHNOLOGY

The Group utilizes advanced information technology systems and proprietary software to efficiently operate its complex logistics, dispatch, and tracking services for both rolling stock and freight. Most of the Group's software and information systems are developed in-house to meet its unique needs. These systems encompass various functions, including a centralized billing and electronic document management system for freight transportation documents, a real-time monitoring and control system for rolling stock, software designed to track container, railcar, and train movements at stations, an electronic ticketing and accounting system for passenger transportation, and a centralized multi-module software, enhancing the processing of initial accounting documents with electronic signature authorizations, as well as supporting financial and tax accounting, budgeting, and treasury operations.

The Group operates enterprise resource planning software SAP S/4HANA, which incorporates main business functions comprised of fourteen modules. All the fourteen modules are fully deployed and customized by the specific requirements of the Group..

HARDWARE

The Group consistently relies on a robust selection of hardware providers, including Hewlett-Packard Enterprise, Dell Technologies, F5 Inc., Cisco Systems, Inc., and other industry leaders. Our infrastructure is centered around two strategically positioned and interconnected data centers: the primary and its fail-safe counterpart. These data centers are equipped with Blade servers, data storage solutions, and a comprehensive network and security hardware suite. Spanning approximately 360 kilometers, the geographical separation between these data centers ensures data redundancy and disaster recovery readiness.

Our servers are managed through a centralized High Availability platform, guaranteeing seamless synergy between physical servers and the data centers. All operations are executed in real-time at our corporate headquarters and across the entire Group. Our management team estimates a modest data transfer delay, typically between seven to twenty-seven seconds, when transmitting data from the primary data center to the backup facility.

We employ regular backups utilizing the Dell EMC Data Domain solution to safeguard our critical information, data storage systems, and databases. In the unfortunate event of a service disruption or data corruption, our contingency plan includes a manual recovery process, which can restore data from the backup data center within two to three hours.

The backbone of our data network infrastructure spans 636 kilometers and is comprised of optical fiber cable along railway tracks featuring DWDM cabling technology. This optical fiber network is entirely owned and operated by our Group, underscoring our commitment to maintaining network integrity and performance.

The security of our information technology networks and the services we extend to the external environment is fortified by utilizing Next-Generation and Web Application Firewalls. These robust security measures ensure the confidentiality and integrity of our digital assets while maintaining a secure environment for our stakeholders.

INFORMATION SECURITY

The Group employs a multi-layered security approach to safeguard its internal and external services and IT networks from potential cyber threats and attacks. These security layers encompass various components.

The Group employs Next Generation Firewall at the physical layer to fortify its network defenses. This barrier is a frontline defense, safeguarding against external threats and unauthorized access.

The Group's defenses are protected with the Web Application Firewalls on the application layer. These specialized systems are designed to scrutinize and filter incoming web traffic, identifying potential threats at the application level, where many cyber-attacks often target vulnerabilities.

To ensure the effectiveness of these security measures, the Group conducts routine weekly updates for all its network devices. These updates include the integration of relevant threat intelligence, virus signatures, and security certificates to keep the security infrastructure up-to-date and capable of responding to emerging threats.

In the event of a cyber-attack incident or security breach, the Group has established a robust incident response process, aligning with best practices outlined in the ITIL framework and internal security policies. This comprehensive response framework ensures swift and effective actions are taken to mitigate potential damage and prevent further security compromise.

The Group's commitment to information security is evident through its proactive initiatives. In 2014, specific information security-related activities were set in motion to fortify the Group's defenses. These initiatives included adopting comprehensive information security management policies, corporate network security measures, and critical information backup systems protocols, all aimed at preserving the integrity and confidentiality of sensitive data.

Furthermore, in 2018, the Group took a significant step by establishing an information security council. This council plays a pivotal role in overseeing the implementation of new information security policies, continuously enhancing the organization's security posture. Additionally, it is tasked with the development and execution of an internal framework to align with the ISO/IEC standard 27001 2013/2017, demonstrating the Group's unwavering commitment to achieving and maintaining stringent information security standards.

In 2022 the Group initiated new projects to strengthen and enhance the information security to comply with the "Information Security law" and establish additional processes for periodic and permanent information security monitoring and response.

INFORMATION TECHNOLOGY PROJECTS

The Group implemented the following primary information technology projects in 2022:

- **Electronic Rail Consignment Note(eSMGS).** Entirely paperless operations for our clients, with electronic signature;
- **The Telephone Project (VoIP).** This project aims 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 authorizations, including for the leasing out of specific technologies;
- **The IP/MPLS network implementation project.** This project ensures the modernization of the existing IP network to improve stability and security;
- **Information Security modernization.** In 2022, different information security projects were initiated to enhance Information Systems Security and better manage related risks, to have a 24/7 view of the existing situation, and to analyze threats and risks better.

8.BUILDING A VALUABLE SUPPLY CHAIN

The Group is focused on achieving one of its key strategic objectives, namely building a valuable supply chain through vertical integration and establishing suitable connections. The Group forms part of the Caucasus railway corridor, a key segment of the TRACECA. Therefore, the Group's projects are also in line with other planned or implemented projects in Georgia and the Caspian Sea region, such as the building of a deep-water sea port on the Black Sea shore, the modernization of Azerbaijan's railway network and the development of ports on the Caspian Sea in Kazakhstan. Pertinently, a valuable supply chain cannot be created without other participants' efforts in the corridor.

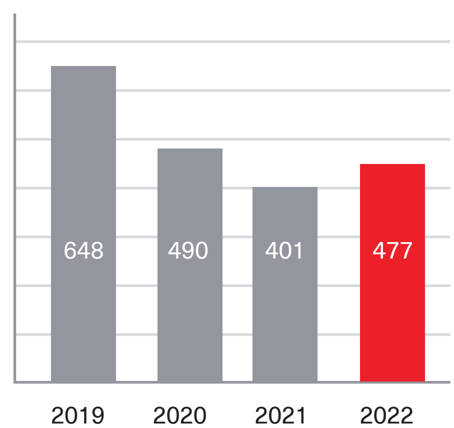
8.1 DIVERSIFIED DIRECTIONS

CONTAINERIZATION

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 containerization rates in the Caucasus railway corridor. Container traffic has significant value for freight operators, as container transportation services are cheaper and more flexible than regular wagons.

The COVID-19 pandemic had a significant effect on the volume of containers transported by Georgian ports. In 2020 and 2021, downturns in container transportation were recorded, but in 2022 this increased by 19% compared to 2021 and due to the increased attractiveness of the middle corridor, this growth is expected to be maintained. The share of containerized cargo transported by the Group stayed relatively stable at around 10% in total transported volume. This highlights the fact that demand for the Company's services is high and with its currently low level of containerization, there is still significant potential to exploit.

TOTAL NUMBER OF HANDLED CONTAINERS BY SEA PORTS



SHARE OF CONTAINERIZED CARGO IN TOTAL FREIGHT VOLUMES TRANSPORTED BY THE GROUP

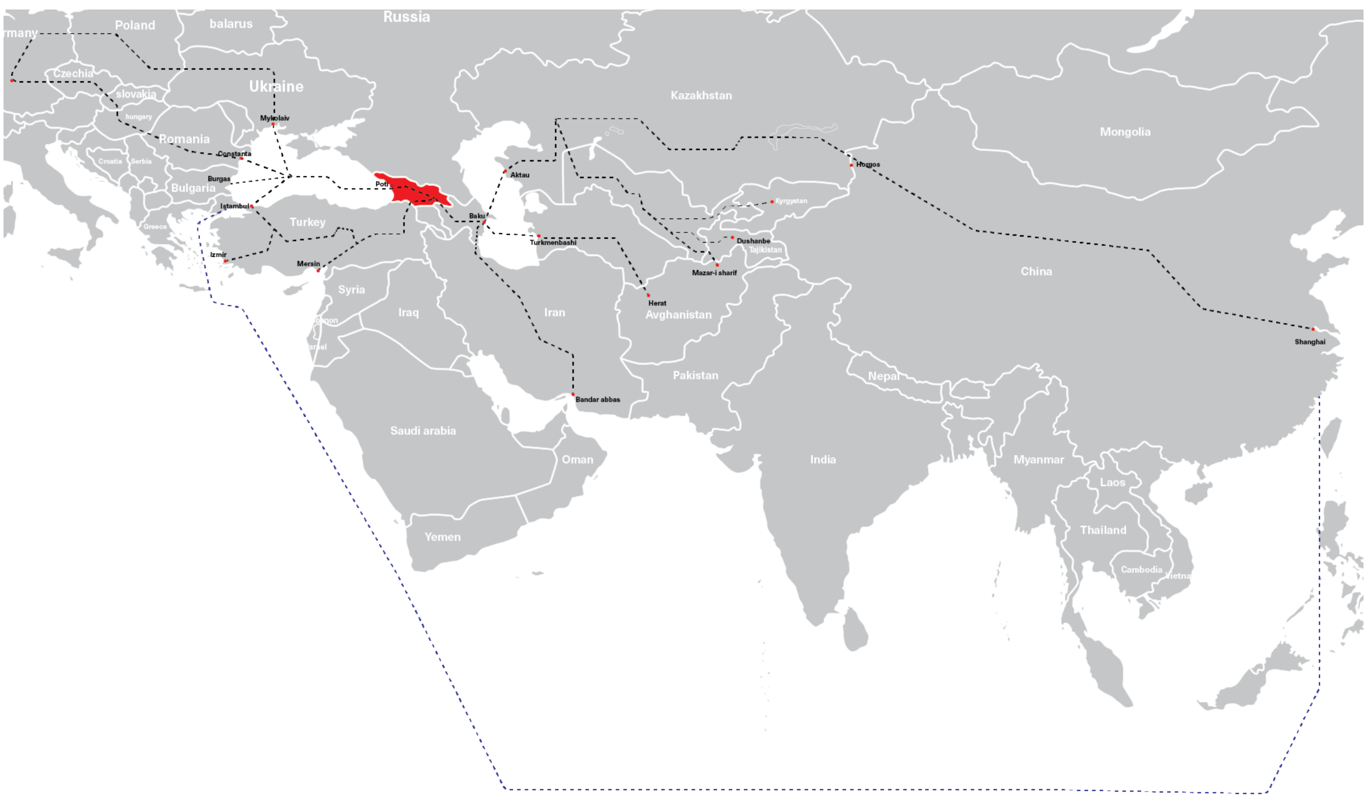
For the year ended 31 December	2022	2021	2020
Share of containerized cargo in total cargo flows	*10.2%*	*9.9%*	*11.9%*
NUMBER OF CONTAINERS IN TEU	88,363	74,196	82,524
% change YoY	*19.1%*	*-10.1%*	*4.5%*
NUMBER OF CONTAINERS	68,357.0	57,111	65,715
% change YoY	*19.7%*	*-13.1%*	*2.8%*

To boost containerization, in 2009 the Company founded a subsidiary – GR Logistics and Terminals LLC - 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 since created container terminals in Georgia's port cities on the Black Sea and a container terminal in Tbilisi. In 2014, the Group purchased 480 containers for the purpose of moving cargo through the Georgian corridor , as part of an effort to increase the limited transportation of containers to Central Asia by sea. The Group's management believes that the availability of sufficient infrastructure will boost containerization rates and potentially bring completely new cargo to the corridor.

CHINA

A new route from China to Georgia and onward to Turkey, Europe and the countries of the Mediterranean Basin is currently under development. This route will provide an alternative to the existing sea route and create the possibility of attracting types of cargo from new markets.

The new rail route would be more time-efficient than the alternative sea route. Previously, cargo from China was delivered to the Black Sea in 40-45 days, while on the new route it will be possible to transport cargo in only 9-11 days.



Simplifying operations for cargo-owning companies on this route is one of the main priorities of the International Association "Trans-Caspian International Transport Route" (TITR) *(for more details see the section "International agreements" below)*, the efforts of which are supposed to increase the competitiveness of the corridor, thereby boosting the commercial operations on the route.

In 2015, the first transit train from the Chinese port terminal of Lianyungang arrived in Tbilisi, heralding the official re-opening of "The Silk Road."

In recent years, China's trade with Turkey and EU member states has grown and this trajectory is expected to continue in the future. Therefore, the Group sees great potential in the route's development, especially in light of the opening of the BTK rail line *(see 8.3 Ongoing projects in the corridor)*.

The China-Kyrgyzstan-Uzbekistan-Turkmenistan-Azerbaijan-Georgia-Turkey-Europe transport route was created in 2019 with the participation of Azerbaijan Railways and the other relevant state railway entities.

INTERNATIONAL AGREEMENTS

International agreements play an important role in the elimination of trade barriers, the reduction of tariffs and the implementation of infrastructure projects. Below are listed several agreements believed to have helped GR in better fulfilling its transit potential and attracting new types of cargo.

In 2016, GR signed a memorandum with Azerbaijan Railways and Kazakhstan Railways regarding the establishment of the TITR. Pertinently, the Association Coordination Committee was established in 2017. It has seven founding members: GR; Azerbaijan Railways; Kazakhstan Railways; Batumi Port; Baku Port; Caspian Shipping Company; and Aktau Port. The purpose of the TITR is to study the corridor and make recommendations to members of the association to attract freight to the Caucasus corridor, reduce administrative barriers caused by multiple players being involved and facilitate the processing of cargo and containers in multiple locations. Ukraine is also engaged in this project and, in the first quarter of 2016, Georgia, Azerbaijan, Kazakhstan and Ukraine decided to apply new competitive tariffs on cargo transported via the TITR. Accordingly, a single competitive tariff was introduced for the TITR in June 2016.

8.2 ONGOING PROJECTS OF THE COMPANY

RAILWAY MODERNIZATION PROJECT

The Group launched its Modernization Project in 2010, aiming to modernize its infrastructure and increase the capacity of the mainline. The project's implementation is expected to bring the following important benefits to the Group:

- Increased capacity of the Group's infrastructure;
- Eliminating the need for extensive capital expenditure on the maintenance of existing tracks;
- Faster transportation speed along the line and thus improved services for freight and passenger customers;
- Improved safety of transportation; and
- Reduced operational expenses.

The project can be divided into two main parts. The first part is concentrated on improving the Group's main line, while the second concerns debottlenecking the line, thereby increasing its capacity.

The main bottleneck is in a mountainous region in central Georgia, referred to as the gorge section (40-km-long). The topography of said region complicates rail operations, causing delays, quickening the depreciation of the tracks and rolling stock and increasing the need for additional pulling locomotives. One of the most significant aims of the project is to decrease the track gradient in the gorge section, which is expected to reduce electricity expenses. In addition, a gentler gradient is expected to reduce wear and tear on wheels and tracks, which would lower maintenance expenses, decrease the need for extra locomotives in that section and reduce the measures and time needed to cool brakes. The project envisages the building of a tunnel in the gorge section, thereby simplifying operations and increasing throughput capacity from 27 million tons of cargo per annum to 48 million, with the possibility of further expansion to 100 million per annum with relatively small capital expenditure.

The Modernization Project is financed by the Group's operations and the proceeds from its Eurobond placements in 2010 and 2012. It is expected to be completed in 2024. Encouragingly, as of 31 December 2022, about 96% of the total work on the Modernization Project had been completed. Since the beginning of 2021, the Group has been carrying out some of the works using its own personnel for railway track construction, signaling centralization and blocking, power and electric traction lines.

PROCEEDS ALLOCATED ON THE PROJECT

GEL 'MLN

For the year ended 31 December	2022	2021	2020	2019	2018
Modernization Project	44.6	38.7	24.8	109.1	249.6

As the Modernization Project covers the difficult 40-kilometer-long gorge section, assets belonging to various physical and legal persons may sustain some injuries or damage as a result of construction work. The Group accepts full responsibility for that and compensates the relevant persons appropriately.

TBILISI RAILWAY BYPASS PROJECT

Tbilisi Railway Bypass Project is a municipal project, which started in 2010. Its main objective is to relocate the capital city's main railroad to the suburbs.

In June 2013, the Group announced its decision to redesign Tbilisi Bypass Project. It held negotiations with the GoG and with the main third-party construction companies to agree on a plan for the conservation of the project during its redesign. All construction works in progress were substantially completed by the end of October 2013 and further construction was suspended.

In March 2014, the GoG decided that the suspension of the construction of Tbilisi Railway Bypass Project would last 18 months after which the final modified project would be presented.

During 2015 and 2016, the Group was engaged in discussions with Tbilisi City Hall and the GoG about various scenarios for the completion of the project. One such scenario under discussion included a change to the original bypass location, which would possibly render the existing bypass infrastructure redundant. Other alternative scenarios included determination of the future use of the existing infrastructure, should it become redundant. The options put forward for the future use of the infrastructure included a road bypass for automobile transport, light rail and extension of Tbilisi Metro and freight depot. However, as of 31 December 2020, no decision had been made by the GoG about the redesign of Tbilisi Railway Bypass Project.

8.3 ONGOING PROJECTS IN THE CORRIDOR

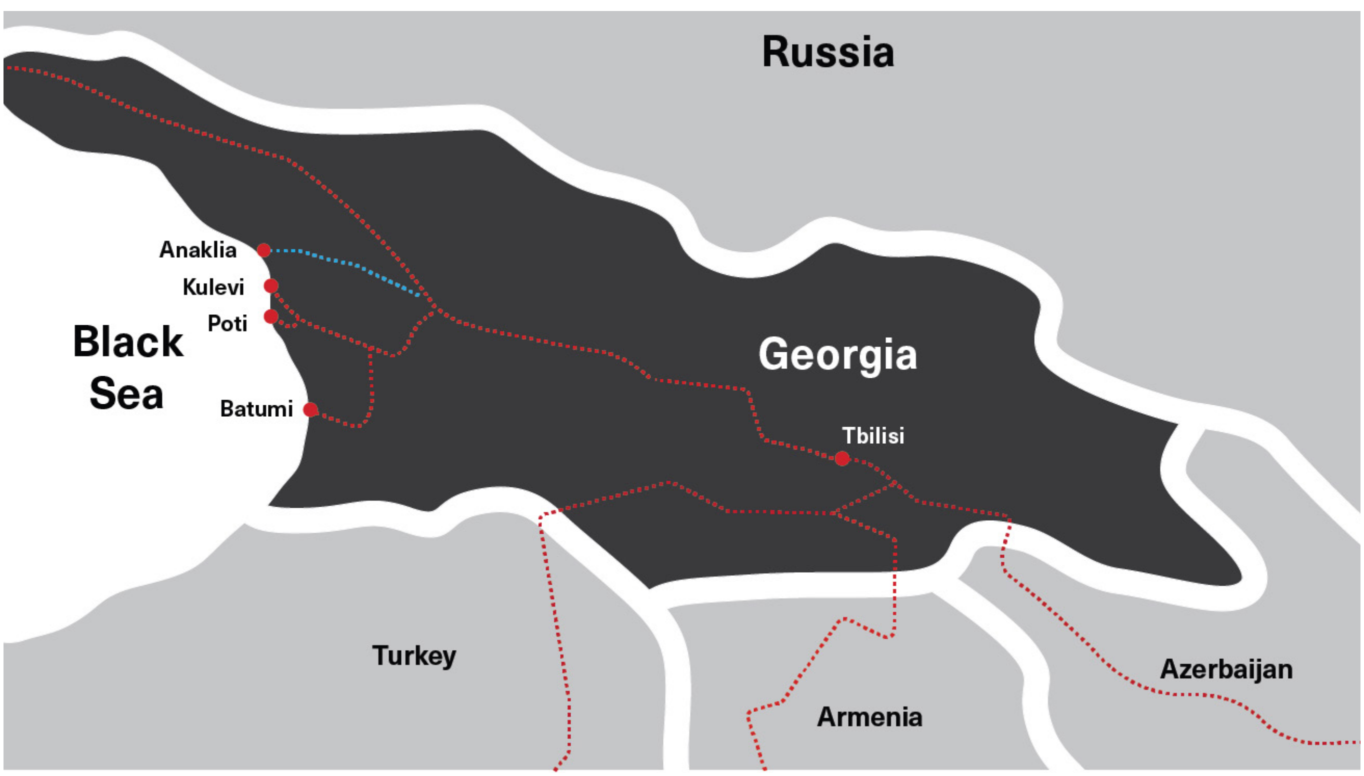
Ongoing projects in the corridor are also in line with the strategic goals of the Group:

DEEP WATER-SEA PORT → BAKU-TBILISI-KARS → OTHER INFRASTRUCTURE PROJECTS

ANAKLIA DEEP WATER-SEA PORT

Currently, three ports are operational in Georgia: Poti, Batumi and Kulevi. There is also a liquid cargo terminal in Supsa. The depth of the currently operational ports, however, is not sufficient for mid-sized cargo ships or large crude carriers. To overcome this issue, the GoG decided to start the construction of a new Georgian port on the Black Sea shore in Anaklia. The port was designed to accommodate containers and bulk cargo and should be capable of handling large vessels, carrying at least 10,000 containers. The depth at the planned location is sufficient to accept Panamax and VLCC vessels and should have the potential to handle the increasing cargo turnover between Europe and Asia.

The new port was expected to become one of the main logistics centers in the South Caucasus and one of the main maritime gateways for Georgia. Due to its strategic location, the GoG considered the project a high priority. In 2016, at the 9th annual CG/LA Forum held in Washington, the project was named the Top Strategic Project of the Year.



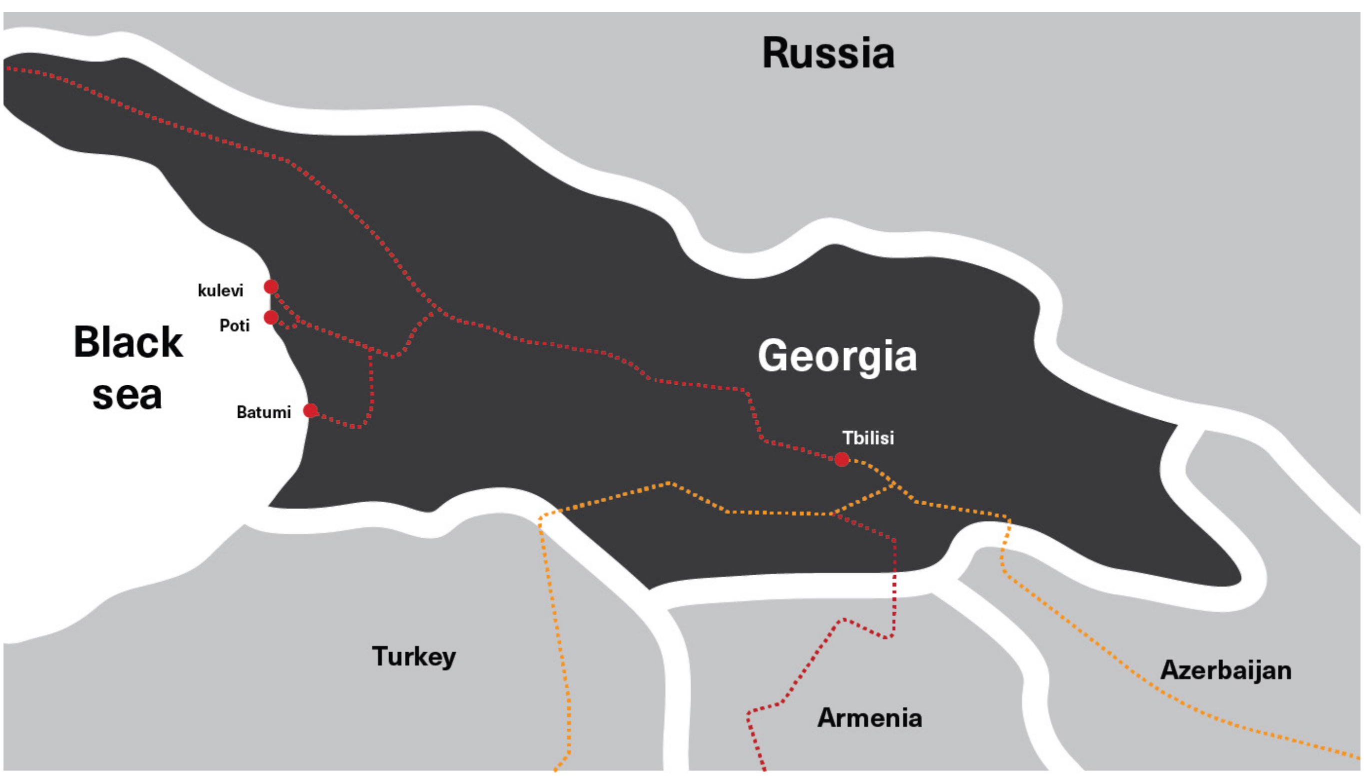
In 2016, the Georgian Government and the Anaklia Development Consortium signed an investment agreement on the construction and operation of the deep sea port in Anaklia. The Anaklia Development Consortium was jointly established by Georgian company TBC Holding and USA-based Conti International. The investment area (340 hectares of land and 225 hectares of sea) was granted to the Consortium for 52 years. Meanwhile, the cost of construction and development of Anaklia Deep Sea Port was expected to be about USD 2.5 billion.

According to the project, the potential throughput of the port should have been 100 million tons per annum and it was expected that the port should would be able to handle up to 7 million tons of cargo per annum. The GoG has also decided to build an 18-km-long railway line to connect Anaklia Deep Sea Port with the existing railway network.

The construction of Anaklia Deep Sea Port began at the end of 2017. At the beginning of 2020, the GoG canceled the agreement with TBC Holding due to the latter's failure to meet contract requirements. According to the Minister of Regional Development and Infrastructure, Georgia needs the Anaklia Deep Sea Port for its economic security and to fulfil its logistical potential. Thus, the project will be continued with new participants and the Georgian Government is taking steps to revive the project and attract new partners. Recent developments give the Group encouragement that the project will be completed and its expected benefits will materialize.

BAKU-TBILISI-KARS

The BTK project is designed to connect Azerbaijan and Turkey via Georgia through a railway link. The project includes the rehabilitation and reconstruction of a 178-km-long railway line between Marabda and Akhalkalaki (both in Georgia) and the construction of a new railway line from Akhalkalaki to the Turkish border, connecting the Group's operational track to Turkish railway network. The railway corridor thus reaches Europe courtesy of the Marmaris project (a railway tunnel under the Bosporus), providing a safe, fast and short route to transport goods from Asia to Europe and vice versa. This will represent a new rail-only corridor from the Caspian Sea to Europe via Turkey, potentially replacing sea transportation.



The project is being implemented by the Georgian Government without the Group's financial input. It is being financed by the Government of Azerbaijan, which granted a loan to its Georgian counterpart for construction. Once the tracks are built, the Group will be granted rights to operate the Georgian part of the line.

The project is intended for the transportation of cargo as well as passengers. The initial maximum annual throughput capacity of the BTK railway is estimated at 1 million passengers and 5 million tons of cargo. It comprises two different gauge types: the broad gauge (1,520mm) from Baku to Akhalkalaki; and the standard gauge (1,435mm) from Akhalkalaki to Kars. Taking the maximum cargo throughput capacity of the BTK line into consideration - 5 million tons during the initial stage - the project can create potential demand for a railway terminal and possibly the availability of handling service providers (lift-off-lift-on) due to the required gauge change.

Test operations commenced on 30 October 2017. Since then, the volume of cargo transported on the line has increased considerably and reached around 500,000 tons in 2021.

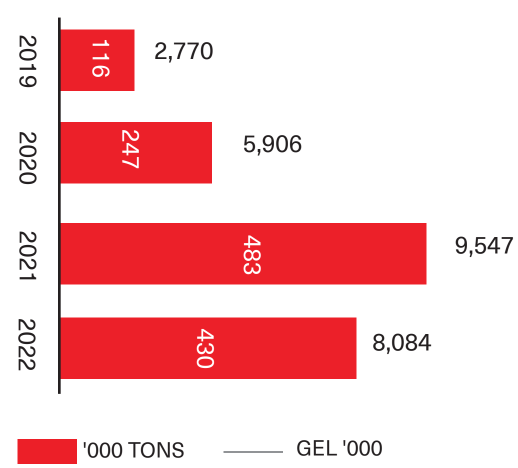
In 2021, GR transported almost twice as many containers on this route, compared to 2020.

BAKU-TBILISI-KARS LINE

For the year ended 31 December	2022	2021	2020
Revenue *(GEL '000)*	8,084	9,547	5,906
% change	*-15%*	*62%*	*113%*
Volumes *('000 Tons)*	430	483	247
% change	*-11%*	*95%*	*112%*
Number of containers in TEU	19,739	20,492	10,471
% change	*-4%*	*96%*	*88%*
Number of containers transported	13,911	12,756	7,369
% change	*9%*	*73%*	*84%*
Number of railcars transported	1,982	3,642	1,940
% change	*-46%*	*88%*	*259%*

Once completed, the project should open up a completely new geographical market to GR through easier rail operations with Turkey. The project is intended for the transportation of cargo as well as passengers. The initial maximum annual throughput capacity of the BTK railway is estimated at 1 mln passengers and 5 mln tons of cargo. The BTK is comprised of two different gauge types: the broad gauge (1,520mm) from Baku to Akhalkalaki and the standard gauge (1,435mm) from Akhalkalaki to Kars. The two different gauge types increase Akhalkalaki's importance on the international railway. Taking the maximum cargo throughput capacity of the BTK into consideration, 5mln tons during the initial stage, the project can create a potential demand for a railway terminal and presence of handling service providers (lift-off-lift-on) due to the required gauge change. The opening of this rail connection should also increase access to other potential markets, especially China.

BAKU-TBILISI-KARS LINE



POTI SEA PORT

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

In 2020, APM Terminals Poti, an international company based in the Netherlands, presented a plan to the GoG 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 TEUs; and (ii) the construction of a 300-meter container quay, which would double the annual container capacity at Poti Port to over 1 million TEUs. According to information published by APM Terminals Poti, it expects to invest USD 250 million to finance the first stage of the project. An environmental impact study will then be conducted with respect to the second stage of the project.

The new Poti Sea Port, valued at up to USD 120 million, is one of the largest ongoing maritime projects in Georgia. Notably, the financing allocated by the US International Development Finance Corporation represents the organization's single largest investment into a project in the region.

A total of USD 93 million has been invested in the construction of the new sea port, with large hydrotechnical facilities and modern port infrastructure, including:

– A 260-meter berth;
– Fully reconstructed breakwater structures;
– 1.5 million cubic meters of soil removed from the Poti New Port harbor to further increase its depth to 13 meters;
– Closed warehouses with a capacity of 50,000 tons, equipped with fully automated reloading systems manufactured in Europe;
– Open storage areas stretching across six hectares; and
– Two new portable cranes exclusively manufactured and installed at the sea port, each with a load capacity of 100 tons.

The project's subsequent expansions, an endeavor valued at an additional USD 30 million, will involve the construction of a new 230-meter deep-water berth (13 meters). In addition, modern port machinery and devices will be installed, such as a conveyor system and a ship-loader.
The berth and new port infrastructure allow for capacity bulk carriers and container vessels to be served (up to 50,000 Mt cargo). The port will handle bulk and breakbulk cargo, as well as containers.

After the project's finalization, the capacity of Georgia's unified sea port infrastructure will have increased by 3.5 tons.

The new Poti Sea Port will give a tremendous boost to the country's port capacity and transit potential, as well as offering new opportunities for the redirecting of new cargos to Georgia's transport corridor.

New feeder service provides a direct connection between Poti Port and Istanbul

In September 2022, APM Terminals Poti welcomed the maiden call of the new Poti Turkiye Feeder (PTF) service from shipping line ZIM. This new direct service expands its offerings between Turkey and Georgia.

The 925 TEU Contship Joy will operate between Turkish ports and Poti Port every 12-14 days. Established in 1945, Israeli cargo shipping company ZIM is one of the world's leading shipping companies, operating all over the globe.

Crucially, the new service expands Poti's global connectivity even further via ZIM's worldwide network.

Georgia is building up its port capacity and aims to become the main gateway connecting Central Asia to Europe

The port operator APM Terminals - a division of the Danish shipping company Maersk –recently announced its intention to invest heavily in the modernization of Poti Port. Indeed, the company has been negotiating with the Georgian Government for several years about the construction of a new terminal. The volume of investments in the new terminal is estimated at USD 170 million, according to recent reports in the Georgian mass media, with references to the Government data.

The Poti expansion project will include the construction of a breakwater with a length of 1800 m and a berth with a depth of 13.5 m. A universal 400-m-long berth will support the loading/unloading of bulk cargo and it is expected that the new berth will be able to serve container ships with a capacity of 9,000 TEUs.

The length of the new sea terminal will be 260 m with a water depth of 13 m, allowing the port to serve larger vessels.

In addition to the existing capacities of Poti and Batumi, the Georgian authorities have also decided to resume the construction of the deep port in Anaklia, located 70 km onshore from Poti.

BATUMI SEA PORT

On 22 March 2018, Batumi Sea Port and Wondernet Express (an international logistics company) signed an agreement to build a new terminal at the Port of Batumi. The terminal is intended to serve the transit of mineral fertilizers from Central Asia.

This terminal is part of a new logistics corridor, linked to Central Asian countries via the Caspian Sea port of Baku in Azerbaijan. From there, mineral fertilizers are to be transported by rail to Batumi Sea Port and then to be transported across the Black Sea. The new logistics corridor will be the shortest and most convenient route from Central Asia to the Black Sea.

The technological project envisages the construction of transit terminals and storage facilities for the purpose of obtaining, storing and dumping mineral fertilizers. Meanwhile, warehouses are designed to store 60,000 tons of bulk fertilizers. At the initial stage, the terminal's production capacity allows for the processing of up to 1.2 million tons of mineral fertilizers per year.

On 11 June 2021, a multimodal terminal on the territory of the Batumi Sea Port officially opened. This terminal is specifically designed for the handling of mineral fertilizers, boasting an annual capacity of up to 1.5 million tons. The project's total investment amounts to USD 25 million and it is a collaborative effort involving partners such as Wondernet Express and the U.S. company "Tramo."

The European Union pledges to invest EUR 3.4 billion in Georgia's transport sector

The European Commission and the World Bank collaborated to develop the "Trans-European Transport Network (TEN-T) Indicative Capital Investments Implementation Program," which defines the implementation of priority projects in Azerbaijan, Belarus, Moldova, Georgia, Armenia and Ukraine in order to stimulate connectivity and economic growth in Eastern Partnership countries.

The project's implementation up until 2030 will cost a total of EUR 12.8 billion, with the construction and modernization of 4,800 km of road and railway lines, six ports and 11 logistics centers planned.

In addition to investments in infrastructure, the presented investment program foresees the implementation of fundamental transportation reforms and an increase in the level of safety on the region's highways.

The European Union will According to the program, the European Union will invest EUR 3.417 billion in Georgia's transport sector by 2030:

- Ten projects totaling EUR 2,087 million in road transport;
- Two projects totaling EUR 349 million in railway transport;
- One project worth EUR 63 million in aviation transport;
- Two projects totaling EUR 767 million in maritime transport;
- EUR 144 million for a logistics center; and
- A single border checkpoint costing EUR 6 million.

Black Sea-Caspian Sea Transport Corridor – A more economical and shorter route

The Caspian-Black Sea international transport route project was launched on 24-25 October 2018, at an expert meeting in Ashgabat attended by representatives from the four countries involved. The route runs through the Caspian Sea from Turkmenistan to Azerbaijan, then by railway to the Georgian Black Sea ports and on to Romania.

The Bucharest Declaration on the Development of the Black Sea-Caspian Sea Transport Corridor, signed in March 2019 by the Foreign Ministers of Georgia, Azerbaijan, Romania and Turkmenistan, outlined how the project would advance. The Declaration emphasized the significance of this route in the transit scheme connecting the West and the East, as well as the fact that the route would be the shortest and most direct connecting Central Asia to Europe.

FREE TRADE AGREEMENTS

In December 2015, talks between China and Georgia regarding a free trade agreement (FTA) were launched and, in October 2016, a free trade memorandum was signed between the two countries, making it China's first FTA negotiation in Eurasia. According to the agreement, the memorandum entered into force in 2018.

In 2018, an agreement was made between the Georgian Government and China's Special Administrative Region Hong Kong about a free trade agreement. In addition, negotiations are ongoing with numerous other countries regarding FTAs.

More than 82% of Georgia's domestic exports (i.e. locally produced goods and services, including those of foreign origin that have been substantially changed through local processing) in 2022 to countries with which it has an FTA. In 2022, significant shares of its domestic exports were distributed to the following:

- The Commonwealth of Independent States (CIS) – 29.6%
- The European Union – 20.1%
- China – 18.8%
- Turkey – 10.7%

8.4 INFRASTRUCTURE DEVELOPMENTS IN THE CORRIDOR

A significant number of projects are being carried out in the corridor to expand into new geographical locations and markets and to improve the efficiency and profitability of the route.

KAZAKHSTAN'S INFRASTRUCTURE IMPROVEMENTS

Kazakhstan plans to increase its transit role by accommodating a larger share of the trade between Europe and China. Accordingly, it plays a key part in the formation of the so-called New Silk Road. Experts have calculated that the country accounts for 70% of land transit traffic from China to Europe and vice versa *(source: astanatimes.com).*

The construction of a new ferry complex at Kuryk Port, the development of Aktau Sea Port, the opening of a new rail line (Zhezkazgan-Beyneu) and the construction of the Dry Port of Khorgos - Eastern Gate are all projects that will help Kazakhstan to achieve its transit goals.

CONSTRUCTION OF A NEW FERRY COMPLEX AT KURYK PORT

Previously, the only means by which Kazakhstan could transport cargo to other Caspian Sea countries was the Port of Aktau. However, in recent years the ferry terminal at Aktau Port has been working to its capacity. Therefore, a decision was made by the Government of Kazakhstan to start the construction of a new ferry complex at Kuryk Port, which is an important part of the TITR. This project is considered strategically significant, as it is believed that the new ferry complex will strengthen Kazakhstan's role in the China-Europe transportation corridor and will make it possible to triple the capacity of its ferry transportation.

The ferry complex's construction has already been completed and the port has started operating. The new ferry complex is designed to handle various types of goods such as consumer goods, petroleum products, fertilizers, chemicals and liquefied petroleum gas.

The ferry complex in the Port of Kuryk is considered to offer the following advantages:

- Temperate climate;
- Sufficient depth; and
- Prospects for increased throughput capacity.

Construction of a second track for the Dostyk-Moiynty railway section begins in Karagandy region

The construction of a second track on the Dostyk-Moiynty railway section, at a length of 836 kilometers, was launched on 17 November 2022. Relatedly, plans are in place to build 419 artificial structures (five large bridges, 87 small and medium bridges, 288 culverts and 14 road overpasses), as well as energy and communications facilities. The share of local content is expected to exceed 80%, particularly in producing sleepers, rails, transformers and the supply of inert materials, sand and gravel. The construction will involve nearly 3,700 people and a further 500 will get permanent jobs after commissioning the railway line. The completion of the project is scheduled for the fourth quarter of 2025 with capacity anticipated to increase from 12 to 60 pairs of trains.

DEVELOPMENT OF AKTAU PORT

Aktau Port is today considered Kazakhstan's main port. Due to its importance and the expected increase in traffic, the Government of Kazakhstan decided to expand the port's capacity. Since 2015, three new dry cargo terminals have been built at Aktau Port. In 2017, works on the northern expansion of Aktau Port started and this development is expected to eventually double the port's cargo capacity from 10 million tons to about 20 million per year.

The country's ports intersect the North-South international transport corridor and the TRACECA. Meanwhile, plans are afoot to create a USD 28.9 million container hub by 2025 in Aktau Port to increase cargo traffic and container shipment.

The project, under the name Sarzha, will boost capacity by more than 500%, rising from 40,000 TEUs to 215,000 TEUs per year. It stipulates the construction of a transport and logistics center, as well as grain, liquid bulk and breakbulk cargo terminals. It will enable the country's port capacity to rise by 10 million tons to 30 million.

AZERBAIJAN'S INFRASTRUCTURE IMPROVEMENTS

Kazakhstan's efforts to increase its role as a transit country connecting the East to the West will affect Azerbaijan, which represents one of the routes through which goods from Kazakhstan can be transported to Europe. This would consequently increase the transportation of cargo via Georgia as well.

To meet the needs of increased trade and traffic, Azerbaijan has started to invest in infrastructure projects such as the construction of the new Port of Alyat and the modernization of its railways.

CONSTRUCTION OF THE NEW ALYAT PORT

The geographical location of Azerbaijan means that it would benefit from the development of an effective maritime transportation system via the Caspian Sea. Baku Port's current location in the city center limits its operations. With that in mind, in 2010 the Government of Azerbaijan decided to build the new Baku International Sea Trade Port in Alyat, which is located 7 km from Baku. The project was expected to be implemented in three phases. The capacity of the port by the end of the first phase was expected to reach 11.5 million tons per year of general cargo and up to 50,000 TEUs per year and by the end of phase three, the capacity was expected to increase to 25 million tons of general cargo and up to 1 million TEUs. The construction of the ferry terminal was expected to be concluded by 2014; however, by 2018 only the first stage had been completed. The timelines of phases two and three will depend on cargo volumes.

The construction of the new port should increase the throughput capacity of the route and support the expected increase in cargo transportation between the East and the West. It is expected that the importance of the port will increase after the completion of the BTK railway, which will provide direct access to European railway networks.

MODERNIZATION OF AZERBAIJAN'S RAILWAY

Azerbaijan is actively investing in the development of its railway network. By the end of 2017, about 79% of the work had been completed on a project concerning capital repairs of the 600-km-long Baku-Boyuk-Kesik rail line, which started in October 2015. Meanwhile, a new 8.3-km-long rail line was laid from the station at Astara to the Iranian border and in April 2016 construction works on a railway bridge across the Astarachay River started on the Azerbaijan-Iran border. Works are also underway to replace the signaling system with a microprocessor system, controlled from a single dispatch center.

The modernization of different rail lines in Azerbaijan and the renewal of its rolling stock should increase the speed of trains and their cargo capacity, which are important steps toward increasing the potential of the whole corridor. With this in mind, GR expects cargo flows to increase from Azerbaijan through Georgia.

THE BAKU-BOYUK KASIK LINE'S MODERNIZATION

The Baku-Boyuk Kasik railway line spans 1435 km (double track) in four sections (Section 1: Boyuk Kasik – Ganja; Section 2: Ganja – Ujar; Section 3: Ujar – Hajigabul; Section 4: Hajigabul - Baku) and underwent major reconstruction in two phases, the last of which was completed in 2018.

Currently, the OCS system has been largely reconstructed in sections with 12 substations completed across all sections of the line (in total, 796 km) but operating under AC conditions only in Section 1 and Section 2. Meanwhile, Section 3 and Section 4 are operated under DC conditions. The next phase of reconstruction works cover approximately 432.0 km of OCS (mostly in station sidetracks), one additional power distribution station, one traction substation (to ensure compensated power supply on branch lines) and one DC traction substation (to interface with the Georgian counterpart).

Current signaling–telecommunication systems include microprocessor-based interlock systems completed and operating in Section 1 and Section 2 only (at 21 out of 40 stations). The next phase of reconstruction works on the signaling-telecommunication systems shall be implemented in Section 3 and Section 4 (at 19 out of 40 stations). Meanwhile, the signaling–telecommunication system shall be completed in all sections and the whole of the line will be converted into AC.

PORT OF BAKU

The Port of Baku is an active participant in the TITR and is also logistically connected to the BTK railway.

Phase 1

Following the completion of the first phase in 2018, the Port of Baku has a total throughput capacity of 15 million tons of general cargo, including 100,000 TEUs.

The first phase comprised a ferry terminal, Ro-Ro berths, general cargo berths, a service berth, railway lines, an administrative building, a customs holding area, an open storage yard, warehouses, a container yard, rail and road access to berths, Ro-Ro ramps, a heavy-lift landing area and a truck amenities area. Following the completion of the first phase of development, all intermodal operations are carried out at the Port of Baku.

Phase 2

In the medium and long term, as part of the second phase of the construction of Baku Port, a master plan is being

prepared, which is planned to be completed by the middle of 2023, a large container terminal is to be built, which will increase the throughput from 100,000 to 500,000 TEUs.
It is anticipated that a terminal for loading/unloading and further transportation of block trains will be built as part of the second phase. In addition, a multimodal logistics terminal will be built on the territory of Baku Port. At this terminal, it will be possible to carry out the replacement of transport, the packing/unpacking of goods and a number of other logistics operations, which, in turn, will lead to the creation of added value.

Moreover, the throughput capacity of the Baku Port, which currently stands at 15 million tons, will be expanded to 25 million tons.

OTHER INFRASTRUCTURE PROJECTS AND DEVELOPMENTS

DEVELOPMENT OF TURKMENBASHI INTERNATIONAL SEAPORT

Turkmenbashi International Seaport, which links Central Asia with the Black Sea region and Europe, opened in 2018. It is expected that the port will play an important role in trade between European and Asian countries.

VIKING CONTAINER TRAIN

The Viking Container Train is a joint project involving Lithuania, Ukraine, Belarus, Bulgaria and Romania. It connects the Baltic Sea and the Black Sea by rail and is considered one of the most impressive European projects in freight transportation, according to the Transport Commission of the European Union.

In 2015, the Group joined the Viking Container Train project whereby Georgia would become the connecting knot between this project and the TRACECA. In May 2016, Azerbaijan Railways also joined the project, making it even more competitive.

The Viking Container Train can carry 20 and 40 feet of standard and specialized containers and can complete the full route (1734 km) in 52 hours. The train is an environmentally friendly form of transport.

Negotiations are underway to attract customers to transport cargo via this corridor.

UZBEKISTAN'S RAIL TRANSPORT DEVELOPMENTS

The Government of Uzbekistan has decided to develop its rail network to boost foreign trade. Its plans include participation in the creation of an Azerbaijan-Georgia-Turkey-EU transit corridor. On 16 December 2022, the first container block train to the port of Burgas, Bulgaria departed with the cargo of JSC "AMMC." This freight train consisted of 46 wagons and 91 units of 20-feet containers loaded with copper concentrate. The container train traveled the route Uzbekistan-Turkmenistan-Azerbaijan-Georgia-Bulgaria/Europe at a length of more than 4,000 km.

BULGARIA'S RAILWAY MODERNIZATION

Bulgaria is working to modernize its railways to achieve full participation in the projects related to the Silk Road. The modernization of its railway sections is mainly being financed through the EU development policy.

PROJECT LINKING NORTH MACEDONIA TO BULGARIA BY RAIL

The project is part of the Pan-European Corridor VIII, a route stretching about 1,500 kilometers (930 miles) from the Albanian port of Durres in the west to Bulgaria's ports of Varna and Burgas in the east. Durres has sea connections to the Italian port of Bari.

The line that recently began construction is called the "Eastern End" and covers 89 kilometers (55 miles) of tracks within North Macedonia. Relevant work will be finished by the end of 2025 and includes 5.5 kilometers (3.4 miles) of tunnels, railway bridges, overpasses and underpasses and railway stations, as well as a new signaling and telecommunications system.

PLOVDIV-BURGAS RAILWAY LINE SECOND STAGE REHABILITATION PROJECT (BULGARIA)

The Plovdiv-Burgas railway line is a major part of the Trans-European Transport Network (TEN-T) and the Eastern Mediterranean Corridor in Bulgaria. The railway line is 292 km long, including 139 km of single track and 153 km of double track. The TEN-T comprises airports, roads, railways and water infrastructure being built in the EU and the Eastern Mediterranean Corridor is one of the main priority axes of the TEN-T.

The railway line between the cities of Plovdiv and Burgas is being renovated in two stages. The first phase included the upgrading of the Mykhailovo-Kaloyanovec, Stara Zagora-Zavoi and Tserkovski-Karnobat sections, with a total extended track length of 263 km, starting in April 2011 and ending in December 2016.

The second phase will increase operational speed in the repaired sections and enhance safety. Ultimately, the project aims to improve the quality of the Plovdiv-Burgas railway line and boost railway passenger traffic. It will reduce travel time by increasing the maximum speed to 130 km/h in the Ortozovo, Stralzha and Tserkovsky districts and to 160 km/h on the Oryovo-Mikhailov and Yambol-Zymnica sections. After the completion of the project, the number of incidents are expected be reduced by 42% and the travel time will be reduced by up to 70 minutes. In terms of sustainability, it is expected to reduce emissions by 35,000 tons of CO_2 per year. Meanwhile, accessibility for people with reduced mobility will also be improved. Currently under evaluation for financing by the European Investment Bank, it would support the upgrading of rail infrastructure to ensure compatibility and compliance with relevant EU regulations.

REHABILITATION OF THE RUSE-VARNA RAILWAY LINE

This project concerns the rehabilitation of the Ruse-Varna railway line, which was the first line built in Bulgaria in 1866. The line is about 232 km long and consists of two main sections: Ruse-Kaspichan; and Kaspichan-Varna. The Ruse-Varna railway line is part of the comprehensive TEN-T comprehensive network and is a unique link between the border-definingRiver Rousse (i.e. the Danube) and the Black Sea port of Varna. On the Romanian side of the border, the section continues along the Giurgiu-Bucharest line. The estimated investment cost of the project is EUR 383 million.

MIDDLE CORRIDOR UPDATE: ANOTHER VESSEL ADDED TO THE CASPIAN SEA FLEET

In September 2022, the number of vessels operating in the Caspian Sea increased from three to six and subsequently, a seventh service was introduced. The Caspian Sea crossing, connecting ports in Azerbaijan, Kazakhstan, or Turkmenistan, is a lengthy process, with the Baku-Aktau route spanning 350 kilometers. According to Kelvin Tang of CEVA Logistics, this journey takes seven days to complete. Depending on the vessel type, the loading capacity ranges from 350 TEUs to 125 TEUs. The six vessels in operation in September collectively had a capacity of 1,200 TEUs. While the additional capacity of the seventh service is not specified, the expanded fleet of seven vessels could potentially accommodate up to 1,550 TEUs. With an extra departure per week, this fleet could handle approximately 6,600 TEUs of cargo weekly, enabling the facilitation of around 70 trains.

9. COMPETITION

GR's Freight SBU faces competition from alternative transportation providers. Meanwhile, its Passenger SBU competes with other forms of transport, such as buses, minibuses, passenger automobiles and airplanes *(see 7. Focus on core business activities)*.

To increase competitiveness and thus provide a better service to customers, GR entered the freight forwarding business in April 2013. Moreover, to reduce the threat from competition, the Group is trying to diversify the markets in which it operates, as well as the kinds of goods it transports. In 2022, about 32% of total goods transported by the Group were liquid goods and the remainder were dry goods. To reduce risks and increase capacity, in 2010, the Group launched the Modernization Project, which is expected to be completed by the end of 2024 and will increase the capacity of the main transportation line from its current annual capacity of 27 million tons to 48 million, with further potential to expand to 100 million.

9.1 COMPETITION FROM PIPELINES

GENERAL DESCRIPTION

In crude oil transportation, the Group faces direct competition from the following:

- The Caspian Pipeline Consortium (CPC), which transports crude oil from the Tengiz oil field, Kazakhstan (on the coast of the Caspian Sea) to Novorossiysk, Russia (on the coast of the Black Sea);
- The Baku-Tbilisi-Ceyhan (BTC) Pipeline, which transports crude oil from Baku, Azerbaijan (on the coast of the Caspian Sea) to Ceyhan, Turkey (on the coast of the Mediterranean Sea) *(see 2.2. Transport Sector Overview)*;
- The Baku-Novorossiysk Pipeline, which transports crude oil from Baku, Azerbaijan (on the coast of the Caspian Sea) to Novorossiysk, Russia (on the coast of the Black Sea);
- The West Route Export Pipeline (WREP), which transports crude oil from Baku, Azerbaijan (on the coast of the Caspian Sea) to Supsa, Georgia (on the coast of the Black Sea) *(see 2.2. Transport Sector Overview)*;
- The North-South Main Gas Pipeline (NSMP), which transports natural gas from Russia to Armenia *(see 2.2. Transport Sector Overview)*; and
- The South Caucasus Pipeline (SCP), which transports natural gas from the Shah Deniz field, Azerbaijan (on the coast of the Caspian Sea) to Turkey *(see 2.2. Transport Sector Overview)*.

Since 2012, the Group's freight volumes have generally declined, primarily due to competition from alternative routes and from oil pipelines for the transportation of crude oil, with the Group now only transporting minimal quantities of crude oil.

The share of crude oil transported by the Group in terms of total transportation volume dropped to 1.86% in 2022, compared to 32%in 2010. The decrease in the Group's liquid cargo volumes can be mainly explained by the fact that some crude oil was redirected to the CPC and the BTC pipeline, especially after the expansion of the former.

STRENGTHS

Low cost for large volumes -Pipelines often have lower transport and operational costs, particularly for large oil producers that participate in their construction and are more cost-efficient than rail when transporting large volumes of crude oil.

WEAKNESSES

Various quality of crude oil - Pipelines do not generally carry all grades of crude oil as different grades are mixed in the pipeline and this affects the quality. Therefore, pipelines are best suited for average-grade oil, while for high-quality and low-quality crude oil, other modes of transportation are preferable.

No pipelines for oil products - It should be mentioned that pipelines are only competing with railways over the transportation of crude oil itself and not refined oil products.

COMPETITIVE DEVELOPMENTS

Although oil pipelines are the Group's competitors when it comes to crude oil transportation in CIS countries, as they mostly transport oil in high volumes, small players can be left excluded. They have limited access to pipelines, as they may experience difficulties in meeting the minimum quotas required to use the pipelines, or the pipelines might be inefficient for small volume transportation. This opens up a niche for the railway business in crude oil transportation.

9.2 COMPETITION FROM ALTERNATIVE RAIL TRANSIT ROUTES

GENERAL DESCRIPTION

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 do so in the future. In particular, the existence of alternative railway routes through Russia and Iran, including those 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 compete with the Group's Freight SBU *(see 7.1 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. The Group's management does not expect this route to be finalized in the short term but, once finalized, it would offer additional competition to the Group's freight transportation services. In addition, any improvement in political relations between Iran and western jurisdictions could increase the volume of freight traffic on routes through Iran rather than Georgia.

In particular, at this point, these alternative routes include:

- The Russian routes going from Central Asia through Russia to the Baltic Sea and the Black Sea basins; and
- The Central Asian route through Iran.

RUSSIAN ROUTES

STRENGTHS

Capacity – The rail lines and ports on these routes have a higher capacity for transportation than those on the Georgian route.

Unimodal transportation - Routes in Russia offer unimodal transportation, while cargo transported from Central Asia via Georgia must use several modes of transport to reach its destination.

WEAKNESSES

Reliability - The Russian rail routes have a competitive disadvantage compared to GR as Novorossiysk Port is typically frozen in winter and operations are frequently delayed.

Political tensions - The war between Russia and Ukraine has damaged Russia's relations with most of the rest of the globe. Due to the strong economic sanctions the West imposed on Russia for invading Ukraine, the Russian economy, transportation network and logistics system have all been weakened.

Weather – In Russia the climate is extremely cold, hindering railway transportation at certain times of year. Northern Russia's railway infrastructure faces substantial challenges during the winter.

Longer distance - The Russian routes are significantly longer than the Georgian route, which increases costs, risks and transportation time.

COMPETITIVE DEVELOPMENTS

The implementation of the Modernization Project should increase the Group's capacity and its competitiveness against Russian routes. It should also increase transportation speed, safety and service quality, which will allow the Group to attract new customers. In addition, the war with Ukraine may halt economic activity via the Russian railway system, potentially increasing demand on the Georgian route *(see 8.2 Ongoing projects in the Company)*.

IRANIAN ROUTE

STRENGTHS

Good location for certain cargo - The Iranian route is strategically well-positioned to compete for certain cargoes, which flow from China and Central Asia to Turkey and other destinations.

WEAKNESSES

Political tensions - The railway route running through Iran is less attractive than the Georgian route due to the tense political relations between Iran and the West.

Longer distance - The Iranian route is significantly longer than the Georgian route, which increases costs, risks and transportation time.

COMPETITIVE DEVELOPMENTS

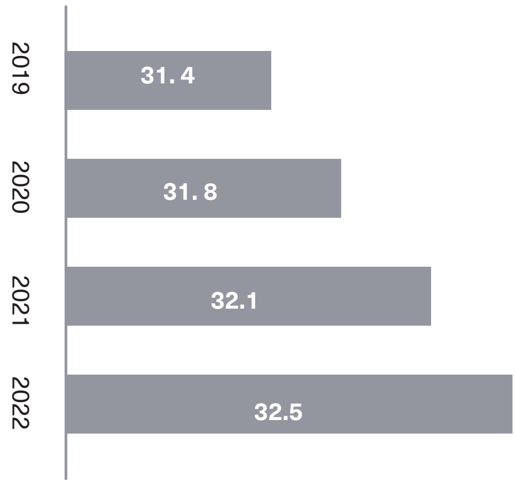
After the lifting of international sanctions on Iran, the country's high potential in trade is expected to be fulfilled in terms of both liquid and dry cargo. The alleviation of sanctions is anticipated to unlock opportunities in terms of transporting goods between Iran and Europe through Armenia, Azerbaijan and subsequently Georgia, thereby opening a completely new south-north corridor.

9.3 COMPETITION FROM ROAD TRANSPORTATION

GENERAL DESCRIPTION

Competition from road transportation is generally only relevant to container transportation. In most countries, railway transportation is usually cheaper than road transportation only if the cargo is transported in bulk and over long distances. In Georgia, which is a relatively small country, domestic transportation of non-bulk cargo is usually cheaper by road.

TRANSPORTED VOLUME BY ROAD *(MLN TONS)*



Source: Ministry of Economy and Sustainable Development of Georgia

STRENGTHS

Cheaper, short-distance transportation - In Georgia, short-distance transportation is cheaper by road, especially for containerized cargo. Accordingly, this route becomes especially competitive when international prices on oil products are low, considering the low excise on oil products and low taxes on road transport in Georgia.

Flexibility - Door-to-door transportation is an inherent advantage of road transportation.

WEAKNESSES

Safety concerns - Railway transportation is considered safer than road transportation.

Environmental factors - Deterioration of air quality, GHG emissions, exacerbation of climate change, depletion of water resources, noise and habitat loss and fragmentation are all characteristics of road transportation.

Expensive in-bulk transportation – In cases of transportation in bulk, railway is considered cheaper than road.

Fuel price – The price of transportation depends on diesel prices, which fluctuate considerably.

COMPETITIVE DEVELOPMENTS

In order to react to the increased levels of competition from trucking companies, the Group plans to market transportation by rail as a more eco-friendly and socially responsible choice, given its lower carbon dioxide emissions, decreased risk of traffic delays and lesser threat of accidents on the route, as well as requiring less government maintenance and repair costs, compared to the maintenance and investment required on Georgia's road network. Furthermore, in 2017, the Group changed the currency in which its tariffs are denominated for its domestic trains from USD to GEL, which matches the charging currency of domestic trucking companies.

PASSENGER SBU

The passenger railway transportation services offered by the Group face competition from other modes of domestic transportation, principally buses, minibuses and passenger automobiles, as well as, to a lesser degree, airplanes.

One intrinsic benefit of road transportation, whether by bus or minibus, over rail is that it is frequently more direct and may be faster. As bus and minibus fares are comparable to the cost of passenger rail tickets, a passenger's choice is mostly determined by personal travel preferences and individual needs rather than variables under the Group's control *(see 7.2 Passenger SBU)*.

10. STRENGTHS

The Group believes that it has numerous key competitive strengths that will enable it to capitalize on its leading position in the Georgian and Caucasus transportation markets

STRATEGIC ASSET FOR THE GEORGIAN ECONOMY WITH STRONG STATE SUPPORT

UNIQUE STRATEGIC LOCATION

STRONG CUSTOMER RELATIONS

INTEGRATED FREIGHT AND TRANSPORTATION COMPANY

STRONG MARGINS AND SOLID CASHFLOW GENERATION BACKED BY FOREIGN-CURRENCY-DENOMINATED REVENUE

A CONTINUOUS FOCUS ON SUSTAINABLE DEVELOPMENT

DIVERSIFIED CARGO PORTFOLIO

STRATEGIC ASSET OF THE GEORGIAN ECONOMY WITH STRONG STATE SUPPORT

The Group is considered a strategic force in the country's 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 to make Georgia a large transportation hub of which the Group's railway network is a critical component. 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 0.9% of GDP in 2021, compared to 1.1% in 2020 and 1.1% in 2019. The Group is also one of the largest corporate employers in Georgia, whose business also supports other employment opportunities in Georgia *(see subheading 4.3 Social Responsibilities).*

> "the Government has indicated that the development of the country's infrastructure is one of its highest priorities"

The Group's tariff policies are not subject to the Government regulation and the Group sets its own freight tariff policy independently and without the Government approval, despite being a statutory monopoly. In addition, the Group benefits from the strong support of the Government, which is its ultimate shareholder (through the state-owned Partnership Fund). The Group understands 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 to the Group's fixed capital projects (in particular, the Modernization Project and 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 on limiting dividend distribution under the Group's existing Eurobonds. Given the strong alignment of interests between the Group and Georgia as a whole, the former's management believes that the Government will continue to support its operations *(see subheading 3.2 Government Support).*

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 subsidize certain 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, the Parliament of Georgia adopted an amendment to the Railway Code, recognizing railway passenger transportation services as a public service obligation. Accordingly, the Company and the Government are expected to enter into a public service contract to compensate Passenger SBU losses starting from 2024 or earlier *(see subheading 7.2 Passenger transportations SBU).*

STRONG CUSTOMER RELATIONS

The Group's management believes that it has developed strong relationships with its key customers. The majority of its revenue is from freight forwarding companies, which tend to have a diversified customer base of freight owners, with constant demand for the transport of various types of cargo and thus broadening the diversity of the Group's indirect freight-owner customer base. The Group's management believes that its well-established relationships with freight forwarders can help to 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, Kulevi and Poti, all of which are served by the Group's rail lines. This increases visibility with regard to the need for the Group's freight transportation services in the future. The Group believes that its strong relationships with key customers, nurtured by its flexible pricing policy, is a key competitive advantage.

> "The Group's management believes that its well-established relationships with freight forwarders can help to foster long-term relationships between the Group and the owners of the cargo"

UNIQUE STRATEGIC LOCATION

The Group benefits from its strategic location in the Caucasus region. Specifically, its railway network represents 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, an international transportation network aimed at the 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 to be a key beneficiary of the growing trade between these regions *(see subheading 2.2 transport sector in Georgia).*

> "The Caucasus corridor is itself part of the TRACECA, an international transportation network aimed at the development of regional emerging market economies through the promotion of international trade flows"

The Group expects that its strategic location will enable it to capitalize on increasing trade between Europe and the Caspian Sea region and Central Asia, as well as the increasing demand for transportation of oil and oil products from Central Asia. For example, in 2021, the volumes of products from Turkmenistan transported by the Group increased by 68.1%, compared to 2020. Notwithstanding the recent impact of the COVID-19 pandemic, the Caucasus region, including Georgia, has experienced and is expected to continue experiencing strong GDP growth. The latter is an indicator of freight transportation volumes and the IMF forecasts Georgia's real GDP to grow by 5.8% in 2022. The Group's 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.

INTEGRATED FREIGHT AND TRANSPORTATION COMPANY

The Company is, by statute, Georgia's only vertically integrated railway company. The Group anticipates that its future growth will be well supported by its current and planned infrastructure and asset base. As of 31 December 2022, the Group's railway network comprised 1,408 km of track, which is 98% electrified, including a 527-km-long electrified mainline. During the three years ended 31 December 2022, the Group paid GEL 245.2 million to acquire property, plant and equipment, including rolling stock and to rehabilitate and modernize important infrastructure assets, including rail tracks, electric power supply lines and bridges and tunnels. This includes amounts spent on the Modernization Project.

The Group is undertaking the Modernization Project in order to increase further operational efficiencies. In particular, the Company has invested more than GEL 900 million in the Modernization Project, which is expected to improve transportation capacity by 78% and to reduce operating costs by 10% once completed (expected to be 2024) *(see 8.2 Ongoing projects in the Company)*.

As of 31 December 2022, the Group had 4,469 active (3,614 working and 7,417 serviceable) freight railcars, compared to 4,469 active (7,621 working and 8,601 serviceable) freight railcars as of 31 December 2021. The Group considers its railcar fleet to provide it with the capacity for future growth. Moreover, the Group has adopted a flexible policy with respect to 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 necessary. The Group's capital expenditure requirements are thus reduced by the fact that, as a transit railway, a large portion of the cargo transported by the Group uses third-party rolling stock. In the next few years, the Group expects that its principal investments will be aimed toward increasing its supply of rolling stock, given the expected increases in volumes to be transported. The Group conducts an annual renovation and repair program for its rolling stock, to ensure the availability of sufficient locomotives and railcars to service its ongoing operations.

STRONG MARGINS AND SOLID CASHFLOW GENERATION BACKED BY FOREIGN CURRENCY-DENOMINATED REVENUE

A significant portion of the Group's operating expenses is fixed and denominated in GEL, which has resulted in relatively stable operating expenditures in recent years, while revenues (primarily denominated in USD) have increased, resulting in an increased adjusted EBITDA margin. For the year ended 31 December 2022, the Group had adjusted EBITDA of GEL 284.2 million and an adjusted EBITDA margin of 42.11%, which is one of the highest in the region.

Its deregulated tariff policy allows the Group to react swiftly to market changes and fluctuating demand. In recent years, the Group's management has also made efforts to promote the containerization of the Caucasus corridor and increase the revenue derived from its logistics services. As a result, revenue from logistics services (which, for accounting purposes, is classified as part of the freight transportation revenues) have become a significant portion of the Group's total revenue, accounting for 18.2% of the Group's total 2022 revenue.

CONTINUOUS FOCUS ON SUSTAINABLE DEVELOPMENT

Since its incorporation in the mid-1990s, the Group's railway network has offered nearly fully electrified and environmentally friendly transport. It operates both freight and passenger transportation using electric locomotives and EMUs and uses diesel locomotives only for shunting operations and on non-electrified sidings. The Group is devoted to avoiding, minimizing and mitigating environmental harm in the course of its activities and to improving its overall environmental performance. It carries out effective measures to protect the environment, as reflected in the implementation of long-term plans and effective emergency response measures. The Group contributes to state environmental policy. In addition, the Group has a waste management plan for the proper utilization and disposal of 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 serves an important social function in Georgia by providing an affordable means of public transportation.

The Group is one of the largest employers in Georgia, with 12,378 employees as of 31 December 2022 and offers its employees a range of employee benefits and support systems.

The establishment of the Railway Transport College (RTC) in 2015 clearly indicated its devotion to providing a stable flow of young railroaders to meet the need for qualified human capital. The objectives of the RTC are to develop dual vocational education in the railway sector and to improve the railway labor market in pursuit of a better future for the Company *(see subheading 4.3 Social Responsibilities).*

With the support of the European Bank for Reconstruction and Development (EBRD), RTC and GR are initiating a new project aimed at advancing equal opportunities within Georgia's railway industry and enhancing the technical expertise of young individuals. The initiative includes the restructuring of existing programs and the introduction of new, short-term professional education courses at RTC. Furthermore, they will develop policies and procedures for human resource management that are sensitive to gender considerations.

The Group's management believes that the focus on above issues and other sustainable development matters will enhance its competitive advantage even further.

DIVERSIFIED CARGO PORTFOLIO

The Group transports both dry and liquid cargo. Types of the latter include ores, construction freight, grains, ferrous metals and scrap, chemicals and fertilizers, cement and sugar. Dry cargo is more diversified than liquid cargo among local, export, import and transit shipments. The Group's ownership of a range of wagon types also enables greater diversification. Specifically, the increased containerization of the corridor enhances 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.

The Group's management is seeking to increase its profitability by further diversifying the types of cargo that it transports internationally and within Georgia. In this respect, the Group has entered into and renewed contracts with other participants in the TRACECA. Moreover, 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 route serves for both container and wagon shipments.

11. OPPORTUNITY AND RISK

The Group's risk management policies were established to identify and analyze the risks it faces, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Moreover, risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Descriptions are given below of the risks and uncertainties that the Company believes are material, but these may not be the only ones faced by the Group. Further 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.

RISK MAP OF JSC GEORGIAN RAILWAY

MACROECONOMIC RISKS	POLITICAL, ECONOMIC and RELATED CONSIDERATIONS PANDEMIC
MARKET RISKS	ECONOMIC CONDITIONS IN THE CAUCASUS REGION AND GEORGIA ALTERNATIVE RAIL TRANSIT ROUTES LIMITED NUMBER OF CUSTOMERS REGIONAL TENSIONS AND DISRUPTIONS IN GEORGIA'S NEIGHBORING MARKETS CAPACITY OF REGIONAL RAIL OPERATORS OPERATIONS AT SEA PORTS AND TERMINALS
REGULATORY RISKS	HARMONIZATION WITH CERTAIN EU LEGISLATION STATE OWNERSHIP ENVIRONMENTAL AND HEALTH AND SAFETY REQUIREMENTS STRICTER LEGISLATION AND REGULATIONS
TECHNOLOGICAL AND INTERNAL CONTROLS	INFORMATION TECHNOLOGY SYSTEMS ACCOUNTING SYSTEMS AND INTERNAL CONTROLS
HUMAN RESOURCES	QUALIFIED AND KEY PERSONNEL
SPECIFIC RISKS	AGING INFRASTRUCTURE AND ROLLING STOCK LOSS-MAKING PASSENGER TRANSPORTATION BUSINESS A MAJOR ACCIDENT, DERAILMENT, OR OTHER INCIDENTS INSUFFICIENT SUPPLY AND RISE IN THE PRICE OF ROLLING STOCK DECLINE IN FREIGHT VOLUME AND TARIFF-SETTING SYSTEM DISRUPTION ON THE GROUP'S MAINLINE SELF-INSURANCE STRIKES, LOCKOUTS and LABOR LEGISLATION
FINANCIAL RISKS	CREDIT RISK LIQUIDITY RISK FOREIGN CURRENCY EXCHANGE RISK ENERGY COSTS

MACROECONOMIC RISKS

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 that country. Factors such as GDP growth, inflation, interest and currency exchange rates, as well as unemployment, personal income and corporate finance, can all have a material impact on customer demand for its products and services.

In recent years, Georgia's economy has been affected by numerous external shocks, including increasing inflation and currency devaluations in its trading partner countries, namely Russia, Azerbaijan and Armenia, as well as the war between Russia and Ukraine *(see 2.1 Country Profile)*. However, real GDP growth in Georgia hit 9.0% in 2022, according to the International Monetary Fund (IMF). Moreover, the IMF forecasts real GDP growth of 4.0% in 2023 and 5.2% in 2024. This improved economic picture has been fueled by increased foreign currency remittances from Georgians working abroad, higher net exports from Georgia and increased foreign direct investment *(FDI)* *(see 2.1 Country Profile)*.

Meanwhile, uncertain and volatile global and regional economic conditions could have substantial political and macroeconomic ramifications, including on the Georgian economy.

Furthermore, market turmoil and economic deterioration and political instability in Georgia may cause consumer spending to decline and have an adverse material effect on Georgia's growth prospects. Due to the high degree of dollarisation of the Georgian economy, the purchasing power of Georgian companies, including GR and its subsidiaries and individuals may be affected by currency fluctuations and, in particular, the depreciation of the GEL against the USD. However, the GEL appreciated against the USD by 13.3% as of 31 December 2022, compared to 31 December 2021 (the USD/GEL exchange rate moved to 2.69 from 3.10 in that time).

The policy of the National Bank of Georgia (NBG) is to allow the GEL to float and to limit foreign exchange interventions except to dampen excess exchange rate volatility. The ability of the Government and the NBG to limit any such volatility will depend on several political and economic factors, including the ability and willingness (on a policy level) of the NBG and the Government to control inflation, the availability of foreign currency reserves and FDI inflows. Any further depreciation or a devaluation of the GEL could adversely affect Georgia's economy. The NBG raised its benchmark interest rate to 11% on March 2022 (from 10.5%, on 8 December 2021) and remained steady until the end of the year. That rate was the highest since August 2008, implying that inflation had been above target for a long period of time. NBG lowered the Monetary Policy Rate to 10.5% starting from May 11, 2023 and to 10.25% starting from August 3.

Overall, 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 liberalize and improve the national economy.

ADVERSE IMPACT OF THE COVID-19 PANDEMIC

The COVID-19 pandemic, together with the Government measures aimed at mitigating the further spread of the coronavirus, such as the imposition of quarantines, business closures and travel restrictions, had and continue to have a significant adverse effect on the global economy and international financial markets, harming the Group's business activities, financial condition, its operations and its prospects.

The temporary restrictions imposed by the Government in 2020 and in 2021 on air and land transportation positively impacted the freight volumes transported by the Group whose freight transportation segment accounted for 92.7% of total revenue for the year ended 31 December 2021, compared to 95.3% for the year ended 31 December 2020. However, there can be no guarantee that, if another pandemic were to occur, the Group would not experience a decrease in demand for some of its freight products or that its revenue from freight transportation would not otherwise be adversely affected. During the COVID-19 pandemic, passenger transportation was suspended for certain periods.

There can also be no guarantee 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 as a result of any pandemic, which could, amongst other things, decrease the Group's revenue, increase its operating expenses such as staff costs and exacerbate its foreign exchange losses and finance costs due to any depreciation of the GEL against the USD, which, in turn, would impair the Group's ability to both comply with covenants under its financing arrangements and service its debts in general.

Furthermore, some of the Group's customers may be particularly vulnerable to the slowing macroeconomic conditions arising from the pandemic and may not be in a position to continue or resume their business as usual after a prolonged interruption.

MARKET RISKS

ECONOMIC CONDITIONS IN THE CAUCASUS REGION AND GEORGIA

The Group's railway network is a key segment of the TRACECA and a large portion of its revenue comes from freight transportation, which involves transporting goods through Georgia from or to neighboring countries. The Group's financial condition and the results of its operations are thus affected by the overall economic and political conditions in both Georgia and its neighboring countries.

Because nearly all of the Group's revenues are derived from freight transportation, its results are particularly sensitive to trade flows of commodities transported by the Group. Specifically, transit freight volumes are affected by trade between Europe and the TRACECA member states, while intra-territorial cargo volumes are affected by economic activity within Georgia.

Moreover, several countries in the region have in the recent past experienced or are currently experiencing political, social and economic instability or war. Such economic, social and political unrest could reduce transportation volumes along the TRACECA, in turn potentially reducing demand for the Group's services. Reduced demand for the Group's services could have an adverse material effect on the Group's business activities, financial conditions, operations and prospects.

To mitigate these risks, the Group keeps a diversified cargo portfolio, including liquid and dry products. Moreover, its ownership of a range of wagon types also allows for greater diversification. The Group's management regularly seeks to enhance diversification. In this respect, it has entered into and renewed contracts with other participants in the TRACECA. Indeed, 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 transportation *(see 10. Strengths)**.*

COMPETITION FROM ALTERNATIVE RAIL TRANSIT ROUTES

The Group faces substantial competition from alternative rail transit routes and providers of other modes of transportation, which has increased in recent years and may continue to increase in the future. Crucially, the Group's competitors may have more resources and better access to customers. The Freight SBU also faces competition from other modes of transport for its freight transportation services, including transport by oil pipeline and, in particular, by truck. In the past few 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 with regard to passenger transportation services from other forms of domestic transport, such as buses, minibuses, passenger automobiles and airplanes.

To minimize this risk, the Group has developed robust relationships with its key customers and freight forwarding companies. In particular, the Company's modern technologies and flexible tariff policy allow it to remain competitive against alternative rail transit routes.

NUMBER OF CUSTOMERS

The Group has well-established ties with several large customers for its freight services. In addition, it has historically earned and expects to continue to earn, a significant portion of its revenues from a small group of large customers. Several factors, including pricing and market demand for the Group's services, could cause the loss of customers. 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. It does not have long-term contracts with the ultimate owners whose cargo is aggregated by the freight forwarders. As a result, there can be no certainty that cargo owners will continue to use the services of the freight forwarders with which the Group has established relationships *(see 7.1 Freight SBU)*.

Nonetheless, it should be emphasized that 60% of the volume transported over the last five years has come from regular customers, indicating a high level of stability of the Group's customer list.

REGIONAL TENSIONS AND DISRUPTIONS IN GEORGIA'S NEIGHBORING MARKETS

Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two occupied regions, Abkhazia and Tskhinvali/South Ossetia. The growth of the Georgian economy is partially linked to that of the economies of its neighbors 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 17.5%, 18.1% and 17.6% of total imports in 2020, 2021 and 2022 (preliminary data), respectively, according to figures published by Geostat. Meanwhile, Azerbaijan and Armenia accounted for 13.2% and 5.6% of Georgia's total exports, respectively in 2020, for 12.5% and 6.0%, respectively, in 2021 and for 12.0% and 10.5%, respectively, in 2022 (according to preliminary data provided by Geostat). At the same time, Russia accounted for approximately 13.2%, 14.4% and 11.7% of Georgia's total exports and approximately 11.0%, 10.1% and 13.6% of Georgia's total imports in 2020, 2021 and 2022 (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 neighbors. In addition, Russia imposed sanctions on Georgia in 2006 and armed conflict between the countries broke out 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 recognized 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 visa liberalization for Georgians exacerbated tensions between Georgia and Russia.

Meanwhile, fraught geopolitical relations between Russia and Ukraine including the ongoing war have caused various changes in the region. Significant sanctions have been imposed by the United States and the EU against Russia, while there is great uncertainty as to how and when the war between Russia and Ukraine will be resolved.

Elsewhere, the notable civil unrest which took place in Turkey during 2016 placed significant doubt over Turkey's ability to function as a stable regional trading partner for Georgia. Later, 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 mobilized their armies. Fighting lasted several weeks and affected populated areas. 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, may also have an impact upon Georgia, including on its economy, including on companies active in the region, such as the Group.

An increase in regional tensions and disruptions in Georgia's neighboring markets could have an adverse material effect on the Group in two key respects: there may be a reduction in demand for the transport of goods to neighboring 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 an adverse material effect on the Georgian economy, which as a Group primarily operating in Georgia, could, in turn, have an adverse material effect on the business environment in which the Group operates and, accordingly, on its business activities, financial condition, operations and prospects.

DECISIONS AND LIMITATIONS IN THE CAPACITY OF OTHER REGIONAL RAIL OPERATORS

The Group's mainline rail network comprises a key segment of the TRACECA and, together with Azerbaijan Railway, forms the Caucasus corridor. As the rail networks of TRACECA members are interlinked, the capacity or other limitations of certain rail networks, particularly Azerbaijan Railway, can constrain the Group's operations. Transit represents a significant portion of the Group's transportation volumes, accounting for 58.6% and 55.5% of its total transportation volumes in the years ended 31 December 2022 and 2021, respectively.

Operational decisions of other regional rail networks resulting in incapacity or other limitations could have an adverse material effect on the Group's business activities, financial condition, operations and prospects.

To prevent such developments, the Group is permanently monitoring the condition and utilization level of its railcars. In addition, 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 railcars on freight routes throughout the rail networks of the member states.

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 vulnerable 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.

Georgian sea ports are an essential part of the national logistics chain. As a result, numerous significant cargo owners invest in port infrastructure in Georgia on a regular basis, particularly the ports of Batumi, Kulevi and Poti, which are all served by the Group's rail lines *(see 8.3 Ongoing Projects in the Corridor)*.

REGULATORY RISKS

HARMONIZATION WITH CERTAIN EU LEGISLATION

In June 2014, the Government signed the Association Agreement with the EU, which entered into force on 1 July 2016. In addition, Georgia announced in January 2021 its intention to apply for EU membership in 2024, brought forward to 2022 in the wake of the Russia-Ukraine War. As a result, the Government is in the process of harmonizing certain business and other standards in Georgia with those of the EU to begin the process of integrating Georgia into the EU. Georgia has also previously announced its intention to join NATO and contributes to NATO-led operations as well as co-operating with NATO-led reform efforts to further its goal of Euro-Atlantic integration.

Georgia has undertaken several commitments under the Association Agreement. Of note, the directives and regulations defined in the Association Agreement provide the framework for the creation of common rules for 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 pledged to implement certain provisions 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"). This directive sets rules applicable to the management of railway infrastructure and rail transport activities of railway undertakings. Potentially, at a later date, a new holding company may be established and the SBUs separated into different wholly owned subsidiaries.

If the Group becomes subject to increased regulation as a result of such EU harmonization efforts, whether through tariff setting, licensing, required restructuring, or otherwise, the Group would likely need to change how it operates its business.

At this point, the present regulations serve the Company's best interests, work on which has already begun. For example, to comply with Directive 34, the Group in 2022 started preparing and publishing independent financial reports for each of the Company's SBUs. These reports are to be published annually on the Company's website.

GR IS WHOLLY OWNED BY THE STATE

The Company is wholly owned by the state, i.e. the Republic of Georgia. As a result of the Company's ownership structure, the state, as the sole shareholder, has the power to replace members of the Supervisory Board and elect new members, to influence the Group's operational and financial decisions and exercise control over the outcome of all matters to be decided by shareholder vote. As a consequence of its role as controlling shareholder, the state is 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 obtain approval from the General Meeting of Shareholders (GMS) for matters such as signing off its annual accounts, borrowings in excess of 1.0% of the Company's authorized capital and capital-related matters (such as dividend payments) *(see 1.3 Corporate Governance Report)*.

As a state-owned entity, the Company is subject to 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 with respect to Georgia's overall economy and, in particular to its transportation sector, when important actions are to be undertaken by the Group, it coordinates closely with the Government, even in areas

of its business that do not formally require the Government approval or consent. The most important such actions are discussed and vetted by senior government officials. Even in circumstances where the Company may consider its actions to not warrant prior discussion with the Government, the state may overturn certain decisions of the Supervisory Board by passing a shareholder resolution.
In addition, the state may require the Group to engage in business practices that could materially affect the latter's ability to operate on a commercial basis or in a way that is inconsistent with the best interests of the Company.

ENVIRONMENTAL AND HEALTH AND SAFETY LAWS AND REGULATIONS

The Group is subject to various environmental protection and occupational health and safety laws and regulations relating to the protection of the environment and 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 in the event of the violation of such standards. In certain circumstances, it may 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 arising from 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 all have an adverse material effect.

In Georgia, risk assessment is regulated by the government-approved workplace risk assessment rule - "Minister of IDPs from the occupied territories, labour, health and social affairs of Georgia , Order No. 01-15/N, January 30, 2020." On the other hand, environmental risk assessment is carried out during the Environmental Impact Assessment (EIA) process, which monitors the impact of a project on the environment. At this point, there have been no official sanctions and/or penalties imposed against the Group.
The Group regularly conducts risk assessment procedures.

The main purpose of risk assessment in the workplace is to identify the potential dangers and risks associated with the working environment and to develop procedures for mitigating these risks. Moreover, the risk assessment process is based on the recognized methodology of the International Labor Organization (ILO) and includes the identification of hazards, analysis of potential solutions and evaluation of the efficacy of those solutions.

Mitigation actions performed by the Group include the following:

- *Employee awareness trainings – in waste management, in first aid issues, in responding to emergency situations, in working with oily equipment, etc.;*
- *Monitoring of various components of the environment - installing geophones and hydrophones on groundwater wells to prevent impacts on groundwater;*
- *24/7 geological monitoring - to prevent geoengineering risks;*
- *Biodiversity monitoring - to reduce and/or prevent damage to various components of biodiversity;*
- *Technical inspection of heavy equipment and provision of periodic certification of lifting mechanisms; and*

LEGISLATIVE, REGULATORY, TAX AND JUDICIAL CONSIDERATIONS

Georgia is still developing its legal framework to ensure the proper functioning of a market-based economy. Indeed, 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 the establishment of the Deep and Comprehensive Free Trade Area (DCFTA) with the EU, Georgia has been required to update its legal setup to conform to EU trade-related and sector-specific legislation. Accordingly, it has been gradually harmonizing its trade legislation in line with EU standards and practices. The rapid pace of change in the Georgian legal system put the quality and enforceability of laws in some doubt, with some ambiguities and inconsistencies detected already in their application.

Tax laws have not been in force in Georgia for a significant period of time compared to more developed market economies. This creates challenges when it comes to compliance, to the extent that such laws are often unclear or subject to different interpretations. Moreover, tax law enforcement can also be unpredictable. Indeed, Georgian tax laws are subject to frequent amendments, which can result in unusual complexities for the Group and its business in general. On 1 January 2011, a new Tax Code of Georgia was adopted. However, differing opinions emerged regarding the interpretation of various provisions of it, both among and within Governmental ministries and organizations, including the tax authorities. This created uncertainties, inconsistencies and areas of conflict. Earlier, in December 2010, the Constitution of Georgia 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 reflecting the same constitutional guarantee. The Organic Law has been in effect since 31 December 2013. However, in October 2017, the Constitution was further amended to retract the provision prohibiting the introduction of new taxes and tax increases along with a guarantee that the prohibition would remain in place until at least December 2030.

In May 2016, the Parliament adopted changes to the Tax Code of Georgia related to corporate profit tax, whereby an enterprise is not liable for the payment of profit tax until the enterprise distributes its profits to shareholders or incurs such costs or supplies goods/services or makes payments that are subject to corporate profit tax.

As tax legislation in Georgia will continue to evolve, there can be no certainty that new taxes and duties or new tax rates will not be introduced at some point in the future, or that any future tax legislation will not have an adverse material effect on the Group's business, prospects, financial condition, cashflow, or operations.

TECHNOLOGICAL AND INTERNAL CONTROLS

INFORMATION TECHNOLOGY SYSTEMS

The Group's business is dependent on the successful and uninterrupted functioning of its IT systems. Specifically, it relies on these systems for complex logistical, dispatching and tracking tasks which are critical to its customers' transportation needs and central to the Group's business in general. The Group's information management systems do not encompass offsite 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, as well as computer viruses and other internal or external events. If any such events occur in the future, they could result in the loss of material data and the disruption of the Group's automated systems, which could have an adverse material effect on the Group's operations. Such operations may also be vulnerable to system failures of other companies with whom such operations are closely linked, such as utility providers and telecommunication service providers.

System-related problems could lead to increased expenses and decreased revenues, which, in turn, could have an adverse material effect on the Group's business, operations, financial condition and prospects. Failures of or interruptions to the Group's IT systems may compromise the Group's ability to provide value-added transportation, logistics and tracking services, as well as resulting in costly delays in the shipment of customer cargo. It could also lead to a significant loss of customer business, which may have an adverse material effect on the Group's business.

THE GROUP'S ACCOUNTING SYSTEMS AND INTERNAL CONTROLS

The Group's management information system, financial reporting function and system of internal controls relating to the preparation of IFRS financial statements may not be fully developed in certain respects. Pertinently, it may not provide management with sufficiently detailed or accurate information compared to rail companies in more developed markets. Crucially, there is a shortage of qualified personnel with IFRS accounting experience in Georgia. However, the Group's management believes that its staff are sufficiently equipped for the the Company to comply with its obligations as a listed company.

Transactions within accounting operations are meticulously documented through a two-tiered control system. The lower level is responsible for generating approximately 99% of all transactions, while managerial oversight is focused on validating debit and credit transactions.

The Accounting Department comprises nine sectors, collectively overseeing all of the company's transactions. Each sector is assigned a monthly instruction/checklist for the respective accounts they are responsible for, to be completed by the sector head.

Following the sector heads, the deputy chief accountant of the company reviews the aforementioned checklists and oversees the financial statements prepared by the consolidation sector.

Annually, an external audit is carried out by a top-tier auditing firm, selected through a competitive tender process. The company's financial director oversees this external audit procedure. Upon contract signing, a work plan and a document checklist are established, with the chief accountant responsible for systematically supplying the auditors with the requested information at the commencement of the audit. Simultaneously, the external auditor compiles a management letter and presents key findings discovered during the audit within one month following its conclusion, encompassing both consolidated and individual aspects. Additionally, a presentation is made to the company's Supervisory Board, summarizing the audit's outcomes.

HUMAN RESOURCES

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 guarantee, however, that these individuals will remain with the Group for long. The Group's ability to achieve its business objectives hinges, to a large degree, on the services of its senior management team. The loss or prolonged unavailability of these personnel could have an adverse material effect on the Group's business, financial condition, operations and prospects. Meanwhile, the Group also does not have "key-man" insurance in place with respect to its senior managers.

Competition in Georgia for suitably qualified and experienced executives and other personnel is intense. Therefore, 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 higher wage demands.

The Group's management introduced a 20% wage increase in 2022, implemented as of January 2023.

SPECIFIC RISKS

AGING INFRASTRUCTURE AND ROLLING STOCK

The Group owns and operates various freight and passenger transportation assets, including locomotives, railcars, EMUs and other equipment. A substantial portion of the infrastructure owned and operated by the Group, including its track network and related engineering technology (e.g. signaling and rolling stock maintenance depots), dates back to the Soviet era. Although the condition of this infrastructure is sufficient for the Group's current and planned railway operations, it is carrying out extensive maintenance and improvement works on much of its network.

The Group is continuing to carry out refurbishment works and as its rolling stock and related assets reach the end of their useful operating life (which has been extended by capital repairs), they will soon require replacement (see 5. The Group's Infrastructure).

The Group has already made and intends to continue making, substantial investments to modernize its infrastructure, including through the Modernization Project. Its cashflow was used in the acquisition of property, plant and equipment (Capital Expenditures) amounting to GEL 135.0 million and GEL 77.2 million in the years ended 31 December 2022 and 2021 , respectively.

PASSENGER BUSINESS

One of the Group's medium-term strategic objectives is to reduce the expenses and increase the revenue of the Passenger SBU by adding to the number of passengers and yielding greater revenue per passenger. Historically, however, the Group's passenger transportation services have generated net losses. The Passenger SBU reported a loss before infrastructure costs, net impairment, interest costs and income tax of GEL 15.5 million in 2022, compared to losses of GEL 21.3 million and GEL 24.8 million in 2021 and 2020, respectively. It cannot be assumed that the Group's planned investment in new rolling stock to increase speed, decrease maintenance expenses and improve passenger comfort will enable it to raise passenger transportation tariffs or generate a profit from its passenger rail operations. Traditionally, passenger tariffs have been kept relatively low due to the high social importance attached by the Government to the Group's provision of affordable passenger transportation services. With that in mind, the Group may be constrained in removing or reducing services on certain passenger routes, even where such routes are not profitable.

Following 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 incurred by the Passenger SBU by at least 2024. This contract is expected to set out the conditions of an agreement on costs between the Company and the Government or relevant competent authority, as well as the level of compensation to be granted to the Company for operating non-profitable passenger routes.

MAJOR ACCIDENTS, DERAILMENT, OR OTHER INCIDENTS

The Group owns and operates rolling stock, tracks, stations and other infrastructure comprising Georgia's entire national rail network. Therefore, its infrastructure and transportation operations may be adversely affected by many factors including accidents, derailments, the breakdown or failure of equipment or processes, or natural disasters. In particular, 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. This in turn 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 carry substantial environmental remediation costs. Negative publicity concerning any accident or derailment, even if caused by rolling stock not owned by the Group, could also have an adverse material effect on the Group's reputation and the attractiveness of its services in the future.

The Group is largely "self-insured," meaning that it does not carry external liability insurance or business interruption insurance. A significant event for which it is not insured would burden the Group with possibly substantial additional expenses *(See 5.2 Insurance, safety and failures)*.

The Group did not experience any freight train derailments or no employee fatalities in 2022.

INSUFFICIENT SUPPLY OR INCREASES IN THE PRICE OF ROLLING STOCK

The number of quality rolling stock manufacturers in Georgia and the region is relatively limited and their output is limited. In addition, the capacity of these manufacturers' production facilities to handle different types of railcar is limited. Furthermore, a significant proportion of the rolling stock fleet operated by the Group is aging and may require replacement. In this regard, even though the Group conducts an annual renovation and repair program with respect to its rolling stock, with the aim of ensuring the availability of sufficient locomotives and railcars to service its ongoing operations, it has experienced occasional shortages rolling stock shortages. The Group currently uses private rolling stock for about 50% of its transportation services. Even though the Group has not, in recent years, experienced any shortage in the availability of private rolling stock, it is not clear whether the Group will continue to be able to source sufficient supplies of new rolling stock for its fleet. It is also not certain whether it will be able to rent private rolling stock on commercially acceptable terms, or at all. Failure to maintain or procure the requisite amount of rolling stock at affordable expense could have an adverse material effect on the Group's business activities, financial condition, operations and prospects.

POTENTIAL IMPACT OF A DECLINE IN FREIGHT VOLUMES

The Group frequently modifies its tariffs in accordance with market conditions. As the Group is not currently subject to any statutory or regulatory restrictions in this regard, it may increase the tariffs it sets with respect to freight operations in order to offset any declines in freight volumes. However, such tariff increases may not fully compensate such decreases. In addition, the Group's ability to offset lower volumes by increasing prices is limited by its need to remain competitive with alternative transit routes, including oil pipelines. There can be no guarantee that the Group's freight volumes will continue to grow as they have in previous years. Similarly, if volumes decrease, it cannot be assumed that the Group will be able to increase its freight tariffs to offset any such decreases. Moreover, any resulting declines in revenue could have an adverse material effect on the Group's business, financial condition, operations and prospects.

POTENTIAL DISRUPTION ON THE GROUP'S MAINLINE

In the course of operating its business and particularly freight transportation, the Group depends on its ability to provide a continuous service along the Group's rail tracks. The Group's main line is 1408-km-long and fully electrified (of which 293 km is double-track line). The electricity supply along this route runs parallel with the Group's rail track. In addition, an important section of this line is single-track, running through a gorge in mountainous terrain (known as the gorge section). The Group's ability to provide services along this mainline could be affected by various natural disasters or other unforeseen events such as flooding, disruption of the electricity supply, fires, sabotage and human error. The gorge section is also subject to the additional risk of falling rocks and other geological incidents in the mountains surrounding the rail track, which could block the track, interrupt the electricity supply, or otherwise prevent the Group from running its services along this line. Any disruption or lasting damage caused to the Group's rail track, particularly its mainline route, could have an adverse material effect on its business, financial condition, operations and prospects.

To eliminate the difficulties, present on the gorge section, the Group launched the Modernization Project in 2010, which is expected to be completed by the end of 2024. The aim of the project is to improve the mainline, as well as debottlenecking the gorge section. Moreover, the completion of the aforementioned project will reduce the track gradient in the gorge section and substantially lower vulnerability to natural disasters.

SELF-INSURANCE

The Group understands that the insurance available to it would be prohibitively expensive and, as such, does not believe it would be cost-effective to purchase insurance 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 with regard to property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Nevertheless, the Group's customers typically purchase insurance to cover cargo transported by the Group. Furthermore, it also does not take out insurance for risks related to terrorism or war. Relatedly, it cannot be assumed that losses of that nature will not increase in the future or that insurance coverage (if any) acquired by the Group may be sufficient to cover its exposures. The Group's failure to acquire business interruption insurance also means that if it suffers an interruption hindering its ability to operate, its income would be reduced and its capacity to pay its obligations would be compromised.

The insurance industry in Georgia is not yet fully developed and many forms of insurance protection common in other parts of the world are not available there. Moreover, based on statistics relating to past failures on the railway, the Group does not believe the insurance available to it would be cost-effective.

Nonetheless, the Group keeps a close eye on the insurance market and potential risks on a regular basis. Accordingly, based on a cost-benefit analysis, the Group may decide to purchase insurance coverage in the future (see 5.2 Insurance, safety and failures).

STRIKES, LOCKOUTS AND LABOR LEGISLATION

The company's business interests may be adversely affected by strikes, lockouts and plenty of the labor controversies.

To the extent that the company is considered as the largest corporate employer in Georgia, (currently-12,378 employees), the above-mentioned activities associate with the commercial risks and may trigger paralyzing of the business activities.

For instance, 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, even though the NNLE Union was not granted permission to hold a large-scale rally.

The strike continued for several days, it didn't cause any material influence on the company's operations, however, in spite of having no destructive outcomes, in case of escalation of the situation and/or continuation of the strike, it was possible that the company would face to the irreparable damages.

Therefore, so as to eradicate the business risks, the company makes the capable and effective actions to impede strikes, lockouts and labor disputes.

To be precise, in 2019, a collective labor dispute was initiated against the employer 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.
Duration of the referred agreement was continued and is incumbent until July 2023.
To point out, since 2019, the company has enhanced the labor circumstances, provided with increasing the amount of remuneration, furthermore the company prepares a model of incentives.
In terms of reducing strikes, lockouts and labor disputes, it is worth noting that the company developed a mechanism for submitting claims related to the working conditions of employees – „Rules for receiving and considering complaints in the Georgian Railways". In addition, at the current stage, the company works on the draft collective agreement of NNLE "New Railway Trade Union", which provides certain guarantees in terms of diminishing of strikes, lockouts and labor disputes.
*To sum up, the risk reduction measures have substantial*ly improved the statistics of the company's labor disputes and nowadays, labor disputes have been reduced to a minimum.

CREDIT RISK

The Group's exposure to credit risk is heavily influenced by the individual characteristics of each customer. However, the Group's management also takes into consideration 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 the given customer operates.

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

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

LIQUIDITY RISK

Liquidity risk refers to a situation where the Group encounters difficulty in meeting the obligations associated with its financial liabilities settled by delivering cash or other financial assets. 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 its reputation. The Group aims to have sufficient cash as required 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 a pandemic.

FOREIGN CURRENCY EXCHANGE RISK

The Group's reporting currency is the GEL. There is however a disparity here in the denomination of the Group's revenues, which are predominantly denominated in foreign currencies and expenses, which are largely denominated in GEL. For example and to a material extent, the Group enters into transactions denominated in USD and, to a lesser extent, CHF and carries a portion of its liabilities and assets in such currencies and the remainder in GEL. Therefore, variations between the rates of exchange among the USD, CHF and GEL have and will continue to have some effect on the Group's operations.

The Group quotes its freight tariffs in USD. In addition, a significant proportion of the Group's capital expenditures are also denominated in USD while some of its operating expenses, including rental charges for railcars of other national railway operators, continue to be denominated in CHF. In addition, as of 31 December 2022, the Group's outstanding current and non-current loans and borrowings, which stood at GEL 1,392.4 million, were denominated in USD. The Group also incurs a portion of its trade payables in USD.

ENERGY COST

Costs related to energy and particularly electricity constitute a significant portion of the Group's operating expenses, making these sensitive to changes in energy prices. Meanwhile, 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 98% of the Group's railway network is electrified. Moreover, the Group also uses diesel-powered shunting locomotives. Significant increases in the cost of electricity or diesel fuel, including from tightened regulation of or higher taxation on GHG emissions, could adversely affect the Group's operating expenses and results.

In September 2011, the Company agreed to the purchase and sale of electricity with JSC EnergoPro Georgia, which fixed tariffs for electricity for 10 years (hereinafter, the Electricity Agreement), securing a price for more than 90% of the Group's electricity needs. The Electricity Agreement expired in September 2021 however and the Group now purchases electricity on the open market, according 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.

As a result, electricity costs have increased by 42.3 % in 2022, compared to 2021. Thus, any increase in electricity tariffs or other energy prices could have an adverse material effect on the Group's business, financial condition, operations and prospects.

Market participants are still learning the new “rules of the game” and tend to avoid long-term contracts. Once the situation has stabilized, the Company expects to have long-term and stable tariffs in place.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FY 2022 AND Q4 2022

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

REVENUE
('000 GEL)

Q4 2022	FY 2022
183,619	**674,773**
+32.2% from Q4 2021 +2.0% from Q3 2022	+23.2% from FY 2021

RESULTS FROM OPERATING ACTIVITIES
('000 GEL)

Q4 2022	FY 2022
38,865	**218,417**
-0.8% from Q4 2021 -49.4% from Q3 2022	+32.1% from FY 2021

ADJUSTED EBITDA
('000 GEL)

Q4 2022	FY 2022
65,798	**284,162**
+39.8% from Q4 2021 -23.7% from Q3 2022	+25.4% from FY 2021

ADJUSTED EBITDA MARGIN

Q4 2022	FY 2022
35.83%	**42.11%**
+1.9 points from Q4 2021 -12.0 points from Q3 2022	+0.8 points from FY 2021

NET CASH INVESTMENT IN PP&E
('000 GEL)

Q4 2022	FY 2022
61,094	**127,585**
+25.5% from Q4 2021 +84.5% from Q3 2022	+71.8% from FY 2021

NET DEBT TO ADJUSTED EBITDA

31 Dec 2022	31 Dec 2021
3.93	**5.88**
5.19 as at 30 September 2022	

TONS
('000)

Q4 2022	FY 2022
3,871	**14,773**
+25.7% from Q4 2021 -5.3% from Q3 2022	+21.8% from FY 2021

TKM
('million)

Q4 2022	FY 2022
1,059	**4,164**
+26.7% from Q4 2021 -5.7% from Q3 2022	+26.5% from FY 2021

NUMBER OF PASSENGERS
('000)

Q4 2022	FY 2022
360	**1,605**
+66.1% from Q4 2021 +58.0% from Q3 2022	+96.6% from FY 2021

PASSENGER-KILOMETERS
('million)

Q4 2022	FY 2022
126	**403**
+80.9% from Q4 2021 -21.2% from Q3 2022	+47.4% from FY 2021

MAIN DEVELOPMENTS IN 2022

- Freight volume increased by 21.8%;
- In February 2023, Fitch affirmed the Company's long-term outlook to "positive" from "stable" and verified its "BB-" rating, while in December 2022 "S&P" affirmed its "BB-" rating and downgraded its outlook to "stable" from "positive."

I. PROFIT OR LOSS STATEMENT

PROFIT AND LOSS STATEMENT

For the year ended 31 December	TOTAL		CHANGE		
GEL '000	2022	2021	%	% constant currency	Absolute
Revenue	674,773	547,868	*23.2%*	*36.1%*	*126,905*
Other income	15,825	8,951	*76.8%*	*95.3%*	*6,874*
Impairment loss on trade receivables	840	-2,791	*-130.1%*	*-133.2%*	*3,631*
Employee benefits expense	-197,708	-180,701	*9.4%*	*20.9%*	*-17,006*
Depreciation and amortization	-66,585	-58,397	*14.0%*	*26.0%*	*-8,188*
Electricity, consumables and maintenance costs	-80,207	-54,567	*47.0%*	*62.4%*	*-25,640*
Other expenses	-128,521	-94,975	*35.3%*	*49.5%*	*-33,547*
Result from operating activities	218,417	165,388	*32.1%*	*45.9%*	*53,029*
Net finance income/loss	178,908	-112,177	*-259.5%*	*-276.2%*	*291,085*
Profit before income tax	397,325	53,211	*646.7%*	*724.9%*	*344,115*
Income tax expense	-644	-500	*28.8%*	*42.3%*	*-145*
Profit and total comprehensive income	396,681	52,711	*652.6%*	*731.4%*	*343,970*
Adjusted EBITDA	284,162	226,576	*42.3%*	*38.5%*	*57,586*
Adjusted EBITDA Margin	42.1%	41.36%	*NA*	*NA*	*0.8%*

**Adjusted EBITDA is determined by the same method as EBITDA of previous periods was calculated.*

PROFIT AND LOSS STATEMENT (QUARTERLY)

For the period ended

GEL '000	Q4 2022	Q4 2021	*y-o-y*	Q3 2022	*q-o-q*
Revenue	183,619	138,917	*32.2%*	180,052	*2.0%*
Other income**	-2,664	3,988	*-166.8%*	7,841	*-134.0%*
Impairment loss on trade receivables	-1,796	-1,893	*-5.1%*	-1,062	*69.1%*
Employee benefits expense	-53,505	-53,575	*-0.1%*	-46,822	*14.3%*
Depreciation and amortization	-25,137	-6,011	*318.2%*	-8,271	*203.9%*
Electricity, consumables and maintenance costs	-22,122	-18,304	*20.9%*	-22,301	*-0.8%*
Other expenses	-39,530	-23,952	*65.0%*	-32,585	*21.3%*
Result from operating activities	38,865	39,170	*-0.8%*	76,852	*-49.4%*
Net finance income/loss	79,423	2,791	*2,745.7%*	40,403	*96.6%*
Profit before income tax	118,288	41,962	*181.9%*	117,255	*0.9%*
Income tax expense	-184	-109	*68.8%*	-58	*217.2%*
Profit and total comprehensive income	118,104	41,853	*182.2%*	117,197	*0.8%*
*Adjusted EBITDA**	65,798	47,072	*39.8%*	86,185	*-23.7%*
Adjusted EBITDA Margin	35.83%	33.89%	*NA*	47.87%	*NA*

**Adjusted EBITDA is determined by the same method as EBITDA of previous periods was calculated.*

***As a consequence of accounting adjustments in the classification of operations, the Q4 of 2022 resulted in a negative revenue being recorded within the category of other income.*

1.1 REVENUE

Most of the Group's revenue (about 58% in 2022) is derived from freight transportation. Thus, its results are particularly sensitive to cargo flows. These mainly comprise transit shipments, which accounted for around 71% of freight transportation revenue in 2022. A substantial proportion of transit transportation comes from trade between Europe and Central Asia.

REVENUE BREAKDOWN

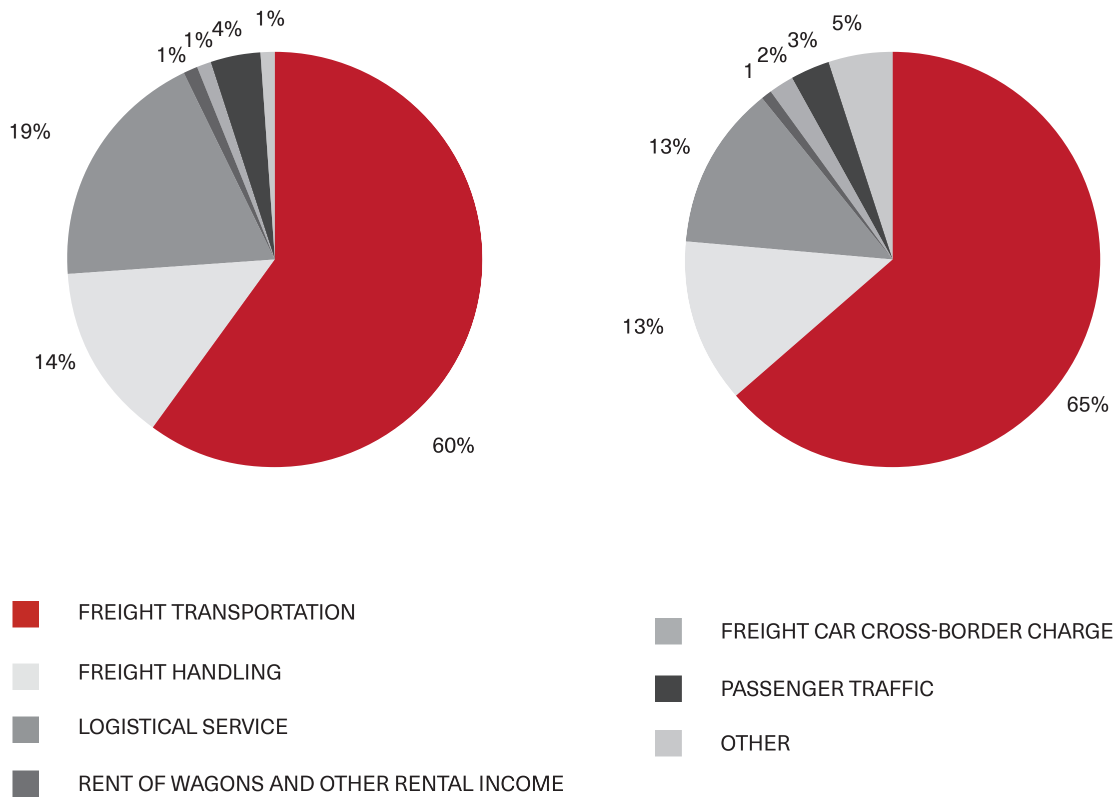
For the year ended 31 December	TOTAL		CHANGE		
GEL '000	**2022**	**2021**	**%**	***% constant currency***	***Absolute***
Freight transportation	388,446	353,929	*9.8%*	*21.2%*	*34,516*
Freight handling	92,180	69,865	*31.9%*	*45.8%*	*22,314*
Logistical service	123,071	69,371	*77.4%*	*96.0%*	*53,701*
Rent of wagons and other rental income	4,072	4,647	*-12.4%*	*-3.2%*	*-575*
Freight car cross-border charge	9,703	9,910	*-2.1%*	*8.2%*	*-208*
Passenger traffic	27,423	14,808	*85.2%*	*104.6%*	*12,616*
Other	29,878	25,337	*17.9%*	*30.3%*	*4,541*
Revenue	674,773	547,868	*23.2%*	*36.1%*	*126,905*
Other income	15,825	8,951	*76.8%*	*95.3%*	*6,874*

REVENUE BREAKDOWN (QUARTERLY)

For the period ended GEL '000	**Q4 2022**	**Q4 2021**	***y-o-y***	**Q3 2022**	***q-o-q***
Freight transportation	93,709	89,950	*4.2%*	103,581	*-9.5%*
Freight handling	25,957	18,198	*42.6%*	26,022	*-0.2%*
Logistical service	29,816	19,791	*50.7%*	32,015	*-6.9%*
Rent of wagons and other rental income	-334	797	*-141.9%*	1,516	*-122.0%*
Freight car cross-border charge	4,118	2,432	*69.3%*	1,942	*112.0%*
Passenger traffic	7,601	3,505	*116.9%*	9,980	*-23.8%*
Other	22,750	4,244	*436.1%*	4,995	*355.5%*
Revenue	183,619	138,917	*32.2%*	180,052	*2.0%*
Other income	-2,664	3,988	*-166.8%*	7,841	*-134.0%*

** As a consequence of accounting adjustments in the classification of operations, the Q4 of 2022 resulted in a negative revenue being recorded within the category of Rent of wagons and other rental income and other income.*

The following charts present the revenue breakdown for the years of 2022 and 2021:

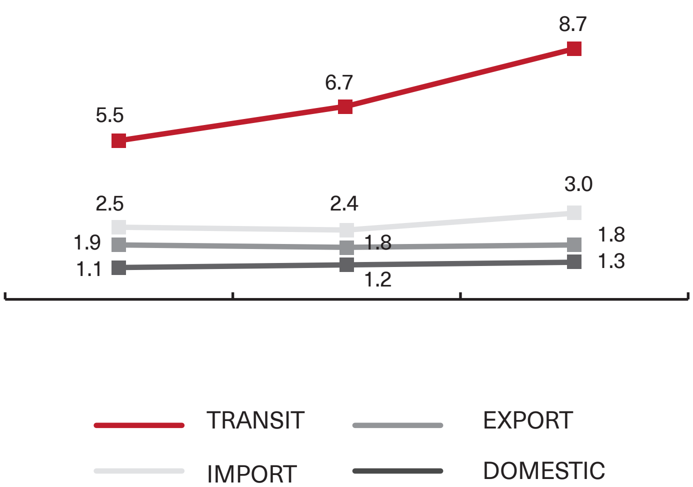


FREIGHT TRANSPORTATION

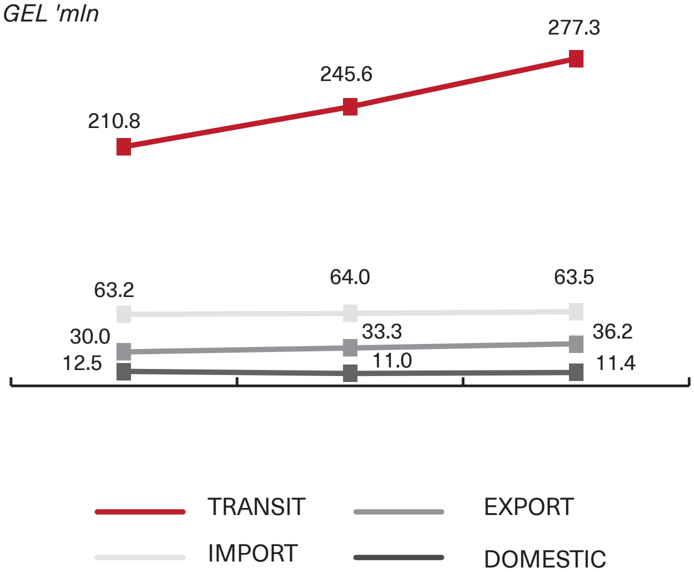
The Group's freight transportation consists of domestic, import, export and transit transportation. In 2022, the contributions of each type were about 13%, 20%, 9% and 59%, respectively. Meanwhile, 99.9% of revenue from freight transportation is denominated in USD.

The following charts present the Group's freight transportation breakdown by purpose:

Mln tons



GEL 'mln



Transportation revenue is determined by multiple factors, some of which are listed below:

Transportation volume – Expressed in tons.

Transportation turnover – Computed by multiplying the transported tons by the distance covered and expressed in ton-kilometers.

Revenue per ton-kilometer – This refers to the average revenue that the Group receives per ton-kilometer and this parameter varies according to the cargo type mix and the transportation purpose mix.

GEL/USD exchange rate – The majority of the Group's tariffs are denominated in USD. Thus, changes in the USD/GEL exchange rate can have a significant impact on the Group's profitability, as it reports its revenue in GEL and most of its operating expenses are denominated in GEL.

AVERAGE RATES

	Q4 2022	Q4 2021	*y-o-y*	Q3 2022	*q-o-q*	2022	2021	*y-o-y*
USD	2.73	3.13	*-12.5%*	2.82	*-3.2%*	2.92	3.22	*-9.5%*
CHF	2.83	3.39	*-16.4%*	2.92	*-3.1%*	3.06	3.52	*-13.2%*

REPORTING DATE SPOT RATES

	31-Dec-22	31-Dec-21	*% Change*	30-Sep-22	*% Change*	31-Dec-20
USD	2.70	3.10	*-12.8%*	2.84	*-4.7%*	3.28
CHF	2.93	3.38	*-13.2%*	2.89	*1.5%*	3.71

TRANSPORTATION BY DIRECTIONS

IMPORT TRANSPORTATION

Import transportation here represents the movement of cargo from foreign countries to Georgia. The share of imported cargo in total transported volume was around 20% in both 2022, as well as in 2021.

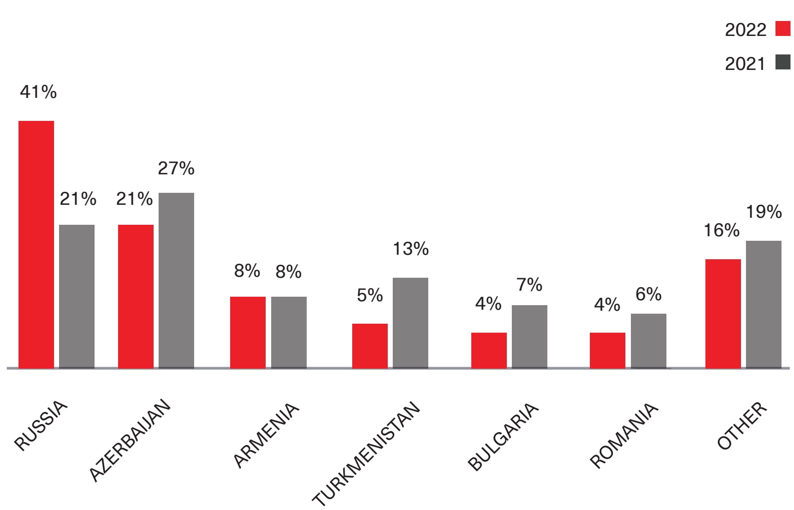
	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	% constant currency
Revenue (million GEL)	63.5	64.0	*-0.8%*	*9.6%*
Freight Volume (million tons)	3.0	2.4	*23.2%*	*NA*
Freight Turnover (million tkm)	453.6	403.2	*12.5%*	*NA*
Revenue / tkm (in Tetri)	***14.01***	***15.88***	***-11.8%***	***-2.6%***

MAIN FACTORS INFLUENCING PERFORMANCE

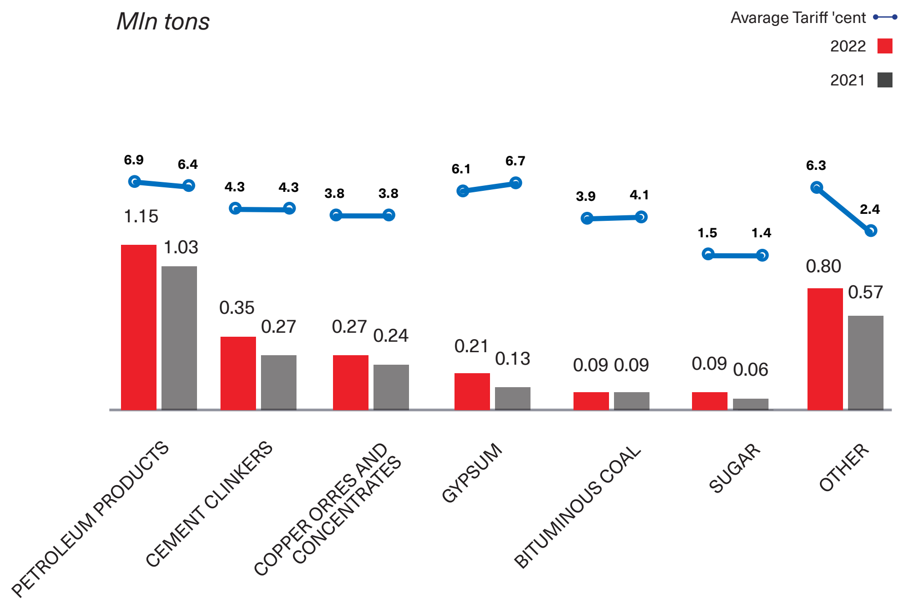
Freight turnover – A 13% rise in freight turnover was due to increased transportation from Russia by 715,000 tons in 2022, compared to 2021, which was partially offset by a decrease in volumes from Turkmenistan of 150,000 tons.

Revenue / tkm (in Tetri) – The average tariff on imports at constant currency decreased by 3% in 2022, compared to 2021. This decrease was mainly due to the product direction mix. The share in transportation from Turkmenistan and Azerbaijan (relatively more profitable directions) decreased while the share of Uzbekistan and Kazakhstan (relatively less profitable directions) increased in 2022, compared to 2021.

ORIGIN COUNTRIES



MAIN IMPORTED PRODUCT TYPES



MAIN DIRECTIONS OF CARGO

Petroleum products include diesel fuel, gasoline, special petrol and aviation fuel.

Diesel fuel and gasoline mostly imported from Russia (79 percent), while special petrol mostly transported from Romania, Bulgaria and Turkmenistan (42 percent, 39 percent and 18 percent, respectively). Mentioned products were mainly intended to satisfy the domestic demand.

Aviation fuel mostly transported from Turkmenistan, Greece and Turkey (54 percent, 25percent and 15 percent respectively of total imported aviation fuel). In particular, aviation fuel over the reviewed period was mostly used by domestic aviation companies in Georgia.

Cement clinkers - was provided by Azerbaijan in 2022, as well as in 2021. mainly transported to Kaspi and Rustavi with 48 percent and 43 percent respectively, Georgian cities where cement factories are located.

Copper ores and concentrates – mostly imported from Armenia in 2022 (approximately 91 percent, compared to 81 percent in 2021). Copper ores and concentrates were directed to Poti, where a factory, producing non-ferrous metals from raw materials is located.

Gypsum - was provided by Azerbaijan in 2022, as well as 2021. Imported gypsum was mainly transported to Kaspi and Rustavi with 37 percent and 26 percent respectively. Meanwhile, 37 percent of imported gypsum was sent to Tbilisi, where drywalls are produced.

Bituminous coal - mostly provided by Russia, with a 99% share in the total imported bituminous coal in 2022, compared to 100% in 2021. In 2022, bituminous coal was mainly transported to Georgia's industrial cities, such as Kaspi (48%) and Rustavi (43%).

Sugar – mostly provided by Brazil and Mexico with 87 percent and 13 percent respectively in 2022, as well as in 2021. Sugar was mainly directed to Agara, where the relevant factory is located.

EXPORT TRANSPORTATION

Export refers to the movement of cargo from Georgia to foreign countries.

The share of exported cargo in total transported volume was around 9% in 2022, compared to 10% in 2021.

	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	% constant currency
Revenue (million GEL)	36.2	33.3	*9.6%*	*20.0%*
Freight Volume (million tons)	1.3	1.2	*9.7%*	*NA*
Freight Turnover (million tkm)	365.4	307.5	*18.8%*	*NA*
Revenue / tkm (in Tetri)	***9.91***	***10.84***	***-8.6%***	***0.9%***

MAIN FACTORS INFLUENCING PERFORMANCE

Freight turnover – 19% rise was recorded, primarily due to increases in the transported volumes to Armenia and Kazakhstan (by 152,000 tons and 70,000 tons, respectively), which was partially offset by a decrease in transportation to Russia (by 70,000 tons) in 2022, compared to 2021.

Revenue / tkm (in Tetri) – 1% increase at constant currency was reported due to an increased share in transportation to Armenia and Kazakhstan (relatively more profitable directions) while the share of transported cargo to other relatively less profitable countries remained at a similar level in 2022, compared to 2021.

MAIN DIRECTIONS OF CARGO

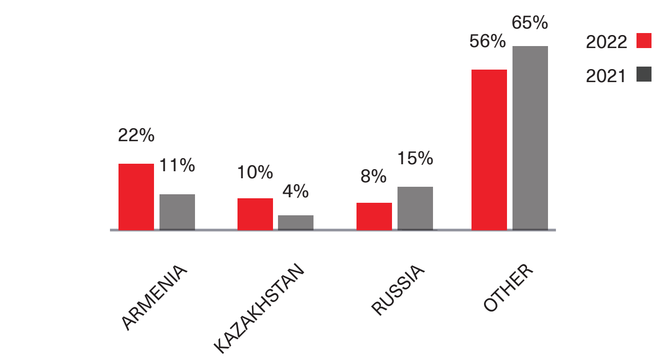
Ammonium nitrate – mainly originated from Rustavi (approximately 100 percent) where a fertilizer factory is based. In addition, ammonium nitrate was mostly directed to Poti (a 96% share of total exported ammonium nitrate).

Wheat – the origin station of wheat was Poti, due to one of the biggest grain warehouses in Georgia. Wheat was directed to Armenia in 2022.

Mineral waters – mainly originated from Borjomi with approximately 95 percent due to one of the biggest bottlers of mineral waters factory. Mineral waters were mainly transported to Russia and Kazakhstan with 49 percent and 33 percent in total exported mineral waters, respectively.

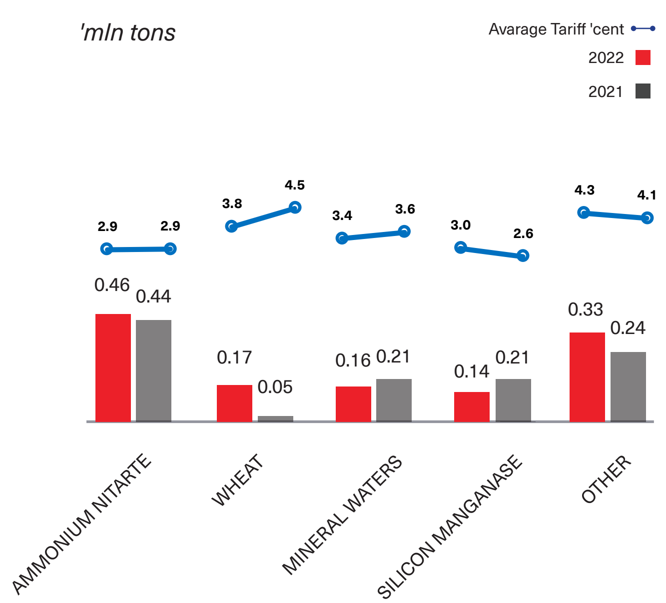
Silicon manganese – mainly originated from Zestaponi with approximately 99 percent (due to ferroalloys plant located there). Silicon manganese was mainly directed to Batumi Seaport (92 percent share in total exported silicon manganese), before being carried by vessel to final destinations.

DESTINATION COUNTRIES



* "Other" category includes cargo transported to the sea ports of Poti and Batumi by Georgian Railway before leaving the country by sea.

MAIN EXPORTED PRODUCT TYPES



DOMESTIC TRANSPORTATION

Domestic transportation concerns the movement of cargo from one station to another, within Georgia.

The share of domestic transportation in total transported volume was 13% in 2022, compared to 15% in 2021.

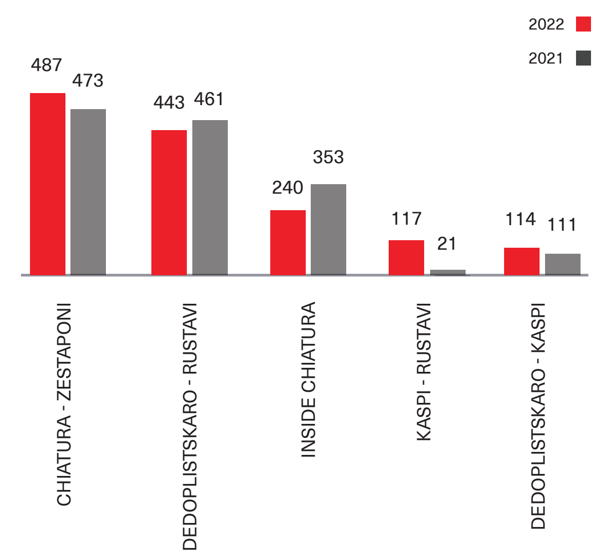
	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	% constant currency
Revenue (million GEL)	11.4	11.0	*3.9%*	*14.8%*
Freight Volume (million tons)	1.9	1.8	*2.6%*	*NA*
Freight Turnover (million tkm)	160.8	148.0	*8.7%*	*NA*
Revenue / tkm (in Tetri)	***7.10***	***7.42***	***-4.4%***	***5.6%***

MAIN FACTORS INFLUENCING PERFORMANCE

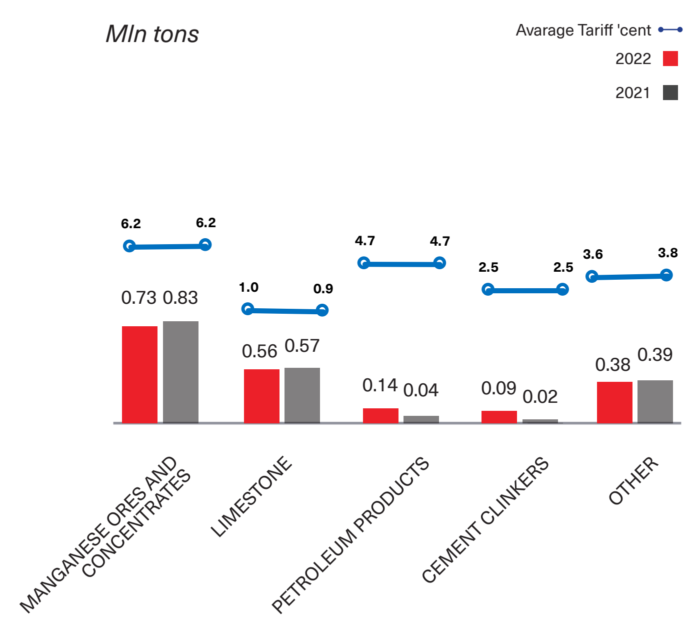
Freight turnover – 8% increase was primarily due to increased transportation on the Kaspi-Rustavi route in 2022, compared to 2021.

Revenue / tkm (in Tetri) – 6% increase at constant currency was due to a decrease in transportation from Dedoplistskaro and Poti (a relatively less profitable direction), while the shares of more profitable directions increased in 2022, compared to 2021.

MAIN ROUTES OF DOMESTIC TRANSPORTATION



MAIN DOMESTIC PRODUCT TYPES



MAIN DIRECTIONS OF CARGO

Manganese ores and concentrates - the origin station for manganese ores and concentrates was Chiatura (due to manganese mine). Mentioned product is directed to Chiatura and Zestaponi due to ferroalloys factories located in these cities, which are responsible for processing manganese ores and concentrates.

Limestone – the origin station of limestone was Dedoplistskaro (due to open quarries where limestone is mined). 80 percent and 20 percent of the transported domestic limestone was directed to Kaspi and Rustavi, respectively, where the main cement factories of country are located.

Petroleum products include motor petrol and diesel fuel.

Motor petrol – mentioned product was mainly transported to Tbilisi and Samtredia with 56 percent and 32 percent respectively mainly for domestic use.

Diesel fuel – mentioned product was mainly transported to Tbilisi and Samtredia with 46 percent and 41 percent respectively mainly for domestic use.

Cement clinkers - mainly originated from Kaspi with approximately 100 percent. Cement clinkers are directed to Rustavi, due to cement factories located there.

TRANSIT TRANSPORTATION

Transit here means the movement of cargo from one foreign country to another, through Georgia.

The share of transit transportation in the total volume of cargo transported on the whole GR network was 59% in 2022, compared to 55% in 2021.

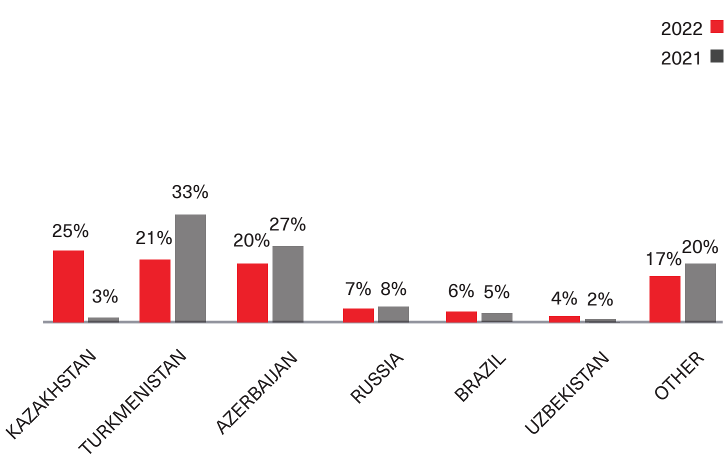
	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	% constant currency
Revenue (million GEL)	277.3	245.6	*12.9%*	*24.7%*
Freight Volume (million tons)	8.7	6.7	*28.6%*	*NA*
Freight Turnover (million tkm)	3,184.2	2,432.5	*30.9%*	*NA*
Revenue / tkm (in Tetri)	***8.71***	***10.10***	***-13.7%***	***-4.7%***

MAIN FACTORS INFLUENCING PERFORMANCE

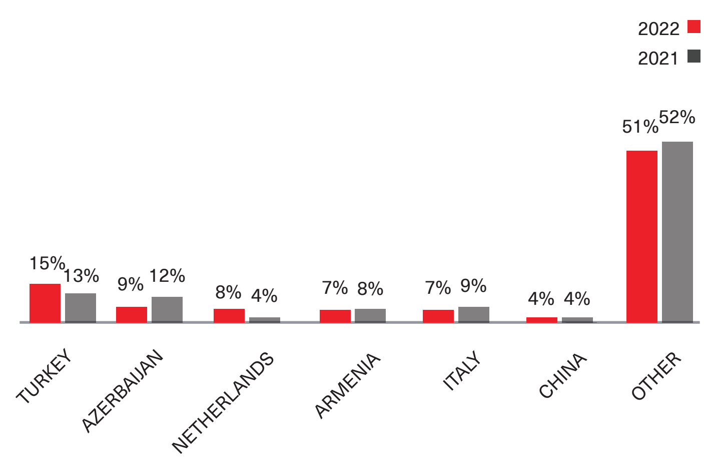
Freight turnover – 31% increase was mainly due to an increase in transportation from Kazakhstan by 1,944,000 tons in 2022, compared to 2021.

Revenue / tkm (in Tetri) – 5% decrease at constant currency was mainly attributed to the decrease in transportation on the Ukraine-Azerbaijan, China-Turkey and Ukraine-Uzbekistan routes (all relatively more profitable routes), while the transported volumes on the Kazakhstan-Turkey, Kazakhstan-Netherlands and Kazakhstan-Italy routes (all relatively less profitable routes) increased in 2022, compared to 2021.

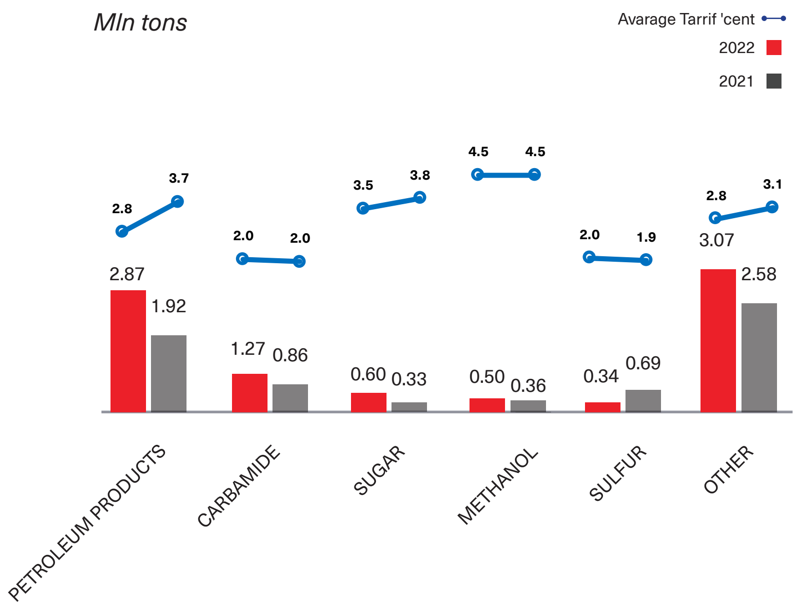
ORIGIN COUNTRIES



DESTINATION COUNTRIES



MAIN TRANSIT PRODUCT TYPES



MAIN DIRECTIONS OF CARGO

Petroleum products include heavy fuel oil, light fuel oil, diesel fuel, gas oil, special petrol and crude oil.

Heavy fuel oil – two main transit routes for heavy fuel oil transit transportation were Kazakhstan-Netherlands and Kazakhstan-Turkey, representing 38 percent and 34 percent, respectively, in 2022.

Light fuel oil – two main transit routes for light fuel oil transit transportation were from Turkmenistan to the Black Sea ports (Batumi, Poti and Parto Tskali) and Turkmenistan-Italy, representing 72percent and 18 percent, respectively, in 2022.

Diesel fuel – the three main transit routes for diesel fuel transit transportation were from Azerbaijan to the Black Sea ports (Batumi, Poti and Parto Tskali), Russia-Armenia and from Turkmenistan to the Black Sea ports (Batumi and Parto Tskali), representing 40 percent, 35 percent and 11 percent, respectively, in 2022.

Gas oil – two main transit routes for gas oil transit transportation were Azerbaijan-Italy and from Azerbaijan to the Black Sea ports (Batumi, Poti and Parto Tskali), representing 54 percent and 38 percent, respectively, in 2022.

Special petrol – two main transit routes for special petrol transit transportation were Russia-Armenia and from Azerbaijan to the Black Sea ports (Batumi, Poti and Parto Tskali), representing 75 percent and 10 percent, respectively, in 2022.

Crude oil – main transit route for crude oil transit transportation was from Kazakhstan to the Black Sea ports (Batumi, Poti and Parto Tskali), representing 84 percent in 2022.

Carbamide – main transit routes for carbamide transit transportation were from Turkmenistan to the Black Sea ports (Batumi, Poti and Parto Tskali), Azerbaijan-Bulgaria, Azerbaijan-Romania, Azerbaijan-India and Uzbekistan-Bulgaria, accounting for 53 percent, 7 percent, 4 percent, 4 percent and 6 percent, respectively, in 2022.

Sugar – main transit routes for sugar transit transportation were Brazil-Azerbaijan, Brazil-Uzbekistan, Brazil-Armenia and Mexico-Azerbaijan, accounting for 43 percent, 23 percent, 12percent and 8percent, respectively, in 2022.

Methanol – three main routes for methanol transit transportation were from Azerbaijan to the Netherlands, from Azerbaijan to Turkey and Azerbaijan-Romania, accounting for 36 percent percent, 25 percent and 17 percent, respectively, in 2022.

Sulfur – two main transit routes for sulfur transit transportation were from Turkmenistan to the Black Sea (Poti) and Turkmenistan-Singapore, accounting for 48 percent and 34 percent, respectively.

TRANSPORTATION BY BORDER CROSSING

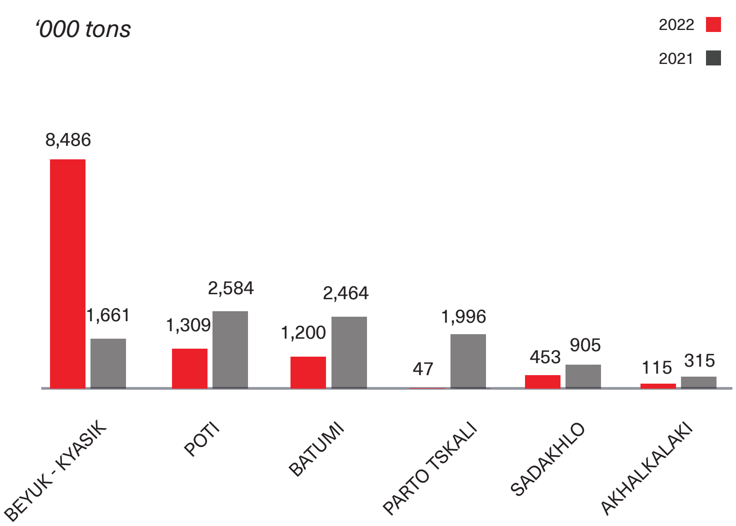
RAIL FREIGHT VOLUMES BY BORDER CROSSING

JSC Georgian Railway has three land border crossings, connecting Georgia with three of its neighboring countries, namely Azerbaijan, Armenia and Turkey*. Specifically, the Beyuk-Kyasik station connects the Company to Azerbaijan via the corresponding station of Gardabani in Georgia. Meanwhile, Georgia is connected to Armenia via Sadakhlo station and to Turkey via Akhalkalaki station. GR is also connected to the Black Sea ports, such as Poti, Batumi and Parto Tskali (Kulevi).

The freight data below show the border stations at which freight enters and leaves the country. Overall, 78% of incoming cargo was transported via land border crossings, while 71% of outgoing cargo departed from ports. This shows that the main direction for freight in Georgia is from east to west, as most of it enters the country from Azerbaijan and leaves via maritime transport on the Black Sea.

**The Company also has a rail connection with Russia through Abkhazia, which is currently not operational.*

RAILWAY FREIGHT VOLUMES BY THE BORDER CROSSINGS



Incoming rail volume - Beyuk-Kyasik station has the largest portion, contributing to 94 percent of cargo arriving from land border crossings and constituting 73 percent of the total incoming cargo. Notably, the primary entry points for incoming cargo were Poti Port and Batumi Sea Port, responsible for 51 percent and 47 percent of the volume entering the country through ports, respectively. However, these ports represent a relatively smaller proportion of the overall incoming cargo, standing at just 11 percent and 10 percent, respectively.

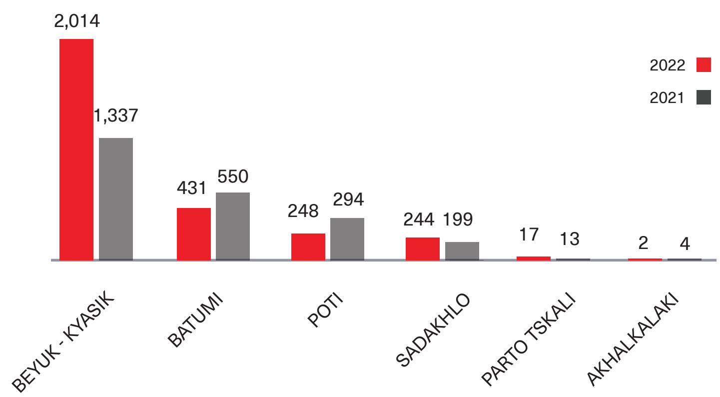
Outgoing rail volume – the majority (71 percent) of outgoing cargoes exit the country via parto Tskali, Batumi Sea Port and Poti Port. On the other hand, Beyuk-Kyasik stands out as the key land departure point, accounting for 17 percent of the total volume leaving the country and facilitating 58 percent of the entire volume departing via land borders.

BORDER CROSSINGS FOR IMPORTED PRODUCTS

The share of total imports to come into Georgia via Beyuk-Kyasik was 68% in 2022, compared to 56% in 2021. The 12 percentage point increase was due largely to an increase in transportation from Russia. The main origin countries for imports through Beyuk-Kyasik station were Russia (mostly petroleum products) and Azerbaijan (mostly cement clinkers) with 1,063,000 tons and 631,000 tons, respectively.

The share of Black Sea ports (Poti, Batumi and Parto Tskali) used for imported products was 24% in 2022, compared to 36% in 2021. The 12 percentage point decrease was due to a decrease in transportation from Bulgaria and Romania. Meanwhile, the main exporting countries using Black Sea ports to enter the country were Russia, Bulgaria and Romania (mostly petroleum products) with 151,000 tons, 119,000 tons and 118,000 tons.

BORDER CROSSING FOR IMPORT *('000 TONS)*

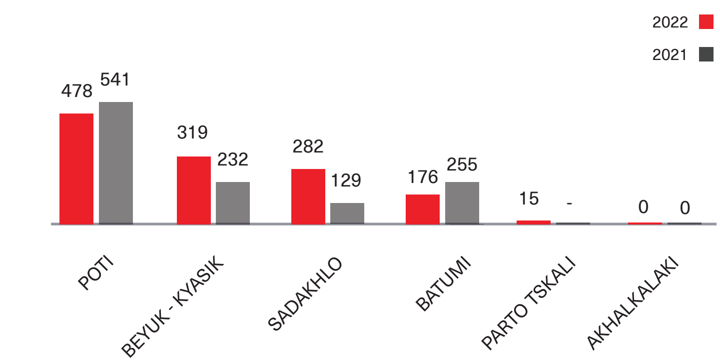


BORDER CROSSINGS FOR EXPORTED PRODUCTS

The share of Black Sea ports (Poti, Batumi and Parto Tskali) in total exports was 53% in 2022, compared to 69% in 2021. The main exported products were ammonium nitrate (444,000 tons) and silicon manganese (133,000 tons). The share of total exports leaving the country via Beyuk-Kyasik was 25% in 2022, compared to 20% in 2021. The main destination countries for exported cargo leaving the country through Beyuk-Kyasik station were Kazakhstan and Russia, with 122,000 tons and 103,000 tons, respectively (mostly mineral water).

The share of total exports to leave the country via Sadakhlo was 22% in 2022, compared to 11% in 2021. The only destination country from this border was Armenia, with 282,000 tons (mostly wheat).

BORDER CROSSING FOR EXPORT *('000 TONS)*

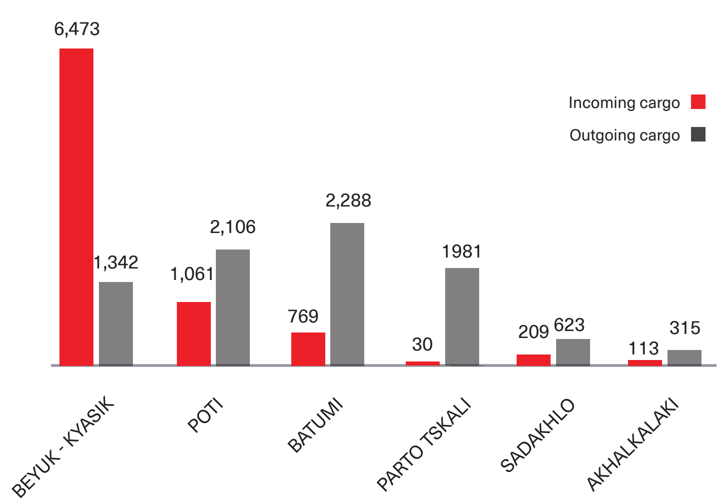


BORDER CROSSINGS FOR TRANSIT PRODUCTS

Beyuk-Kyasik station received the highest share of incoming transit volumes at 75% in 2022, compared to 72% in 2021. The main origin countries for such incoming cargo were Azerbaijan, Turkmenistan and Kazakhstan, with 2,148,000 tons, 1,792,000 tons and 1,767,000 tons, respectively.

With respect to outgoing transit volumes, (Poti, Batumi and Parto Tskali) the highest share belonged to Black Sea ports in 2022, standing at 74%, compared to 69% in 2021. The main destination countries were Turkey, Netherlands and Italy, with 1,015,000 tons, 678,000 tons and 547,000 tons, respectively.

BORDER CROSSING FOR TRANSIT *('000 TONS)*



CONTAINER TRANSPORTATION

Approximately 10% of the total transported cargo in 2022 was containerized goods, with the rest being bulk and breakbulk. Although containerized transportation still has a relatively low share, its volumes have been increasing steadily in recent years.

For the year ended 31 December	2022	2021	2020
NUMBER OF CONTAINERS			
20 feet	48,351	40,026	48,906
40 feet	20,006	17,085	16,809
TOTAL	**68,357**	**57,111**	**65,715**
% Change	*19.7%*	*-13.1%*	*2.8%*
NUMBER OF CONTAINERS IN TEUS	**88,363**	**74,196**	**82,524**
% Change	*19.1%*	*-10.1%*	*4.5%*
TONS '000	**1,502.6**	**1,201.6**	**1,317.5**
% Change	*25.1%*	*-8.8%*	*3.3%*

Number of containers – A 20% rise was due to an increase in the number of containers transported from Kazakhstan (by 9,556 units) and from Georgia (by 4,865), which was partially offset by a decrease in the number of containers transported from India (by 1,224) in 2022, compared to 2021.

For the year ended 31 December	2022	2021	2020
REVENUE (GEL '000)			
20 feet containers	21,046	17,009	20,630
40 feet containers	13,156	12,743	12,971
TOTAL	**34,202**	**29,753**	**33,601**
% Change	*15.0%*	*-11.5%*	*14.6%*
AVERAGE TARIFF IN GEL			
20 feet containers	435.3	424.9	421.8
40 feet containers	657.6	745.9	771.7
AVERAGE TARIFF IN GEL	**500.3**	**521.0**	**511.3**
% Change	*-4.0%*	*1.9%*	*11.5%*

**Average tariff represents revenue divided by number of containers*

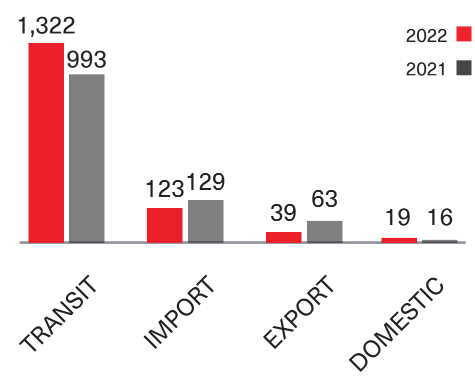
<u>Revenue/number of containers</u> (in GEL) – A 4% decrease was largely attributable to a decrease in the number of containers going from USA and Turkmenistan (relatively more profitable directions), while the number of containers transported from Georgia and Kazakhstan (relatively less profitable directions) increased in 2022, compared to 2021.

The Group's container transportation consists of transit, import, export and domestic transportation routes. In 2022, their shares were about 88%, 8%, 3% and 1%, respectively, compared to 83%, 11%, 5% and 1% respectively in 2021.

In 2021, the COVID-19 pandemic had a significant effect on the volume of containers transported by Georgian ports. Nonetheless, the share of containerized cargo transported by the Group remained considerably stable at around 10% in the total transported volume. Moreover, containerized transportation increased in 2022, surpassing both the 2021 and pre-pandemic levels.

CONTAINERS BY TRANSPORTATION TYPE

'000 tons



BAKU-TBILISI-KARS LINE

On 30 October 2017, the Baku-Tbilisi-Kars (BTK) railway line became operational. The BTK link directly connects Azerbaijan, Georgia and Turkey. In 2017, the first train passed through this line.

In 2022, the total freight volume transported on the BTK line decreased by 15%, compared to 2021. However, the cargo volume transported by container on the BTK line increased by 15%, contributing 88% of total transported cargo on the BTK line in 2022 (compared to 68% in 2021). Ultimately, the BTK line is becoming more appealing for containerized transportation, annually.

For the year ended 31 December	2022	2021	2020
NUMBER OF CONTAINERS			
20 feet	8,083	5,020	4,267
40 feet	5,828	7,736	3,102
TOTAL	**13,911**	**12,756**	**7,369**
% Change	*9.1%*	*73.1%*	*83.8%*
NUMBER OF CONTAINERS IN TEU	**19,739**	**20,492**	**10,471**
% Change	*-3.7%*	*95.7%*	*88.0%*
NUMBER OF RAILCARS	**1,982**	**3,642**	**1,940**
% Change	*-45.6%*	*87.7%*	*258.6%*
TONS '000	**429.7**	**482.5**	**247.4**
% Change	*-11.0%*	*95.0%*	*112.4%*

Number of containers – A 9% rise was due to an increase in the number of containers transported from Kazakhstan (by 3,292 units) and from Turkey (by 674), which was partially offset by a decrease in the number of containers transported from Turkmenistan (by 1,568) in 2022, compared to 2021.

For the year ended 31 December	2022	2021	2020
REVENUE (THOUSAND GEL)			
20 feet containers	3,828.5	2,146.3	2,070.7
40 feet containers	3,213.2	4,295.4	1,832.1
TOTAL REVENUE	**7041.7**	**6441.7**	**3902.8**
% Change	*9.3%*	*65.1%*	*93.5%*
AVERAGE TARIFF IN GEL			
20 feet containers	473.7	427.6	485.3
40 feet containers	551.3	555.2	590.6
AVERAGE TARIFF IN GEL	**506.2**	**505.0**	**529.6**
% Change	*0.2%*	*-4.6%*	*5.3%*

Average tariff represents revenue divided by number of containers

Revenue/number of containers (in GEL) – The average tariff on containerized transportation on the BTK line recorded a marginal 0.2% increase in 2022, compared to 2021.

FREIGHT HANDLING

General description

Freight handling revenue stems from the following sources:

- Station services, such as railcar marshaling, freight pick-up, delivery at customer facilities and other related services;
- 24-hour railcar delays, represented by a fee paid by customers for the return of GR's own railcars after an initial 24 hours from its delivery at an agreed destination;
- Other services, such as cargo loading/unloading, storage, accelerated service fees and other sources.

Currency and tariff setting

Most of the freight handling revenue (about 70%) in 2022 was denominated in USD, while the rest was denominated in GEL. The Group sets its tariffs independently.

Drivers

The revenue from this source largely correlates with transportation volumes in tons. That correlation, however, is not absolute as many other factors can have an influence.

FREIGHT HANDLING

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	**%**	***Absolute***
STATION SERVICES	64,367	59,221	*8.7%*	*5,146*
24-HOUR SERVICE	26,368	8,389	*214.3%*	*17,979*
OTHER	1,444	2,256	*-36.0%*	*-811*
TOTAL	92,180	69,865	*31.9%*	*22,314*

Revenue from freight handling for Q4 2022 increased by 42.6%, compared to Q4 2021 and decreased by 0.2%, compared to Q3 2022.

Factors influencing performance

31.9% increase during the period under review, compared to the same period of the previous year, was mainly driven by a GEL 18 million increase in 24-hour services and by a GEL 5.1 million increase in receiving station services.

LOGISTICS SERVICES

General description

Revenue from logistics services is generated by GR's subsidiaries.

Currency and tariff setting

Revenue from logistics services is denominated in USD (22%) and GEL (78%).

Drivers

Revenue from this source corresponds largely with transportation turnover and volume in tons.

LOGISTICS SERVICES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	*%*	***Absolute***
REVENUE FROM LOGISTICS SERVICES	123,071	69,371	*77.4%*	*53,701*

Revenue from logistics services for Q4 2022 increased by 50.7%, compared to Q4 2021 and decreased by 6.9%, compared to Q3 2022.

Factors influencing performance

A 77% increase in revenue from logistics services (GEL 53.7 million) during 2022, compared to 2021, was mainly driven by an increase in revenue from railcar and containerized transportation by one of GR's subsidiary companies, as well as other subsidiaries providing services for crude oil and oil product transportation.

**Logistics revenue and expenditures should be taken into consideration jointly (See pg.141 Logistics service expenses).*

RENT OF WAGONS AND OTHER RENTAL INCOME

General description

The Group rents out wagons not used in transportation and other property in order to improve the utilization rate of its assets.

Currency and tariff setting

Revenue from the rent of wagons and other operating leases is mostly denominated in USD.

Drivers

Rent of wagons and other rental income changes in accordance with the availability of the Group's wagons not used for transportation and demand for that specific type of wagon in the region.

RENT OF WAGONS AND OTHER RENTAL INCOME

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	*%*	***Absolute***
RENT OF WAGONS AND OTHER RENTAL INCOME	4,072	4,647	*-12.4%*	*-575*

Rent of wagons and other rental income for Q4 2022 decreased by 141.9%, compared to Q4 2021 and by 122.0%, compared to Q3 2022.

Factors influencing performance

Rent of wagons and other rental income decreased by 12.4% (GEL 0.6 million) during 2022, compared to 2021. That decrease was mainly due to GEL appreciation against foreign currency.

FREIGHT CAR CROSS-BORDER CHARGES

General description

Freight car cross-border charge revenue is derived when the Group's railcars are used by other national railways.

Currency and tariff setting

Revenue from freight car cross-border charges is denominated in CHF and tariffs are set by the Council for Rail Transport of CIS States (CRT CIS).

Drivers

Freight car cross-border charge revenue changes in line with the number of days the Group's railcars are used by other railway companies, which in its turn depends on the cargo mix and the availability of freight cars in the region.

FREIGHT CAR CROSS-BORDER CHARGES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	*%*	***Absolute***
FREIGHT CAR CROSS-BORDER CHARGES	9,703	9,910	*-2.1%*	*-208*

Freight car cross-border charge revenue for Q4 2022 increased by 69.3%, compared to Q4 2021 and rose by 112%, compared to Q3 2022.

Factors influencing performance

The revenue from freight car cross-border charges decreased by about 2.1% (GEL 0.2 million) in 2022, compared to 2021. This downturn was primarily due to a decrease in the usage of GR's tank cars and open top box-cars on foreign railway networks.

PASSENGER TRAFFIC

General description

GR's passenger transportation services comprise domestic and international routes. Meanwhile, long-distance traffic accounts for the majority of the Group's passenger traffic, while regional (shorter-distance) services, in particular suburban services, typically serve the low-income segments of society, with symbolic/minimal ticket fares. Georgia is linked by rail to Azerbaijan and Armenia and thus international transportation services are provided to both countries.

Currency and tariff setting

Tariffs for domestic trains are set independently by the Group in GEL. At the behest of the GoG, the Group affordable ticket prices, below the market rate. At the same time, GR maintains certain passenger trains, even when such routes are not economically feasible.

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

Drivers

Passenger revenue changes in line with the tariffs set and the number of passengers transported.

PASSENGER TRANSPORTATION

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	**%**	***Absolute***
REVENUE IN GEL '000	27,423	14,808	*85.2%*	*12,616*
NUMBER OF PASSENGERS '000	1,605	816	*96.6%*	*789*

Revenue from passenger transportation for Q4 2022 increased by 116.9% (GEL 4.1 million), compared to Q4 2021, but decreased by 23.8% (GEL 2.4 million) compared to Q3 2022.

Factors influencing performance

Revenue from passenger transportation increased by 85.2% in 2022, compared to 2021 and the number of passengers increased by 96.6%. That change is related to a significant increase in the number of passengers transported, as well as the increased tariff set on mainline tickets from July 2022.

The COVID-19 pandemic had a material negative impact on the Passenger SBU as, in line with the Government regulations, all public passenger transportation was stopped from March until June in 2020 and, subject to certain limited exceptions, again from November 2020 until February 2021.

OTHER REVENUE

General description

Other revenue is mostly denominated in GEL and comprises items such as revenue from the sale of scrap, communication services, electricity transportation and repair services for third parties.

OTHER REVENUE

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	**%**	***Absolute***
REVENUE FROM REPAIR	317	144	*120.3%*	*173*
REVENUE FROM SALE OF MATERIALS	24,166	23,026	*5.0%*	*1,140*
(SCRAP)	5,394	2,167	*148.9%*	*3,227*
TOTAL OTHER	29,878	25,337	*17.9%*	*4,541*

Other revenue for Q4 2022 decreased by 436.1%, compared to Q4 2021 and increased by about 355.5%, compared to Q3 2022.

Factors influencing performance

Other revenue increased by GEL 4.5 million in 2022, compared to 2021. This change was mainly due to an increase in revenue from sale of scrap by GEL 1.1 million and greater revenue from sale of goods and materials (except for scrap) by GEL 2.8 million in 2022, compared to 2021.

1.2 OTHER INCOME

General description

Other income mostly includes items such as penalties issued to clients and suppliers, the sale of fixed assets and provision reversals.

To better illustrate the operational profitability of the Group, other income is split into the following two categories: continuing operations (such as penalties issued to suppliers and clients) and non-continuing operations (such as provision reversals or sales of fixed assets), which are not recurring activities of the business.

OTHER INCOME

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	*Absolute*
CONTINUING OPERATIONS	5,113	3,391	*50.8%*	*1,722*
NON-CONTINUING OPERATIONS	10,712	5,560	*92.7%*	*5,152*
TOTAL	15,825	8,951	*76.8%*	*6,873*

Other income for Q4 2022 decreased by 166.8% (GEL 6.7 million) compared to Q4 2021 and decreased by 134% (GEL 10.5 million), compared to Q3 2022.

Factors influencing performance

Total other income increased by GEL 6.9 million in 2022, compared to 2021. That increase was mainly due to additional income for tax purposes (GEL 4.8 million).

1.3 OPERATING EXPENSES

General description

Most of the Group's operating expenses are fixed. Its variable expenses that depend on the volume of transportation include freight car cross-border charges, electricity for traction, fuel expenses, materials and repair and maintenance expenses.

OTHER INCOME

GEL '000	TOTAL		CHANGE		
For the year ended 31 December	2022	2021	%	% Constant Currency	*Absolute*
EMPLOYEE BENEFITS EXPENSE	197,708	180,701	*9.4%*	*20.9%*	*17,006*
DEPRECIATION AND AMORTIZATION EXPENSES	66,585	58,397	*14.0%*	*26.0%*	*8,188*
IMPAIRMENT GAIN/LOSS ON TRADE RECEIVABLES	-840	2,791	*-130.1%*	*-133.2%*	*-3,631*
ELECTRICITY	43,916	30,857	*42.3%*	*57.2%*	*13,059*
MATERIALS	15,237	12,103	*25.9%*	*39.1%*	*3,134*
REPAIRS AND MAINTENANCE	10,569	5,062	*108.8%*	*130.7%*	*5,507*
FUEL	10,485	6,545	*60.2%*	*77.0%*	*3,941*
FREIGHT CAR CROSS-BORDER CHARGES	10,928	4,065	*168.8%*	*197.0%*	*6,863*
LOGISTICS SERVICES	71,285	32,918	*116.6%*	*139.2%*	*38,366*
SECURITY AND OTHER OPERATING EXPENSES	22,054	27,533	*-19.9%*	*-11.5%*	*-5,479*
TAXES OTHER THAN INCOME TAX	24,254	30,458	*-20.4%*	*-12.0%*	*-6,204*
TOTAL	472,181	391,431	*20.6%*	*33.3%*	*80,750*

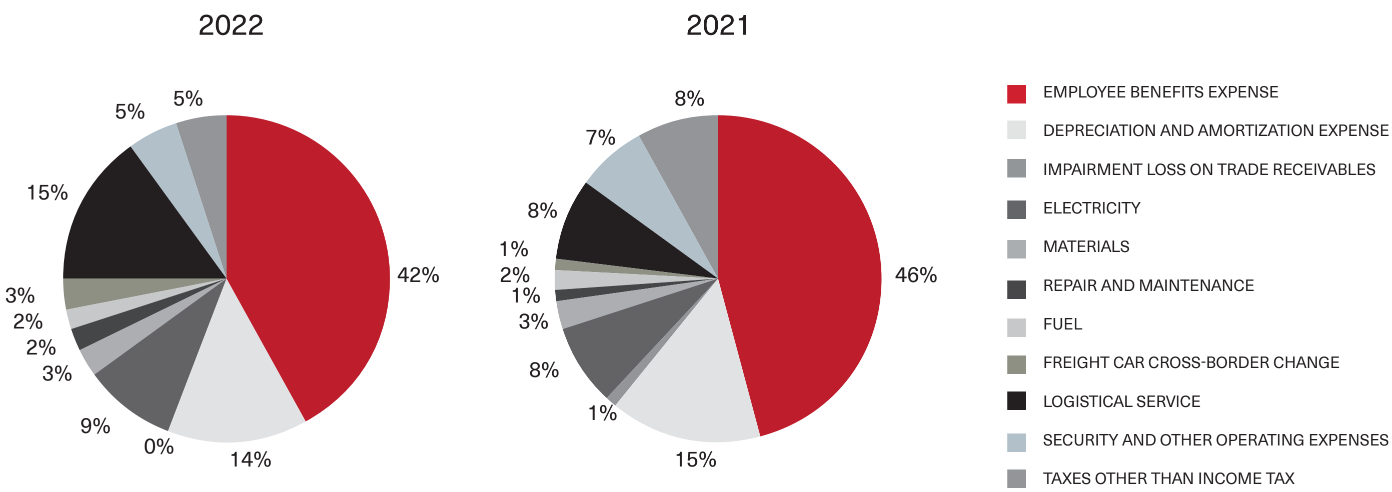
Total operating expenses for Q4 2022 increased by 20.6%, compared to Q4 2021 and by 33.3% compared to Q3 2022.

Factors influencing performance

The increase in total operating expenses in 2022 was mainly driven by a rise in logistics service expenses (GEL 38.4 million), employee benefits (GEL 17.0 million), electricity (GEL 13.1 million), depreciation (GEL 8.2 million) and freight car cross-border charges (GEL 6.9 million).

This increase was partially offset by a decrease in security and other operating expenses (GEL 3.6 million) and an impairment gain on trade receivables (of GEL 3.6 million).

The following charts present the cost structure for 2022 and 2021:



EMPLOYEE BENEFITS EXPENSES

General description

The Group's salary expenses are fixed and are denominated in GEL. As a result, there are not affected either by transportation volume or by FX changes.

EMPLOYEE BENEFITS EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	*%*	***Absolute***
SALARY	151,458	150,613	*0.6%*	*845*
BONUS-REWARD	11,146	10,480	*6.4%*	*666*
OTHER BENEFITS	35,103	19,607	*79.0%*	*15,496*
TOTAL	197,708	180,701	*9.4%*	*17,007*

Employee benefits expenses for Q4 2022 decreased by 0.1% compared to Q4 2021 and increased by 14.3% compared to Q3 2022.

Factors influencing changes

The Group is one of the largest corporate employers and taxpayers in Georgia. This underlines its importance for the GoG in terms of the economic and social benefits it brings the country. Total employee benefits expenses increased by GEL 17.0 million in 2022, compared to 2021.

In September 2021, the Group's management increased the wages of approximately 12,000 employees. As a result, in 2022, salary expenses increased by GEL 0.8 million.

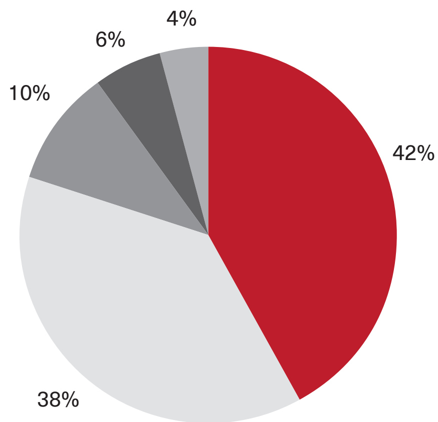
Under the bonus-reward program, in 2022 a 6.4% increase was recorded due to additional bonuses being paid to employees on the 150th anniversary of the Company.

A GEL 15.5 million increase in other benefits was mainly due to expenses related to additional financial support provided to employees.

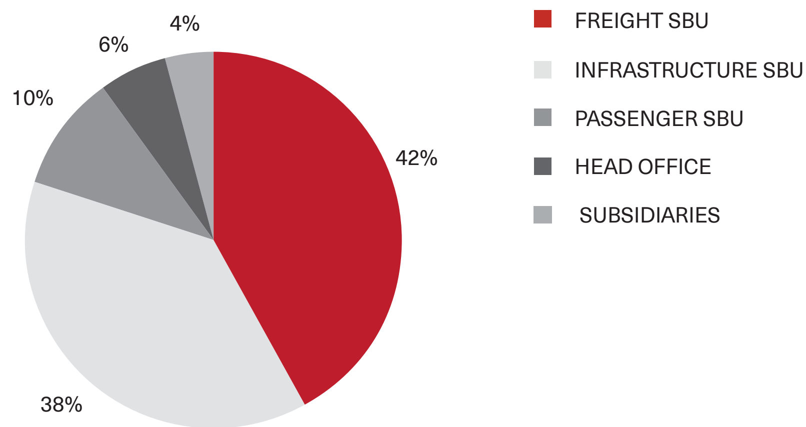
The number of GR employees (excluding subsidiaries) by the end of 2022 was 11,887, representing a slight decrease compared to the end of 2021 (11,925).

The following charts present headcounts by SBU and head office of the Company:

Distribution of staff by bussines units as at the end of September 2022



Distribution of staff by bussines units as at the end of September 2021



LAW ON FUNDED PENSIONS

Law of Georgia on Funded Pensions, introduced in January 2019, regulates payments of funded pension, which are conducted independently from the state pension and state compensation. Joining the funded pension scheme was mandatory for all employees, except for those to have reached retirement age (60 for men and 55 for women) before the entry into force of this law. Moreover, employees had the option to exit their paid pension scheme if they reached the age of 40 prior to the law's enforcement. Employees could withdraw from the accumulative pension plan no sooner than three months and no later than five months after the statute went into effect. All employees over retirement age are eligible to join the funded pension program on a voluntary basis. The number of GR employees by the end of 2021 participating in the pensions scheme was around 5,500.

DEPRECIATION AND AMORTIZATION EXPENSES

General description

The Group's depreciation and amortization expenses are mainly affected by capital additions and property retirements, disposals, sales, or abandonments. Such expenses are denominated in GEL and are thus not affected by fluctuations in foreign exchange rates.

DEPRECIATION AND AMORTIZATION EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	*%*	*Absolute*
DEPRECIATION AND AMORTIZATION	66,585	58,397	*14.0%*	*8,188*

Depreciation and amortization expenses for Q4 2022 increased by 318.2% compared to Q4 2021 and increased by 203.9% compared to Q3 2022.

Factors influencing changes

The Group's depreciation and amortization expense was GEL 66.6 million in 2022, as compared to GEL 58.4 million in 2021, 14.0% increase was due to constructions which were put into operations recently, as well as, increase in investing activities such as acquisition of PPE.

ELECTRICITY EXPENSES

General description

Approximately 98% of GR's railway network is electrified. Before September 2011, the Company purchased most of its electricity on the open market in Georgia. However, in September 2011, the Company entered into a 10-year agreement for the purchase of electricity at fixed tariffs (known as the Electricity Agreement), securing a set price for more than 90% of the Company's electricity needs. The remaining amount was procured on the open market. The Electricity Agreement expired in 2021 though and the Company has since again been purchasing electricity on the open market. The tariffs are denominated in GEL.

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

ELECTRICITY EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	**%**	***Absolute***
ELECTRICITY EXPENSES FOR TRACTION	37,723	25,889	*45.7%*	*11,834*
UTILITY EXPENSES	6,193	4,968	*24.7%*	*1,225*
TOTAL	43,916	30,857	*42.3%*	*13,059*

Electricity expenses for Q4 2022 increased by 6.4% compared to Q4 2021 and by 9.9% compared to Q3 2022.

Factors influencing changes

The electricity expenses in 2022, compared to 2021, increased by GEL 13.1 million due to a significant increase in transportation turnover, as well as higher average tariffs for electricity *(see table: "Purchased electricity and weighted average tariff")*.

PURCHASED ELECTRICITY AND WEIGHTED AVERAGE TARIFF

GEL '000	2022			2021		
For the year ended 31 December	GWh	Gross ton-km *(million)*	Weighted av. tariff (GEL)	GWh	Gross ton-km *(million)*	Weighted av. tariff (GEL)
JANUARY	10.8	472.4	0.276	9.9	479.6	0.155
FEBRUARY	11.3	546.4	0.290	9.3	452.0	0.155
MARCH	11.6	536.3	0.275	12.1	585.1	0.156
APRIL	12.8	647.2	0.262	10.0	489.8	0.153
MAY	13.8	707.3	0.218	10.9	537.9	0.153
JUNE	13.3	673.2	0.218	10.0	461.1	0.153
JULY	14.4	690.5	0.193	10.9	497.3	0.188
AUGUST	13.8	642.9	0.230	11.0	503.2	0.243
SEPTEMBER	14.0	674.9	0.245	10.7	508.7	0.264
OCTOBER	13.0	612.5	0.267	10.4	474.4	0.270
NOVEMBER	13.4	641.3	0.235	10.6	491.8	0.263
DECEMBER	13.7	620.0	0.221	12.1	579.8	0.259
TOTAL	155.8	7,464.7	0.244	127.9	6,060.8	0.201

Note: The table above includes only electricity consumed for traction

MATERIALS, REPAIR AND MAINTENANCE EXPENSES

General description

The Group purchases its inventory and uses relevant materials for repair works performed internally by its employees, all of which is presented under “materials expenses.” However, some repair works are outsourced and are presented under “repair and maintenance expenses.”

The Group’s materials and repair and maintenance expenses are all tied to its rolling stock equipment balance, its utilization rate and transportation volume. When transportation by the Group’s rolling stock increases, so do the expenses for materials and repairs and maintenance. However, these expenses can also decrease where there is increased capital expenditure on the fleet and infrastructure, which reduces the need for repair and maintenance.

MATERIALS, REPAIR AND MAINTENANCE EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	Absolute
MATERIALS EXPENSES	15,237	12,103	*25.9%*	*3,134*
REPAIR AND MAINTENANCE EXPENSES	10,569	5,062	*108.8%*	*5,507*
TOTAL	25,805	17,165	*50.3%*	*8,595*

Materials and repair and maintenance expenses for Q4 2022 increased by 37.9% compared to Q4 2021 and decreased by 12.6% compared to Q3 2022.

Factors influencing changes

A 50.3% increase during 2022 was mainly driven by more repair works being carried out (i.e. repair of rolling stock) by GEL 5.5 million, which in turn was due to accelerated works on the Modernization Project. It was also influenced by a significant rise in transportation turnover in the period under review, as well as an increase in costs of raw material by GEL 2.1 million.

FUEL EXPENSES

General description

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

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

FUEL EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	Absolute
FUEL EXPENSES	10,485	6,545	*60.2%*	*3,941*

Fuel expenses for Q4 2022 increased by 48.7% compared to Q4 2021, but decreased by 1.9% compared to Q3 2022.

Factors influencing changes

Total fuel expenses increased by 60.2% (GEL 3.9 million) in 2022, compared to 2021 due to changes in petroleum product prices.

FUEL CONSUMPTION

	2022	2021	2020
CONSUMPTION ('000 TONS)	3,149	2,913	2,980
FUEL EXPENSES ('000 GEL)	10,486	6,545	6,184
AVG TARIFF	3.33	2.25	2.07

FREIGHT CAR CROSS-BORDER CHARGE EXPENSES

General description

Freight car cross-border charge expenses represent short-term rents derived from the usage of other railways' railcars on the Group's network, for which a daily fee is charged. This expense offsets the freight car cross-border charge revenue. The expense is based on CHF tariffs and thus is tied to the GEL/CHF exchange rate and the amount of cargo transported by GR using other railway companies' railcars.

FREIGHT CAR CROSS-BORDER CHARGE EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	*%*	***Absolute***
FREIGHT CAR CROSS-BORDER CHARGE	10,928	4,065	*168.8%*	*6,863*

Freight car cross-border charge expenses for Q4 2022 increased by 427.1% compared to Q4 2021, but decreased by 28.7% compared to Q3 2022.

Factors influencing changes

Freight car cross-border charge expenses increased by GEL 6.9 million, mostly due to the increased usage of various freight wagons including platform cars and grain hoppers in 2022, compared to 2021.

LOGISTICS SERVICE EXPENSES

General description

Expenses for logistics services refer to costs incurred by the Group's logistics business for international transportation and/or for other types of transport.

LOGISTICS SERVICE EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	*%*	***Absolute***
LOGISTICS SERVICES	71,285	32,918	*116.6%*	*31,998*

Expenses for logistics services for Q4 2022 increased by 120.8% compared to Q4 2021 and by 46.2% compared to Q3 2022.

Factors influencing changes

Expenses for logistics services in 2022 increased by 116.6% (GEL 32.0 million), compared to 2021. This change was primarily due to the increased freight forwarding expenses of GR's subsidiaries in Azerbaijan and Kazakhstan.

**Logistics revenue and expenditure should be taken into consideration jointly (see pg. 131 Logistical services).*

SECURITY AND OTHER OPERATING EXPENSES

General description

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

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

SECURITY AND OTHER OPERATING EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	*Absolute*
SECURITY	10,390	9,731	*6.8%*	*659*
OTHER OPERATING EXPENSES	11,664	17,803	*-34.5%*	*-6,139*
TOTAL	22,054	27,534	*-19.9%*	*-5,480*

Security and other operating expenses for Q4 2022 increased 297.0 times compared to Q4 2021 and increased by 1.1 times compared to Q3 2022.

Factors influencing changes

19.9% decrease in security and other operating expenses in 2022 compared to 2021 was mainly caused by an increase in other operating expenses.

Specifically, security expenses increased by 6.8% (or GEL 0.7 million) in 2022 to GEL 10.4 million, compared to GEL 9.7 million in 2021.

GEL 6.1 million decrease in other operating expenses was recorded in 2022, compared to the previous year, mainly due to litigation expenses of GEL 5.1 million in 2021.

TAXES OTHER THAN INCOME TAX

General description

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

TAXES OTHER THAN INCOME TAX

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	*Absolute*
PROPERTY TAX	11,579	11,965	*-3.2%*	*-386*
LAND TAX	11,531	11,840	*-2.6%*	*-309*
OTHER TAXES*	1,143	6,652	*-82.8%*	*-5,509*
TOTAL	24,254	30,458	*-20.4%*	*-6,204*

Taxes other than income tax for Q4 2022 decreased by 49.6% compared to Q4 2021 and increased by 3.1% compared to Q3 2022.

Factors influencing changes

In 2022, there was a 20.4% decrease in taxes other than income tax, which amounted to GEL 6.2 million less than the previous year. This decline was primarily driven by reduced taxes related to penalties on general cash cards for closing scrap realization, which amounted to GEL 6.5 million in 2021.

IMPAIRMENT GAIN/LOSS ON TRADE RECEIVABLES

General description

The allowance account with respect to 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.

IMPAIRMENT GAIN/LOSS ON TRADE RECEIVABLES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	*%*	*Absolute*
IMPAIRMENT (GAIN)/LOSS ON TRADE RECEIVABLES	-840	2,791	*-130.09%*	*-3,630*

Impairment loss on trade receivables for Q4 2022 decreased by 5.1% compared to Q4 2021, but increased by 69.2% compared to Q3 2022.

Factors influencing changes

In 2022, the Group recorded an impairment gain on trade receivables of GEL 0.8 million, compared to a GEL 2.8 million impairment loss on trade receivables in 2021 due to the reversal of previously impaired account receivables.

1.4 FINANCE INCOME AND COST

General description

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

Meanwhile, finance costs mainly consist of interest expenses on the Group's debt and foreign exchange losses. The main source of FX gains or losses is the Group's Eurobonds, which are denominated in USD. This is, however, partially offset by the Group's USD cash balances and receivables in foreign hard currencies. It must be noted that such FX gains or losses on Eurobonds are not monetary and will not be realized until maturity. The Group's revenue is mostly denominated in hard currencies (USD and CHF). As most tariffs are set in USD, the Group's revenue creates a natural economic hedge against foreign exchange fluctuations.

FINANCE INCOME AND COST

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	*%*	*Absolute*
INTEREST INCOME	30,338	23,631	*28.4%*	*6,707*
GAIN ON MODIFICATION OF FINANCIAL INSTRUMENTS	-535	39	*-1471.7%*	*-574*
IMPAIRMENT GAIN/LOSS ON CASH IN BANK	140	0	*100.0%*	*140*
UNWINDING OF DISCOUNT	0	-115,734	*-100.0%*	*115,734*
LOSS ON MODIFICATION OF FINANCIAL INSTRUMENTS	-7,488	-987	*658.6%*	*6,501*
PREMIUM ON EARLY REDEMPTION OF ISSUED BONDS	0	-1,927	*-100.0%*	*1,927*
INTEREST EXPENSE	-62,471	-101,423	*-38.4%*	*38,952*
FX GAIN/LOSS	218,923	84,224	*159.9%*	*134,699*
NET FINANCE INCOME/LOSS	178,909	-112,177	*-259.5%*	*291,086*

Factors influencing changes

In 2022, the Group reported GEL 178.9 million net finance income compared to the net finance loss of GEL 112.2 million in 2021. The positive difference of GEL 291.1 million was mainly due to the payment of a premium on early redemption of issued bonds in June 2021. It was also impacted by the appreciation of the GEL against foreign currencies. Moreover, the Group experienced a net foreign exchange gain of GEL 218.9 million, due to the GEL's appreciation against the USD in 2022.

The premium on early redemption of issued bonds of GEL 115.7 million in the nine months of 2021 related to the Eurobonds refinancing process that took place in the second quarter of 2021. GR repurchased Eurobonds 2022 by the end of June 2021 and issued Green Eurobonds with a 4% coupon rate.

Lower interest expenses during 2022, compared to 2021, were due to the lower coupon rate on new Green Eurobonds issued in 2021, as well as a change to the dates of semi-annual payments.

An increase in interest income of GEL 6.7 million in 2022 compared to the same period of 2021 was mainly due to the higher average cash balances.

1.5 INCOME TAX EXPENSES/BENEFITS

General description

In May 2016, the Parliament of Georgia adopted amendments to the Tax Code of Georgia, effective from 1 January 2017. According to the new tax code, the previously active profit tax regulation was changed to the so-called “tax on distributed profits” model.

INCOME TAX EXPENSES/BENEFITS

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	*%*	***Absolute***
Income tax benefits/(costs)	-644	-500	*28.9%*	*-145*

Factors influencing changes

In May 2016, the Parliament of Georgia adopted amendments to the Tax Code of Georgia, effective from 1 January 2017. According to the new tax code, the previous system was changed to a so-called “tax on distributed profits” model. During 2022, income tax expenses increased by 28.9% (GEL 0.1 million), compared to 2021.

II. BALANCE SHEET

2.1 NON- CURRENT ASSETS

GEL '000	TOTAL		CHANGE	
As at 31 December	2022	2021	%	Absolute
PROPERTY, PLANT AND EQUIPMENT	1,831,197	1,825,474	0.3%	5,723
LOANS RECEIVABLE	0	31,282	-100.0%	-31,282
OTHER NON-CURRENT ASSETS	181,709	130,961	38.8%	50,748
OTHER RECEIVABLES	47,738	0	100.0%	47,738
TOTAL	2,060,644	1,987,717	3.7%	25,189

Factors influencing changes

Property, plant and equipment – A GEL 5.7 million increase in property, plant and equipment in 2022, compared to 2021 was largely due to the acquisition of fixed assets.

Loans receivable – A GEL 31.3 million decrease in loans receivable was mainly due to the reclassification of loans receivable in current assets.

Other non-current assets – A GEL 50.7 million rise in other non-current assets was mainly due to the reclassification of some construction materials from inventory to other non-current assets leading to an increase of GEL 32.9 million in the latter and an increase in advances to suppliers by GEL 18.1 million.

2.2 CURRENT ASSETS

GEL '000	TOTAL		CHANGE	
As at 31 December	2022	2021	%	Absolute
INVENTORIES	33,944	36,937	-8.1%	-2,993
TRADE AND OTHER RECEIVABLES	14,519	13,965	4.0%	554
CURRENT TAX ASSETS	3,363	0	100.0%	3,363
PREPAYMENTS AND OTHER CURRENT ASSETS	8,347	5,635	48.1%	2,712
BANK DEPOSITS	4,071	3,254	25.1%	817
CASH AND CASH EQUIVALENTS	274,629	212,224	29.4%	62,405
TOTAL	338,873	272,015	24.6%	66,858

Factors influencing changes

Trade and other receivables – A GEL 0.6 million increase, largely due to a lower impairment allowance on trade receivables, which in turn was due to the writing-off of trade receivables from partnering companies, was recorded in 2022 compared to 2021.

Current tax assets – A GEL 3.4 million increase in tax assets was largely due to a reverse of VAT on purchased inventories in 2022, compared to 2021 (see "Current liabilities").

Prepayments and other current assets – A GEL 2.7 million rise in prepayments and other current assets was due to an increase in advances paid to suppliers in 2022, compared to 2021.

**For cash and cash equivalents, see "Cash flow Statement."*

2.3 EQUITY

GEL '000	TOTAL		CHANGE	
As at 31 December	2022	2021	%	*Absolute*
CHARTER CAPITAL	1,055,031	1,054,805	*0.0%*	*226*
NON-CASH OWNER CONTRIBUTION RESERVES	100,602	100,585	*0.0%*	*16*
RETAINED EARNINGS	-374,365	-742,261	*-49.6%*	*367,897*
TOTAL	781,268	413,129	*89.1%*	*368,139*

There was a GEL 368.1 million increase in total equity in 2022, compared to the previous year, mainly due to a change in retained earnings (net income of GEL 396.7 million in 2022).

2.4 NON-CURRENT LIABILITIES

In GEL '000	TOTAL		CHANGE	
As at 31 December	2022	2021	%	*Absolute*
LOANS AND BORROWINGS	1,378,147	1,590,817	*-13.4%*	*-212,670*
ADVANCED RECEIVED FROM THE GOVERNMENT	46,594	46,594	*0.0%*	*1*
TRADE AND OTHER PAYABLES	30,242	56,198	*-46.2%*	*-25,956*
TOTAL	1,454,983	1,693,609	*-14.1%*	*-238,626*

Factors influencing changes

Loans and borrowings – Currently, the Group has two debts: Green Eurobonds; and a secured loan obtained for the sole purpose of the acquisition of passenger trains. The decrease in loans and borrowings was mainly due to the appreciation of the GEL against foreign currencies.

Trade and other payables – A GEL 26.0 million decrease in trade and other payables was mainly due to liabilities related to the Modernization Project.

2.5 CURRENT LIABILITIES

GEL '000	TOTAL		CHANGE	
As at 31 December	2022	2021	%	*Absolute*
LOANS AND BORROWINGS	14,273	16,015	*-10.9%*	*-1,742*
TRADE AND OTHER PAYABLES	122,242	105,873	*15.5%*	*16,367*
LIABILITIES TO THE GOVERNMENT	4,712	4,718	*-0.1%*	*-7*
PROVISIONS	13,981	14,397	*-2.9%*	*-415*
CURRENT TAX LIABILITIES	0	3,515	*-100.0%*	*-3,515*
OTHER CURRENT LIABILITIES	8,058	8,476	*-4.9%*	*-417*
TOTAL	163,266	152,994	*6.7%*	*10,272*

Factors influencing changes

Loans and borrowings – A GEL 1.7 million decrease in loans and borrowings was mainly due to the appreciation of the GEL against foreign currencies.

Trade and other payables – A GEL 16.4 million increase in 2022, compared to 2021, was due to a rise in payables to suppliers and an increase in deferred credit obligations.

Current tax liabilities – A GEL 3.5 million decrease in tax assets was due to a reverse of VAT on purchased inventories in 2022, compared to 2021 (see "Current Assets").

III. CASH FLOW STATEMENT

By the end of 2022, the Group held GEL 274.6 million in cash and cash equivalents. These cash resources support working capital and fixed capital expenditures. In particular, fixed capital expenditures mainly concern the Modernization Project, works on which are expected to be finalized in 202 *(see 8.2 Ongoing projects in the Company)*.
The Group mainly relies on its operating activities to fund its current and future cash requirements.

3.1 OPERATING ACTIVITIES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	*%*	***Absolute***
CASH RECEIPTS FROM CUSTOMERS	691,891	557,864	*24.0%*	*134,027*
CASH PAID TO SUPPLIERS AND EMPLOYEES	-403,670	-310,564	*30.0%*	*-93,106*
NET CASH FROM OPERATING ACTIVITIES	288,221	247,300	*16.5%*	*40,921*

Factors influencing changes

Net cash from operating activities increased by GEL 41.0 million in 2022 compared to 2021. This rise was principally due to an increase in cash receipts from customers, which was, in turn, due to an increase in transported volumes. This was partially offset by a greater amount of cash being paid to suppliers and employees.

3.2 INVESTING ACTIVITIES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2022**	**2021**	*%*	***Absolute***
ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT	-134,968	-77,156	*74.9%*	*-57,812*
PROCEEDS FROM SALE OF PROPERTY, PLANT AND EQUIPMENT	7,383	2,902	*154.4%*	*4,481*
INTEREST RECEIVED	27,434	20,907	*31.2%*	*6,527*
INCREASE/DECREASE IN TERM DEPOSITS	-817	-3,254	*-74.9%*	*2,437*
ISSUANCE OF LOAN(S)	-21,568	0	*-100.0%*	*-21,568*
NET CASH USED IN INVESTING ACTIVITIES	-122,536	-56,601	*116.5%*	*-65,935*

Factors influencing changes

Cash used in investing activities increased by GEL 65.9 million in 2022, compared to the previous year. This change was mainly driven by a rise in cash of GEL 57.8 million used for the acquisition of property, plant and equipment, which was, in turn, primarily due to higher cash outflows related to the Modernization Project in 2022, compared to 2021. The increase was also driven by a loan of USD 7.0 million issued by GR to the parent company in the first quarter of 2022.

3.3 FINANCING ACTIVITIES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	*Absolute*
PROCEEDS FROM BORROWINGS	0	1,577,389	*-100.0%*	*-1,577,389*
REPAYMENT OF BORROWINGS	-12,617	-1,589,975	*-99.2%*	*1,577,358*
PREMIUM ON EARLY REDEMPTION OF ISSUED BONDS	0	-115,686	*100.0%*	*115,686*
INTEREST PAID	-57,829	-152,780	*62.1%*	*94,950*
LOAN REFINANCING FEES PAID	0	-3,976	*-100.0%*	*3,976*
OTHER DISTRIBUTION TO OWNER	-26,356	0	*100.0%*	*-26,356*
NET CASH USED IN FINANCING ACTIVITIES	-96,802	-285,028	*-66.0%*	*188,226*

Factors influencing changes

Cash used in financing activities decreased by GEL 188.2 million in 2022, compared to 2021. Meanwhile, proceeds from borrowing decreased by GEL 1.6 billion because of the refinancing of Eurobonds (USD 500.0 million) in June 2021. The Group paid a premium on early redemption on unsecured bonds of about GEL 115.7 million.

Lower interest expenses during 2022, compared to 2021, were due to a lower coupon rate on new Green Eurobonds issued in 2021, as well as a change to the dates of semi-annual payments.

The Group has distributed to owner GEL 26.4 million in 2022, compared to 2021.

APPENDIX

APPENDIX 1

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

'000 tons	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	*Absolute*
LIQUID CARGOES	4,771	3,762	*26.8%*	*1,009*
OIL PRODUCTS	4,496	3,690	*21.8%*	*806*
CRUDE OIL	275	72	*283.8%*	*204*
DRY CARGOES	10,002	8,369	*19.5%*	*1,633*
ORES	1,925	1,874	*2.8%*	*52*
GRAIN	329	189	*73.9%*	*140*
FERROUS METALS AND SCRAP	625	576	*8.4%*	*49*
SUGAR	719	420	*71.3%*	*300*
CHEMICALS AND FERTILIZERS	1,859	1,337	*39.0%*	*522*
CONSTRUCTION FREIGHT	1,072	933	*14.9%*	*139*
INDUSTRIAL FREIGHT	594	415	*43.2%*	*179*
CEMENT	44	35	*25.7%*	*9*
OTHER	2,834	2,590	*9.4%*	*244*
TOTAL	14,773	12,131	*21.8%*	*2,642*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

'000 tons	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	*Absolute*
IMPORT	2,955	2,398	*23.2%*	*557*
EXPORT	1,270	1,157	*9.7%*	*112*
DOMESTIC	1,893	1,845	*2.6%*	*48*
TRANSIT	8,655	6,731	*28.6%*	*1,925*
TOTAL	14,773	12,131	*21.8%*	*2,642*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS (QUARTERLY)

'000 tons

For the year ended 31 December	Q4 2022	Q4 2021	*y-o-y*	Q3 2022	*q-o-q*
LIQUID CARGOES	1,267	691	*83.3%*	1,262	*0.4%*
OIL PRODUCTS	1,198	647	*85.1%*	1,256	*-4.6%*
CRUDE OIL	69	44	*56.5%*	6	*1041.1%*
DRY CARGOES	2,604	2,389	*9.0%*	2,824	*-7.8%*
ORES	530	455	*16.4%*	593	*-10.7%*
GRAIN	109	105	*3.7%*	108	*1.4%*
FERROUS METALS AND SCRAP	121	132	*-8.3%*	161	*-24.8%*
SUGAR	114	107	*6.9%*	311	*-63.3%*
CHEMICALS AND FERTILIZERS	525	480	*9.3%*	418	*25.5%*
CONSTRUCTION FREIGHT	318	239	*32.8%*	323	*-1.5%*
INDUSTRIAL FREIGHT	209	134	*55.6%*	171	*22.0%*
CEMENT	22	11	*112.2%*	12	*80.7%*
OTHER	656	725	*-9.6%*	727	*-9.8%*
TOTAL	3,871	3,080	*25.7%*	4,086	*-5.3%*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS (QUARTERLY)

'000 tons

For the period ended	Q4 2022	Q4 2021	*y-o-y*	Q3 2022	*q-o-q*
IMPORT	766	610.1	*25.5%*	867	*-12.0%*
EXPORT	347	354.2	*-2.0%*	319	*8.9%*
DOMESTIC	564	478.5	*17.8%*	563	*0.1%*
TRANSIT	2,194	1,637.4	*34.0%*	2,335	*-6.0%*
TOTAL	3,871	3,080	*25.7%*	4,086	*-5.3%*

APPENDIX 2

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

In million ton-kilometers	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	*Absolute*
LIQUID CARGOES	1,497	1,189	*25.9%*	*308*
OIL PRODUCTS	1,392	1,161	*19.9%*	*231*
CRUDE OIL	105	28	*275.4%*	*77*
				0
DRY CARGOES	2,667	2,102	*26.9%*	*565*
ORES	372	317	*17.4%*	*55*
GRAIN	101	50	*100.1%*	*50*
FERROUS METALS AND SCRAP	142	125	*13.3%*	*17*
SUGAR	265	156	*70.0%*	*109*
CHEMICALS AND FERTILIZERS	668	459	*45.8%*	*210*
CONSTRUCTION FREIGHT	163	135	*20.8%*	*28*
INDUSTRIAL FREIGHT	68	59	*16.3%*	*10*
CEMENT	12	9	*40.1%*	*3*
OTHER	876	793	*10.4%*	*83*
TOTAL	4,164	3,291	*26.5%*	*873*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

In million ton-kilometers	TOTAL		CHANGE	
For the year ended 31 December	2022	2021	%	*Absolute*
IMPORT	454	403	*12.5%*	*50*
EXPORT	365	307	*18.8%*	*58*
DOMESTIC	161	148	*8.7%*	*13*
TRANSIT	3,184	2,432	*30.9%*	*752*
TOTAL	4,164	3,291	*26.5%*	*873*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS (QUARTERLY)

In million ton-kilometers

For the period ended	Q4 2022	Q4 2021	*y-o-y*	Q3 2022	*q-o-q*
LIQUID CARGOES	385	213	*81.0%*	372	*3.5%*
OIL PRODUCTS	358	195	*83.0%*	370	*-3.3%*
CRUDE OIL	27	17	*58.4%*	2	*1315.4%*
DRY CARGOES	674	623	*8.2%*	751	*-10.2%*
ORES	117	79	*47.2%*	112	*4.0%*
GRAIN	32	30	*6.6%*	34	*-7.6%*
FERROUS METALS AND SCRAP	19	27	*-29.3%*	42	*-53.5%*
SUGAR	41	40	*3.8%*	114	*-63.9%*
CHEMICALS AND FERTILIZERS	190	169	*12.5%*	153	*24.6%*
CONSTRUCTION FREIGHT	49	34	*43.6%*	50	*-2.4%*
INDUSTRIAL FREIGHT	23	16	*42.7%*	18	*32.0%*
CEMENT	6	3	*131.6%*	4	*64.4%*
OTHER	197	225	*-12.7%*	224	*-12.4%*
TOTAL	1,059	836	*26.7%*	1,123	*-5.7%*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS (QUARTERLY)

In million ton-kilometers

For the year ended 31 December	Q4 2022	Q4 2021	*y-o-y*	Q3 2022	*q-o-q*
IMPORT	96	101	*-4.8%*	125	*-22.7%*
EXPORT	103	102	*1.4%*	95	*8.4%*
DOMESTIC	51	41	*23.7%*	47	*8.6%*
TRANSIT	809	592	*36.7%*	856	*-5.6%*
TOTAL	1,059	836	*26.7%*	1,123	*-5.7%*

APPENDIX 3

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

'000 tons	2021				2022			
For the period ended	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
LIQUID CARGOES	1,113	1,024	933	691	873	1,368	1,262	1,267
OIL PRODUCTS	1,112	1,023	907	647	872	1,169	1,256	1,198
CRUDE OIL	1	1	26	44	1	199	6	69
DRY CARGOES	1,868	2,007	2,105	2,389	2,127	2,447	2,824	2,604
ORES	387	478	554	455	408	394	593	530
GRAIN	41	31	11	105	37	75	108	109
FERROUS METALS AND SCRAP	130	156	158	132	102	241	161	121
SUGAR	105	107	101	107	63	232	311	114
CHEMICALS AND FERTILIZERS	338	208	311	480	529	386	418	525
CONSTRUCTION FREIGHT	204	227	263	239	191	240	323	318
INDUSTRIAL FREIGHT	74	99	108	134	77	137	171	209
CEMENT	9	9	6	11	4	5	12	22
OTHER	579	692	594	725	715	737	727	656
TOTAL	2,981	3,031	3,038	3,080	3,000	3,815	4,086	3,871

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

'000 tons	2021				2022			
For the period ended	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
IMPORT	501	588	699	610	575	745	870	766
EXPORT	324	258	221	354	337	267	319	347
DOMESTIC	421	465	481	479	345	421	563	564
TRANSIT	1,736	1,721	1,637	1,637	1,744	2,383	2,335	2,194
TOTAL	2,981	3,031	3,038	3,080	3,000	3,815	4,086	3,871

APPENDIX 4

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

In million ton-kilometers	2021				2022			
For the period ended	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
LIQUID CARGOES	367	329	281	213	284	457	372	385
OIL PRODUCTS	366	329	271	195	284	380	370	358
CRUDE OIL	0	0	10	17	0	76	2	27
DRY CARGOES	472	490	516	623	581	661	751	674
ORES	62	75	100	79	74	69	112	117
GRAIN	8	10	3	30	11	23	34	32
FERROUS METALS AND SCRAP	28	34	35	27	19	61	42	19
SUGAR	40	40	36	40	24	85	114	41
CHEMICALS AND FERTILIZERS	112	69	109	169	191	135	153	190
CONSTRUCTION FREIGHT	31	33	37	34	28	36	50	49
INDUSTRIAL FREIGHT	16	13	13	16	11	16	18	23
CEMENT	2	2	2	3	1	1	4	6
OTHER	174	213	181	225	222	233	224	197
TOTAL	839	819	797	836	865	1,117	1,123	1,059

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

In million ton-kilometers	2021				2022			
For the period ended	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
IMPORT	87	97	118	101	102	131	125	96
EXPORT	87	65	54	102	94	72	95	103
DOMESTIC	33	36	37	41	28	35	47	51
TRANSIT	633	621	587	592	640	879	856	809
TOTAL	839	819	797	836	865	1,117	1,123	1,059

APPENDIX 5

According to Condition 3 (d) of the “Terms and Conditions of the Notes” (The U.S. $500,000,000 4% Notes issued by Georgian Railway JSC on 10 June 2021, with a maturity date set for 17 June 2028), Georgian Railway and/or its subsidiary is entitled to incur financial indebtedness if the ratio of net financial indebtedness of the issuer and its subsidiaries as of the date of such incurrence to the aggregate amount of EBITDA for the most recent consecutive semi-annual periods ending prior to the date of such determination for which consolidated financial statements have been delivered, does not exceed 3.5 to 1.

The given table sets forth the calculation of net financial indebtedness to adjusted EBITDA and according to the above-mentioned Condition 3 (d) of the “Terms and Conditions of the Notes.” However, this calculation is for information only and does not implicate that any specific date is the incurrence date (or “the date of determination”) as defined in Condition 3 of the “Terms and Conditions of the Notes.”

CALCULATIONS OF THE RATIO OF NET FINANCIAL INDEBTEDNESS TO ADJUSTED EBITDA:

GEL ‘000	Twelve-month period ended 31-Dec-22	Twelve-month period ended 31-Dec-21
REVENUE	674,773	547,868
OTHER INCOME	15,825	8,951
IMPAIRMENT LOSS ON TRADE RECEIVABLES	840	-2,791
EMPLOYEE BENEFITS EXPENSES	-197,708	-180,701
DEPRECIATION AND AMORTIZATION EXPENSE	-66,585	-58,397
ELECTRICITY, CONSUMABLES AND MAINTENANCE COSTS	-80,207	-54,567
OTHER EXPENSES	-128,521	-94,975
RESULTS FROM OPERATING ACTIVITIES	218,417	165,388
FINANCE INCOME	249,402	107,894
FINANCE COSTS	-70,493	-220,071
NET FINANCE COSTS	178,908	-112,177
PROFIT/(LOSS) BEFORE INCOME TAX	397,325	53,211
INCOME TAX BENEFIT	-644	-500
PROFIT/(LOSS)AND TOTAL COMPREHENSIVE INCOME/(LOSS)	396,681	52,711
RESULTS FROM OPERATING ACTIVITIES	218,417	165,388
DEPRECIATION ADD-BACK	66,585	58,397
IMPAIRMENT LOSS ON TRADE RECEIVABLES	-840	2,791
ADJUSTED EBITDA	284,162	226,576
FINANCIAL INDEBTEDNESS	1,392,420	1,606,833
LESS:		
AVAILABLE CREDIT FACILITIES	0	62,976
CASH	274,629	212,224
NET FINANCIAL INDEBTEDNESS:	1,117,790	1,331,633
NET FINANCIAL INDEBTEDNESS/ADJUSTED EBITDA	**3.93**	**5.88**

ASSUMPTIONS

Adjusted EBITDA is calculated by adding back depreciation and amortization as well as impairment losses on financial and non-financial assets to the results from operating activities.
Financial result variances at constant currency are obtained by converting the comparable period of the current -year results denominated into Georgian Lari (GEL) at the average foreign exchange rates for the prior period.

Glossary

AA	**Association Agreement**
ADB	**Asian Development Bank**
Alstom SA	**French multinational rolling stock manufacturer operating worldwide in rail transport markets**
BTC	**Baku-Tbilisi-Ceyhan**
BTK	**Baku-Tbilisi-Kars**
CAPEX	**Capital expenditure**
CENELEC	**Commission Européenne de Normalisation Électrique (EU standards organization for electrical goods)**
CEO	**Chef Executive Officer**
CFO	**Chief Financial Officer**
CG/LA Forum	**Global Infrastructure Leadership**
CHF	**Swiss Franc**
CIS	**Commonwealth of Independent States**
CPC	**Caspian Pipeline Consortium**
CPU	**Central Processing Unit**
CRT	**Council for Rail Transport**
DB	**Deutsche Bahn**
DCFTA	**Deep and Comprehensive Free Trade Areas**
DWDM	**Dense wavelength-division multiplexing**
EBIT	**Earnings before interest and tax**
EBITDA	**Earnings before interest, taxes, depreciation and amortization**
EBRD	**European Bank for Reconstruction and Development**
EC	**European Commission**
EMU	**Electric Multiple Unit**
ESG	**Environmental, Social and Governance**
EU	**European Union**
FEZ	**Free Economic Zone**
FTA	**Free Trade Agreement**
FX	**Foreign Exchange. The value of Georgian Lari relative to the US Dollar or any other currency.**
GBP	**British pound sterling**
GBP	**Green Bond Principles**

GDP	Gross Domestic Product
GEL	Georgian Lari
GMS	General Meeting of Shareholders
GR	Georgian Railway
GSP	Generalized System of Preferences
ICMA	Institute of Cost and Management Accountants
IEC	International Electrotechnical Commission
IFB	INSTITUT FÜR BAHNTECHNIK GmbH
IGC	The Intergovernmental Commission
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
ISO	International Organization for Standardization
ITIL	Information Technology Infrastructure Library
JSC	Joint-stock Company
LLC	Limited Liability Company
LT	Long-term
MPS	Multiprocessor Specification
NATO	North Atlantic Treaty Organization
NBG	National Bank of Georgia
NNLE	Non-entrepreneurial Non-commercial Legal Entity
OPEC	The Organization of the Petroleum Exporting Countries. OPEC
OPEX	Operational expenditure
PP&E	Property, plant and equipment
Revenue per ton-kilometer	The term refers to the average revenue that the Group receives per ton-kilometer
RTC	Railway Transport College
SAP	System Applications and Products in Data Processing
SBU	Strategic business unit
SEZ	Special Economic Zone
SIL	Safety Integrity Level
ST	Short term
Tetri	Minor unit of Georgian national currency
TEU	Twenty-foot equivalent unit
TFI	Task Force on National Greenhouse Gas Inventories
The Company	Georgian Railway
The Government	The Government of Georgia
The Group	Georgian Railway and its subsidiaries

The State	Republic of Georgia
TITR	Trans-Caspian International Transport Route
Ton-kilometer	Unit of measurement representing the movement over a distance of one kilometer of one ton of contents (also referred as tkm or ton-km)
TRACECA	Transport Corridor Europe Caucasus Asia Transportation
ULCC	Ultra-large crude carrier
US	United States
USD	United States Dollar
VAT	Value-added tax
VLCC	Class of large oil tanker, larger than Suezmax and smaller than ULCC
WBS	World Business Solutions
WTO	World Trade Organization

JSC Georgian Railway

Consolidated Financial Statements for 2022

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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 2022, 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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards, as issued by the International Accounting Standards Board (IFRS Standards).

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 changes in market trends during 2022 and considering that the impairment test conducted at 31 December 2021 was sensitive to changes in key assumptions the Management concluded that there was a need to perform an impairment test at 31 December 2022.	We have performed the following primary 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;

As a result of the impairment test conducted, the recoverable amount of the Group's property, plant and equipment was determined to be close to and not lower of its carrying amount and no additional impairment loss or reversal was recognised in 2022. The impairment of property, plant and equipment is a Key Audit Matter due to the level of judgemental assumptions involved in Management's impairment analysis and inherent estimation uncertainties involved in the forecasting and discounting of 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 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; - Evaluated the sensitivity of the impairment model outcomes by considering the downside scenarios against reasonably plausible changes to the key assumptions; and - 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*.

Statement on Management Report

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 auditor's report thereon. The other information is expected to be available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

When we read the other information, we conclude whether the other information:

- is consistent with the consolidated financial statements and does not contain material misstatement;
- contains all 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 Standards, 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.

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

Natia Tevzadze:

ნათია

KPMG Georgia LLC
30 June 2023

’000 GEL	**Note**	**31 December 2022**	**31 December 2021**
Assets			
Property, plant and equipment	10	1,831,197	1,825,474
Loans receivable	11	-	31,282
Other non-current assets	12	181,709	130,961
Other receivable	11	47,738	-
Non-current assets		**2,060,644**	**1,987,717**
Inventories	13	33,944	36,937
Tax assets		3,363	-
Prepayments and other current assets		8,347	5,635
Trade and other receivables	14	14,519	13,965
Term deposit		4,071	3,254
Cash and cash equivalents	15	274,629	212,224
Current assets		**338,873**	**272,015**
Total assets		**2,399,517**	**2,259,732**
Equity			
Share capital	16 (a)	1,055,031	1,054,805
Non-cash owner contribution reserve	16 (b)	100,602	100,585
Accumulated losses		(374,365)	(742,261)
Total equity		**781,268**	**413,129**
Liabilities			
Loans and borrowings	18	1,378,147	1,590,817
Advance received from the Government	16 (e)	46,594	46,594
Payables for non-current assets	19	30,242	56,198
Non-current liabilities		**1,454,983**	**1,693,609**
Loans and borrowings	18	14,273	16,015
Trade and other payables	19	122,242	105,873
Liabilities to the Government	16 (c)	4,712	4,718
Provisions	20	13,981	14,397
Tax liabilities		-	3,515
Other current liabilities		8,058	8,476
Current liabilities		**163,266**	**152,994**
Total liabilities		**1,618,249**	**1,846,603**
Total equity and liabilities		**2,399,517**	**2,259,732**

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	2022	2021
Revenue	6	674,773	547,868
Other income		15,825	8,951
Employee benefit expenses		(197,708)	(180,701)
Depreciation and amortization expense		(66,585)	(58,397)
Electricity, consumables and maintenance costs	7	(80,207)	(54,567)
Impairment loss/ (reversal) on trade receivables	21(b)(ii)	840	(2,791)
Other expenses	8	(128,521)	(94,975)
Profit from operating activities		**218,417**	**165,388**
Finance income	9	30,478	23,670
Finance costs	9	(70,493)	(220,071)
Net foreign exchange gain	9	218,923	84,224
Net finance income/ (costs)		**178,908**	**(112,177)**
Profit before income tax		**397,325**	**53,211**
Income tax expense		(644)	(500)
Profit and total comprehensive income for the year		**396,681**	**52,711**

These consolidated financial statements were approved by the Management Board on 30 June 2023 and were signed on its behalf by:

David Peradze
General Director

Irakli Titvinidze
Financial Director

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**	**Accumulated losses**	**Total equity**
Balance at 1 January 2021	1,053,936	100,322	(794,972)	359,286
Profit and total comprehensive income for the year	-	-	52,711	52,711
Transactions with owner, recorded directly in equity				
Net increase in share capital (Note 16 (a))	869	-	-	869
Non-cash contribution from owner	-	263	-	263
Total transactions with owner, recorded directly in equity	**869**	**263**	**-**	**1,132**
Balance at 31 December 2021	**1,054,805**	**100,585**	**(742,261)**	**413,129**
Balance at 1 January 2022	1,054,805	100,585	(742,261)	413,129
Profit and total comprehensive income for the year	-	-	396,681	396,681
Transactions with owner, recorded directly in equity				
Net increase in share capital (Note 16 (a))	226	-	-	226
Non-cash contribution from owner	-	17	-	17
Other distribution to owner (Note 16 (d))	-	-	(26,356)	(26,356)
Effect on modification of related party loan (Note 11)	-	-	(2,429)	(2,429)
Total transactions with owner, recorded directly in equity	**226**	**17**	**(28,785)**	**(28,542)**
Balance at 31 December 2022	**1,055,031**	**100,602**	**(374,365)**	**781,268**

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	2022	2021
Cash flows from operating activities			
Cash receipts from customers		691,891	557,864
Cash paid to suppliers and employees		(403,670)	(310,564)
Net cash from operating activities		**288,221**	**247,300**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(134,968)	(77,156)
Proceeds from sale of property, plant and equipment		7,383	2,902
Loans issued		(21,568)	-
Interest received		27,434	20,907
Increase in term deposit		(817)	(3,254)
Net cash used in investing activities		**(122,536)**	**(56,601)**
Cash flows from financing activities			
Proceeds from Bonds	18 (b)	-	1,577,389
Repayment of borrowings	18 (b)	(12,617)	(1,589,975)
Premium paid on early redemption of issued bonds		-	(115,686)
Loan refinancing fees paid	18 (b)	-	(3,976)
Other distribution to owner	16 (d)	(26,356)	-
Interest paid	18 (b)	(57,829)	(152,780)
Net cash used in financing activities		**(96,802)**	**(285,028)**
Net increase/ (decrease) in cash and cash equivalents		**68,883**	**(94,329)**
Cash and cash equivalents at 1 January		212,224	322,986
Effect of exchange rate fluctuations on cash and cash equivalents		(5,943)	(16,473)
Effect of movements in ECL on cash and cash equivalents		(535)	40
Cash and cash equivalents at 31 December	15	**274,629**	**212,224**

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 COVID-19 coronavirus pandemic and increased tensions over Ukraine in 2022 have further increased uncertainty in the business environment.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry.

Global factors resulted in 11.9% inflation rate for 2022 in Georgia. However, despite the high inflation Georgian economy grew by 10% in 2022 based on preliminary information. The real GDP growth is mainly driven by the increased export, tourism revenues and acceleration of remittances related to the inflow of migrants/tourists. Georgian Lari got jitters as the war in Ukraine broke, but it appreciated against the USD on balance by 12.53 % in 2022. Sources: www.geostat.ge; www.nbg.gov.ge.

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 ultimate controlling party of the Group is the Government of Georgia. As at 31 December 2021, the Company was wholly owned by JSC Partnership Fund, a wholly state-owned company. On 29 November 2022, following the Decree of the Government of Georgia # 2167, 100% of the Company's shares was transferred to the Government of Georgia.

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 IFRS Standards, as issued by the International Accounting Standards Board (IFRS Standards).

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 IFRS Standards 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 and the disclosure of contingent assets and liabilities. 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 18 (a) – recognition of green bonds;
- Note 27 (h) (iii) – useful lives and residual values of property, plant and equipment;
- Note 10 (a) – suspension of capitalisation of borrowing costs;
- Note 11 – derecognition of loans receivable and recognition and measurement of receivable from Partnership Fund JSC;
- Notes 19 and 21 (b) (ii) – classification and measurement of advances paid and retention fees for Tbilisi Bypass and Main Line Modernization projects (including recoverability of the advances paid for Tbilisi Bypass project, classified as "receivable related to Tbilisi Bypass project" as at 31 December 2022).

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 10 (g) – sensitivity of residual values of property, plant and equipment.

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;
– Note 11 – fair value of 21.716% shares of Gardabani Thermal Power Plant LLC (“Gardabani TPP”).

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	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
External revenues	614,836	505,407	27,423	14,808	642,259	520,215
Depreciation and amortization	(10,873)	(9,563)	(12,430)	(11,548)	(23,303)	(21,111)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	431,245	358,079	(15,533)	(21,307)	415,712	336,772
Reportable segment assets	203,577	189,935	101,998	112,554	305,575	302,489
Capital expenditure and other additions to non-current assets	18,607	6,163	1,071	1,723	19,678	7,886

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and other material items

’000 GEL	2022	2021
Revenues		
Total revenue for reportable segments	642,259	520,215
Other revenue	32,514	27,653
Consolidated revenue	**674,773**	**547,868**
Profit or loss		
Total profit for reportable segments before infrastructure costs, net impairment, interest cost and income tax	415,712	336,772
Employee benefits expense – infrastructure and headquarters	(85,177)	(78,236)
Depreciation expenses – infrastructure and headquarters	(43,283)	(37,287)
Net finance income/ (costs)	178,908	(112,177)
Other net unallocated expenses*	(68,835)	(55,861)
Consolidated profit before income tax	**397,325**	**53,211**
Assets		
Total assets for reportable segments	305,575	302,489
Property, plant and equipment - infrastructure and headquarters	1,557,708	1,564,612
Other unallocated assets, principally cash and non-current assets	536,234	392,631
Consolidated total assets	**2,399,517**	**2,259,732**

* Other net unallocated expenses include logistic services expense of GEL 71,285 thousand (2021: GEL 32,918 thousand) which was not included in the freight transportation segment profit presented to the Group’s Management Board.

(iii) Other material items in 2022

’000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	19,678	124,682	144,360
Depreciation and amortization	23,303	43,282	66,585

(iv) Other material items in 2021

’000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	7,886	68,771	76,657
Depreciation and amortization	21,111	37,286	58,397

(v) Geographical information

Approximately 98% 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 2022, three customers of the Group’s freight transportation segment represented approximately 12% of the Group’s total revenue (2021: two customers - 18%).

6. Revenue

'000 GEL	**2022**	**2021**
Freight traffic	480,626	423,795
Logistic services	123,071	69,371
Passenger traffic	27,423	14,808
Rent of wagons and other rental income	4,072	4,647
Freight car cross-border charge	9,703	9,910
Other	29,878	25,337
	674,773	**547,868**

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 external parties.

Passenger traffic - Revenue generated by charging 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 the 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 (Note 21 (b))	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	**2022**	**2021**
Electricity	43,916	30,857
Materials	15,237	12,103
Repair and maintenance	10,569	5,062
Fuel	10,485	6,545
	80,207	**54,567**

8. Other expenses

’000 GEL	**2022**	**2021**
Logistic services	71,285	32,918
Taxes, other than on income	24,254	30,458
Freight car cross-border charge	10,928	4,065
Security	10,390	9,731
Other *	11,664	17,803
	128,521	**94,975**

* Included in Other above are fees paid to audit firms of about GEL 686 thousand for the provision of audit and other professional services (2021: GEL 687 thousand). In 2021 the Group recognised GEL 5,070 thousand of expense related to lost litigation, started in 2016 (see Note 20).

9. Finance income and finance costs

’000 GEL	**2022**	**2021**
Recognised in profit or loss		
Interest income under the effective interest method	30,338	23,631
Impairment reversal on other financial assets	140	39
Finance income	**30,478**	**23,670**
Unwinding of discount on provisions and financial liabilities measured at amortised cost	-	(987)
Impairment loss on cash in bank	(535)	-
Loss on modification of financial instruments	(5,762)	(1,927)
Premium on the early redemption of issued bonds (Note 18)	-	(115,734)
Interest expense on financial liabilities measured at amortised cost	(64,196)	(101,423)
Finance costs	**(70,493)**	**(220,071)**
Net foreign exchange gain	218,923	84,224
Net finance income/ (costs) recognised in profit or loss	**178,908**	**(112,177)**

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 2021	537,943	133,058	1,019,853	1,020,042	1,340,554	4,051,450
Additions	1,492	604	472	142	52,877	55,587
Disposals and write offs	(1,989)	(900)	(4,441)	(50)	(240)	(7,620)
Transfers	292	288	13,067	8,372	(22,019)	-
Balance at 31 December 2021	**537,738**	**133,050**	**1,028,951**	**1,028,506**	**1,371,172**	**4,099,417**
Balance at 1 January 2022	537,738	133,050	1,028,951	1,028,506	1,371,172	4,099,417
Additions	47	639	74	19,871	56,112	76,743
Disposals and write offs	(1,405)	(87)	(9,668)	(4,031)	-	(15,191)
Transfers	34	1,197	100,817	10,980	(113,028)	-
Balance at 31 December 2022	**536,414**	**134,799**	**1,120,174**	**1,055,326**	**1,314,256**	**4,160,969**
Depreciation and impairment loss						
Balance at 1 January 2021	172,991	70,110	650,016	725,609	603,163	2,221,889
Depreciation for the year	-	2,805	30,093	24,792	-	57,690
Disposals and write offs	(492)	(193)	(4,612)	(339)	-	(5,636)
Reallocation of depreciation and impairment	7	(11)	639	11	(646)	-
Balance at 31 December 2021	**172,506**	**72,711**	**676,136**	**750,073**	**602,517**	**2,273,943**
Balance at 1 January 2022	172,506	72,711	676,136	750,073	602,517	2,273,943
Depreciation for the year	-	2,514	35,495	27,299	-	65,308
Disposals and write offs	(321)	(528)	(8,091)	(273)	(266)	(9,479)
Reallocation of depreciation and impairment	-	-	18,516	-	(18,516)	-
Balance at 31 December 2022	**172,185**	**74,697**	**722,056**	**777,099**	**583,735**	**2,329,772**
Carrying amounts						
At 1 January 2021	**364,952**	**62,948**	**369,837**	**294,433**	**737,391**	**1,829,561**
At 31 December 2021	**365,232**	**60,339**	**352,651**	**278,433**	**768,819**	**1,825,474**
At 31 December 2022	**364,229**	**60,102**	**398,118**	**278,227**	**730,521**	**1,831,197**

(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. The bonds were further refinanced in 2021(see Note 18).

No borrowing costs were capitalized in 2022 and 2021 due to significant slowdown (that was considered as a suspension of the project under IFRS Standards) of the Modernization project since 2020, mainly linked with the COVID-19 pandemic situation in Georgia. Main Line Modernization project is expected to be mostly finalised in 2023.

(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 the Tbilisi Bypass project will last for 18 months until the final modified project is presented.

During 2015 and 2016, 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 2022 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 2022 and 2021 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. The Group allocates all its non-financial assets to one cash-generating unit ("CGU") for impairment test purposes.

At 31 December 2018, 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 an 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 2021, the Group revisited some of its key assumptions with respect to longer-term prospects of growth as a result of new developments in the market, outside of the control of the Group. Consequently, the Group conducted an impairment test at 31 December 2021. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

As at 31 December 2022, the Management analyzed impairment indicators (external and internal) according to IAS 36 and concluded that there is a need to perform an impairment test because of the significant changes in market trends during 2022 and considering that the impairment test conducted at 31 December 2021 was sensitive to changes in key assumptions. The Management conducted a new impairment test at 31 December 2022. 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 2023, adjusted for the growth rates for Georgia and other relevant countries in the region of 4.5%-5.1% during the projected years. No volume growth is projected from 2027. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2023, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 3.8% and 1.9% during the first two projected years, respectively, and approximately 2% 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 26.6 million associated with the Modernization project above.
- An after-tax discount rate of 14.1% 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 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 141 million (1% point decrease in discount rate would have result in an impairment reversal of approximately GEL 189 million);
- Volume growth – A decrease of 5% in the transported volumes projection used would have resulted in impairment loss of approximately GEL 185 million (5% point increase in the transported volumes projections used would have resulted in impairment reversal of GEL 249 million);
- Terminal growth – A decrease of 1% point in the terminal growth rate used would have resulted in impairment loss of approximately GEL 93 million (1% point increase in the terminal growth rate used would have resulted in impairment reversal of approximately GEL 133 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 2022 the share capital has been increased by the fair value of assets contributed of GEL 226 thousand (2021: 869 thousand) (See Note 16 (a)).

(e) Security

At 31 December 2022, property with a carrying amount of GEL 59,898 thousand (31 December 2021: GEL 66,650 thousand) is pledged in respect of the secured loan (See Note 18).

(f) Capital commitment

As at 31 December 2022, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 315,426 thousand (2021: GEL 362,972 thousand) mainly relating to the Main Line Modernization project of GEL 66,184 thousand (2021: GEL 87,486 thousand) and Tbilisi Bypass project of GEL 238,661 thousand (2021: GEL 274,881 thousand, decreased 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) Sensitivity of changes in residual values of property, plant and equipment

The key assumptions to which the depreciation is most sensitive include:

- Residual Values – Decrease of 5% point in the scrap price used would have resulted in an increase of depreciation expense of approximately GEL 711 thousand.

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	**31 December 2022**	**31 December 2021**
Non-current assets		
Related Party*	-	31,282
	-	**31,282**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2022		**31 December 2021**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Related Party	USD	6.50%	2026	-	-	31,282	31,282
Total interest-bearing assets				**-**	**-**	**31,282**	**31,282**

* The loan is issued to Partnership Fund JSC. In 2022, 100% shareholding of the Company was transferred from Partnership Fund JSC to the Government of Georgia (Note 1).

In 2022, additional loan of USD 7 million (GEL 21,568 thousand) was disbursed by the Company to Partnership Fund JSC.

On 29 November 2022, terms of the parent company loan were amended as follows: currency was changed from USD to EUR, interest accrual was suspended and the parties agreed that the loan will be recovered in 2023 through cash that equals to carrying amount of the loan at modification date, on the basis that by 31 December 2023 Partnership Fund JSC is able to sell its indirect 100% shareholding of Gardabani TPP. In case Partnership Fund JSC fails to sell Gardabani TPP in 2023, it will be obliged to transfer 21.716% of Gardabani TPP to the Company no later than one month from 31 December 2023.

The above was assessed as a substantial modification to the contractual terms of the loan. As a result, on 29 November 2022, the Group derecognised related party loan of GEL 49,152 thousand and recognised a receivable from Partnership Fund JSC of GEL 46,723 thousand (classified as a financial asset at FVTPL due to not meeting SPPI test criteria). The difference between the balance of derecognised loan and recognized receivable of GEL 2,429 thousand was recognised directly in equity.

Receivable from Partnership Fund JSC was measured at lower of present value of cash receivable of GEL 46,723 thousand and fair value of 21.716% shares of Gardabani TPP of about GEL 53 million. The Group derived at the fair value of the investment in Gardabani TPP by discounting future cash flows expected from the operations of the thermal power plant, owned by Gardabani TPP, by discount rate of 16.55% (in GEL), and adjusting the total business value by minority and liquidity discounts of 22.1 % to derive at the value of 21.716% investment. The valuation is included in Level 3 measurement. The movement in the financial asset at FVTPL represents GEL 1,015 thousand in 2022 and is included in the finance income. The valuation is relatively sensitive to discount rate; 2% increase in discount rate would have caused the fair value of the investment to be lower than the amount of other receivable at initial recognition.

12. Other non-current assets

’000 GEL	**31 December 2022**	**31 December 2021**
Receivable related to Tbilisi Bypass project*	97,507	-
Construction materials	68,003	35,058
Prepayments for non-current assets	8,948	87,650
Intangible assets	7,251	8,253
	181,709	**130,961**

* Tbilisi Bypass project was suspended as at 31 December 2022 and 2021 (see Note 10). As at 31 December 2021, the receivable was included in prepayments for non-current assets. For the measurement of the receivable related to Tbilisi Bypass project, please see Note 19 and Note 21(b)(ii).

The Group’s exposure to credit and currency risks and impairment losses related to receivables are disclosed in Note 21.

13. Inventories

’000 GEL	**31 December 2022**	**31 December 2021**
Materials	25,741	29,212
Fuel	2,539	2,824
Rails	1,982	1,379
Other	5,547	5,071
	35,809	**38,486**
Write-down for inventory obsolescence	(1,865)	(1,549)
	33,944	**36,937**

14. Trade and other receivables

'000 GEL	**31 December 2022**	**31 December 2021**
Trade receivables	220,078	239,600
Impairment allowance on trade receivables	(206,092)	(225,974)
	13,986	**13,626**
Other receivables	533	339
	14,519	**13,965**

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	**31 December 2022**	**31 December 2021**
Current accounts in banks	114,903	45,196
Call deposits	160,503	167,270
Petty cash	41	41
Provision for cash and cash equivalents	(818)	(283)
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	**274,629**	**212,224**

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**	
	2022	**2021**
In issue at 1 January	1,054,805,235	1,053,936,024
Net increase for property, plant and equipment (See Note 10 (d))	225,760	869,211
In issue at 31 December, fully paid	**1,055,030,995**	**1,054,805,235**
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	31 December 2022	31 December 2021
Liabilities to the Government	4,712	4,718

(d) Dividends and other distribution to owner

In 2022, following the request of Partnership Fund JSC, dated 12 September 2022, the Company made profit distribution of GEL 26, 356 thousand to Partnership Fund JSC. As at 31 December 2022, the mentioned payments were recalled back by the Company and recognized as a receivable which was fully written off in 2022 on the basis of the Government decree N 2254, dated 7 December 2022 (amendment to the Government decree N 2167, dated 29 November 2022) and is recognized as “other distribution to owner” directly in equity.

No dividends were declared or paid in 2021.

(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 2022 or in 2021.

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	**31 December 2022**	**31 December 2021**
Non-current liabilities		
Secured loan	33,115	50,102
Unsecured bonds	1,345,032	1,540,715
	1,378,147	**1,590,817**
Current liabilities		
Secured loan	12,195	13,632
Current portion of unsecured bonds	2,078	2,383
	14,273	**16,015**
	1,392,420	**1,606,832**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings were as follows:

				31 December 2022		**31 December 2021**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	4.00%	2028	1,350,788	1,347,110	1,546,776	1,543,098
Secured loan	USD	Libor +1.25%	2026	49,036	45,310	67,460	63,734
Total interest-bearing liabilities				**1,399,824**	**1,392,420**	**1,614,236**	**1,606,832**

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 a carrying amount of GEL 59,898 thousand as at 31 December 2022 (31 December 2021: GEL 66,650 thousand) (See Note 10 €). As at 31 December 2022 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 1 December 2022 the Group obtained a waiver from the lender on this covenant until 31 December 2023, consequently the Group classified the loan as long-term borrowings as at 31 December 2022 (As at 31 December 2021 the same breach occurred and was waived till 31 December 2022).

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.

In June 2021 the Group has successfully issued USD 500 million worth of green bonds on the London Stock Exchange due 2028 with an interest rate of 4%. The proceeds from the issuance were used for redemption of the USD 500 million unsecured bonds.

As a result of early redemption, the green bonds were considered as a new financial instrument and accounted for at amortized cost using the effective interest rate method. The Group incurred directly attributable transaction expenses of GEL 8,999 thousand in connection with the issue of the green bonds, including, amongst other, legal counsel fees, rating agency expenses, listing expenses, etc.

These expenses are accounted for as transaction costs. They are included in the calculation of the effective interest rate of the green bonds and are deferred over 7 years. Part of the transaction costs were deducted directly from the proceeds from green bonds and are presented netted off with the proceeds from bonds in the consolidated statement of cash flows.

In addition, the Group paid premia and fees in connection with the new issuance and the tender offer and consent solicitation (early redemption premium) of GEL 115.7 million (see note 9). Which are expensed, since such fees are associated with the repayment of previous Eurobonds.

(b) Changes in liabilities arising from financing activities (excluding payments of other distribution to owner (Note 16(d))

’000 GEL	**2022**	**2021**
Balance at 1 January	**1,606,832**	**1,777,336**
Proceeds from Bonds	-	1,577,389
Repayment of secured loans	(12,617)	(14,413)
Repayment of Bonds	-	(1,575,562)
Loan refinancing fees paid	-	(3,976)
Interest paid	(57,829)	(152,780)
Total change from financing cash flows	**(70,446)**	**(169,342)**
The effect of changes in foreign exchange rates	**(206,436)**	**(102,585)**
Other changes		
Interest expense recognised in finance costs	62,470	101,423
Total liability-related other changes	**62,470**	**101,423**
Balance at 31 December	**1,392,420**	**1,606,832**

19. Trade and other payables

’000 GEL	**31 December 2022**	**31 December 2021**
Current		
Payables for non-current assets	65,093	54,884
Trade payables	30,238	31,482
Advances received from customers	26,911	19,507
	122,242	**105,873**
Non-current		
Payables for non-current assets*	30,242	56,198
	30,242	**56,198**

*The management determined that as at 31 December 2022 it has an unconditional right to defer the payment related to the construction contract for the Modernisation Project for over 1 year.

Based on the agreements signed between the Company and the construction company responsible for the Tbilisi Bypass and Modernization projects, 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 each of the contract. Such retention fee is due to pay within two years through and after the completion of the project. In 2022, on the basis of the legal analysis performed by the independent expert, the Company and the construction company agreed, that the retention fee payable for the Modernization project shall be denominated in CHF, rather than in GEL. Furthermore, on 12 August 2022, contractual terms of the Modernization project was amended to commence repayment of the retention fee from 2022, instead of 2023. The mentioned amendments were considered as a substantial modification to the contractual terms of the Modernization project and modification loss of GEL 5,762 thousand was recognized in profit or loss in 2022.

Taking into account the above legal analysis performed by the independent expert for the Modernization project, and further internal legal analysis of the contractual terms of Tbilisi Bypass project, management believes that the retention fee payable and receivable from the construction company for Tbilisi Bypass project of GEL 27,609 thousand (CHF 9,416 thousand) and GEL 97,507 thousand (CHF 33,254 thousand), respectively, shall be retranslated from GEL to CHF as at 31 December 2022, as it is expected that those funds will be settled in CHF. The resulting net foreign currency exchange gain of GEL 26,252 thousand was recognized in profit or loss in 2022.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

20. Provisions

'000 GEL	**2022**	**2021**
Balance at 1 January	14,397	16,551
Additional provision during the year	1,662	2,105
Provision used	(988)	(4,319)
Reversal of provision during the year	(1,465)	(659)
Unwinding of provision	343	799
Net foreign exchange gain/(loss)	32	(80)
Balance at 31 December	**13,981**	**14,397**

The Group recognised a provision for the estimated cash outflow required to settle legal cases against the Group existing as at 31 December 2022 and as at 31 December 2021 as well as to settle the legal obligations towards the employees injured during the performance of their duties.

In 2021 the Group lost litigation started in 2016 amounting to GEL 16,981 thousand as per court decision, out of which GEL 3,471 thousand was already provisioned and GEL 8,440 thousand was recognised as payable at 31 December 2020, respectively GEL 5,070 thousand recognised as an expense (see Note 8). Total amount of litigation was fully settled in 2022.

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, other than bonds, are a reasonable approximation of their fair values.

The average market quotation as at 31 December 2022 of green bonds is 87.5% of par value (Level 1).

(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	**31 December 2022**	**31 December 2021**
Cash and cash equivalents	274,588	212,183
Trade receivables	13,986	13,626
Loans receivable	-	31,282
Receivables related to Tbilisi Bypass project	97,507	-
Receivable from Partnership Fund JSC	47,738	-
Balance at 31 December	**433,819**	**257,091**

Cash and cash equivalents

As at 31 December 2022, 100% (31 December 2021: 100%) 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 2022, about 12% of the Group's revenue is attributable to sales transactions with three customers (2021: 18% with two 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	**31 December 2022**	**31 December 2021**
Foreign countries	2,306	6,401
Domestic	11,680	7,225
	13,986	**13,626**

The Group's two most significant customers (2021: two customers) account for GEL 3,893 thousand of the trade receivables carrying amount as at 31 December 2022 (31 December 2021: GEL 3,521 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 2022 and 31 December 2021:

'000 GEL	**31 December 2022**	**31 December 2022**	**31 December 2022**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	10,026	-	10,026
Medium risk			
High risk*	-	210,052	210,052
Total Gross carrying amount	**10,026**	**210,052**	**220,078**
Loss allowance	(600)	(205,492)	(206,092)
	9,426	**4,560**	**13,986**

'000 GEL	**31 December 2021**	**31 December 2021**	**31 December 2021**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	10,322	-	10,322
High risk	-	229,278	229,278
Total Gross carrying amount	**10,322**	**229,278**	**239,600**
Loss allowance	(764)	(225,210)	(225,974)
	9,558	**4,068**	**13,626**

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 a receivable from the Government of Georgia (hereinafter the Government or the GoG) of GEL 25,205 thousand recognized as a result of the transfer of property to the GoG, 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 thousand 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	**2022**	**2021**
Balance at 1 January	**225,974**	**229,789**
Net charge for the year	(840)	2,791
Effect of movements in foreign exchange rates	(19,042)	(6,606)
Balance at 31 December	**206,092**	**225,974**

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.

Receivable from Partnership Fund JSC

As at 31 December 2022, the Group has receivable from JSC Partnership Fund.

Management believes that the Group is not exposed to a significant amount of credit risk relating to the receivable. There are no indications that JSC Partnership Fund will fail to meet its obligations when it falls due; furthermore, the Company has option to receive investment in Gardabani TPP fair value of which is higher than the carrying amount of the receivable as at 31 December 2022 (Note 11).

Receivable related to Tbilisi Bypass project

As at 31 December 2022, the Group expects to recover the receivable related to Tbilisi Bypass project through cash settlement (see Note 19). Per Management's assessment the receivable related to Tbilisi Bypass project is fully recoverable based on the performance guarantee from a commercial bank, which can be settled upon the discretion of the Company. The effect of guarantee protection was considered in assessing impairment of the receivable as at 31 December 2022. The asset is classified as Stage 1 and no material ECL is estimated as at 31 December 2022.

(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.

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 2022

’000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	45,310	53,949	7,412	7,229	13,869	25,439	-
Unsecured bonds	1,347,110	1,648,220	27,020	27,020	54,040	162,120	1,378,020
Trade and other payables	125,573	131,243	95,234	262	523	35,224	-
	1,517,993	**1,833,412**	**129,666**	**34,511**	**68,432**	**222,783**	**1,378,020**

31 December 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	63,734	70,224	7,245	7,202	14,245	41,532	-
Unsecured bonds	1,543,098	1,920,512	30,976	30,976	61,952	185,856	1,610,752
Trade and other payables	142,564	147,496	86,077	318	6,835	54,266	-
	1,749,396	**2,138,232**	**124,298**	**38,496**	**83,032**	**281,654**	**1,610,752**

(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). As at 31 December 2022, the Group is exposed to EUR from its use of other receivable (disclosed in Note 11).

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 2022	CHF – denominated 2022	USD - denominated 2021	CHF - denominated 2021
Cash and cash equivalents	13,093	950	35,715	2,947
Loan receivable	-	-	31,282	-
Trade receivables	6,286	332	10,761	320
Receivable related to Tbilisi Bypass project (Note 19)	-	97,507	-	-
Secured loan	(45,310)	-	(63,734)	-
Unsecured bonds	(1,347,110)	-	(1,543,098)	-
Trade and other payables (Note 19)	(4,477)	(72,874)	(20,988)	(1,571)
Net exposure	**(1,377,518)**	**25,915**	**(1,550,062)**	**1,696**

The following significant exchange rates applied during the year:

in GEL	Average Rate		Reporting date spot rate 31 December	
	2022	2021	2022	2021
USD 1	2.9156	3.2209	2.7020	3.0976
CHF 1	3.0594	3.5249	2.9322	3.3772

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
2022	
USD (10% weakening)	(137,752)
CHF (10% weakening)	2,592
2021	
USD (10% weakening)	(155,006)
CHF (10% weakening)	170

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 Group's exposure to interest rate risk was as follows:

'000 GEL	**Carrying amount**	
Variable rate instruments	**31 December 2022**	**31 December 2021**
Financial liabilities	(45,310)	(63,734)
	(45,310)	**(63,734)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial instruments as FVTPL or FVOCI, except for other receivable. Changes in interest rates at the reporting date does not have a material 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 2022 would have affected profit or loss by GEL 453 thousand (31 December 2021: GEL 637 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

22. Subsidiaries

Subsidiary	**Country of incorporation**	**Principal activities**	**2022 Ownership/ voting**	**2021 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 2022 was GEL 4,111 thousand (2021: GEL 4,647 thousand) and included in revenue.

The following table sets out a maturity analysis of lease payments under non-cancellable period of lease contracts entered into as at 31 December 2022, showing the undiscounted lease payments to be received after the reporting date.

'000 GEL	
2022 – Operating leases under IFRS 16	
Less than one year	3,648
Between one and five years	7,410
More than five years	19,282
Total	**30,340**

’000 GEL	
2021 – Operating leases under IFRS 16	
Less than one year	4,397
Between one and five years	5,920
More than five years	16,861
Total	**27,178**

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 benefit expenses:

’000 GEL	**2022**	**2021**
Salaries and bonuses	**938**	**963**

(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.

Related party transactions are disclosed in Notes 11 and 16 of these consolidated financial statements. 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 10,138 thousand for 2022 (2021: GEL 9,813 thousand). In 2022, the Group purchases electricity service from a state-owned entity, which amounted to GEL 22,039 thousand (2021: 13,416 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 and other receivable with Partnership Fund JSC

'000 GEL	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2022	**2021**	**2022**	**2021**
Loans issued:				
Partnership Fund JSC	21,568	-	-	31,282
Other receivable				
Receivable from Partnership Fund JSC	-	-	47,738	-

During 2022, interest income of GEL 2,904 thousand (2021: GEL 2,723 thousand) was recognised in profit or loss in respect of a related party loan. In 2022, the related party loan was derecognized and receivable from Partnership Fund JSC was recognized, see details in Note 11. Transaction value of GEL 21,568 thousand represents funds issued by the Group to Partnership Fund JSC.

26. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for other receivables measured at fair value.

27. 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 2022 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 acquiree; 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 earned 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;
- 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 2017 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 has entered into force in 2017 and is effective for tax periods starting after 1 January 2018 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will should have become effective from 1 January 2023. In 2022 the Government of Georgia has approved the changes to the current corporate tax model in Georgia for financial institutions, applicable from 2023. According to the amendments to the legislation, the part of financial institutions commercial banks will no longer switch to the Estonian tax model.

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. Other receivable is measured as FVTPL as the SPPI test criteria were not met at initial recognition (see Note 11).

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 2021 and 2020. 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.

(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.

28. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2022 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.

– *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
– *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
– *Definition of Accounting Estimates (Amendments to IAS 8).*