

9M 2019



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**GR Today**



**Georgian  
Railway**  
EST. 1872

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# Company Financial Highlights



## Revenue

Q3 2019

**133,970**

+16% from Q3 2018  
+6% from Q2 2019

9M 2019

**364,164**

+16% from 9M 2018

## EBITDA

Q3 2019

**73,329**

+26% from Q3 2018  
+33% from Q2 2019

9M 2019

**176,559**

+30% from 9M 2018

## EBITDA margin

Q3 2019

**54.7%**

+4 points from Q3 2018  
+11 points from Q2 2019

9M 2019

**48.5%**

+5 points from 9M 2018

## Adjusted EBITDA

Q3 2019

**68,082**

+31% from Q3 2018  
+21% from Q2 2019

9M 2019

**167,797**

+37% from 9M 2018

## Adjusted EBITDA margin

Q3 2019

**50.8%**

+6 points from Q3 2018  
+6 points from Q2 2019

9M 2019

**46.1%**

+7 points from 9M 2018

## Net Debt to EBITDA

31 Sep 2019

**6.93**

4.82 as at 30-Sep-2018  
6.80 as at 31-Jun-2019

# Key Operating Measures



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

Q3 2019  
**0.11**

+17% from Q3 2018  
-1% from Q2 2019

9M 2019  
**0.11**

+19% from 9M 2018

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

Q3 2019  
**0.05**

-3% from Q3 2018  
+25% from Q2 2019

9M 2019  
**0.05**

+8% from 9M 2018

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

Q3 2019  
**10.6**

+16% from Q3 2018  
+20% from Q2 2019

9M 2019  
**28.8**

+16% from 9M 2018

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

Q3 2019  
**0.16**

0% from Q3 2018  
+22% from Q2 2019

9M 2019  
**0.14**

-3% from 9M 2018

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

Q3 2019  
**133.25**

+14% from Q3 2018  
+5% from Q2 2019

9M 2019  
**382.92**

+9% from 9M 2018

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

Q3 2019  
**214.85**

+11% from Q3 2018  
+24% from Q2 2019

9M 2019  
**429.89**

+5% from 9M 2018

# Fitch Ratings

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## **BB-, Outlook Stable**

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

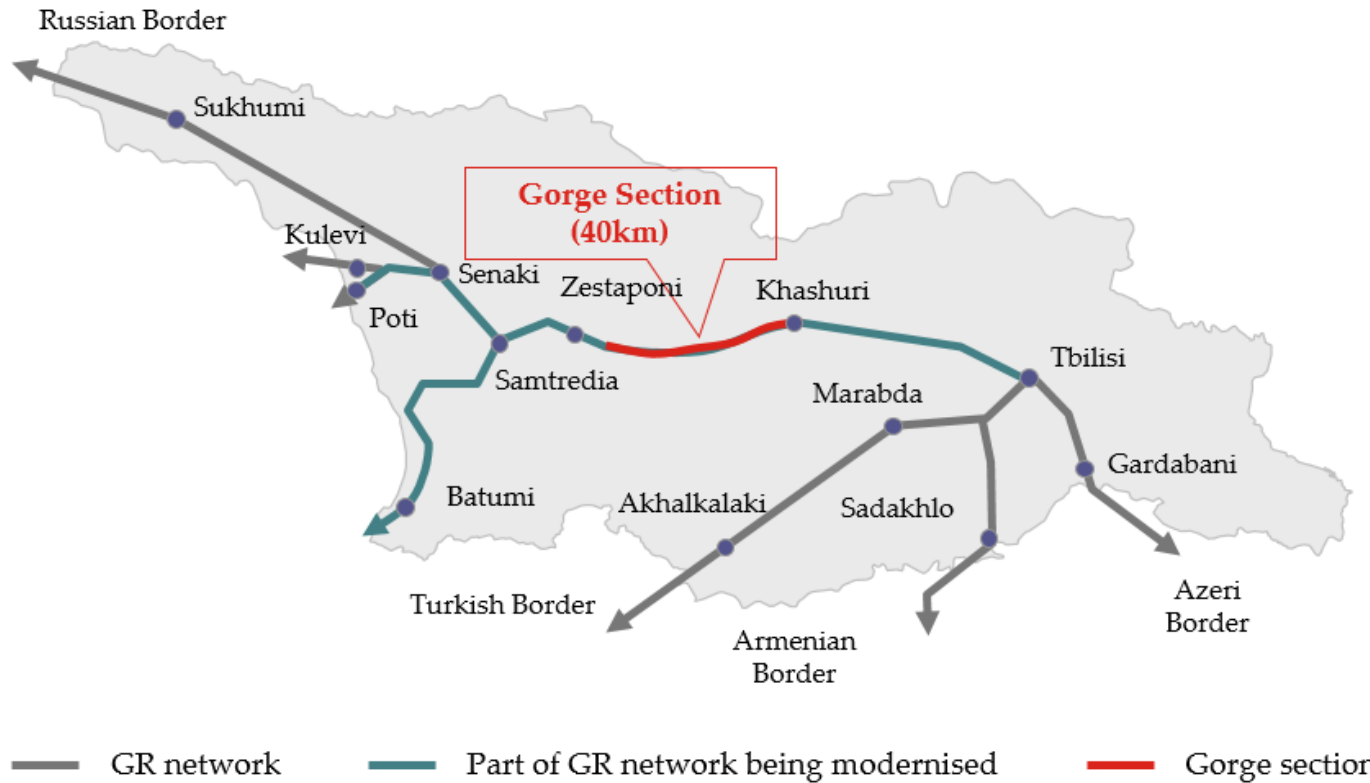
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# S&P Global

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## **B+, Outlook Positive**

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



**1,443km** Operational network length

**97%** Electrified

**100** Freight stations

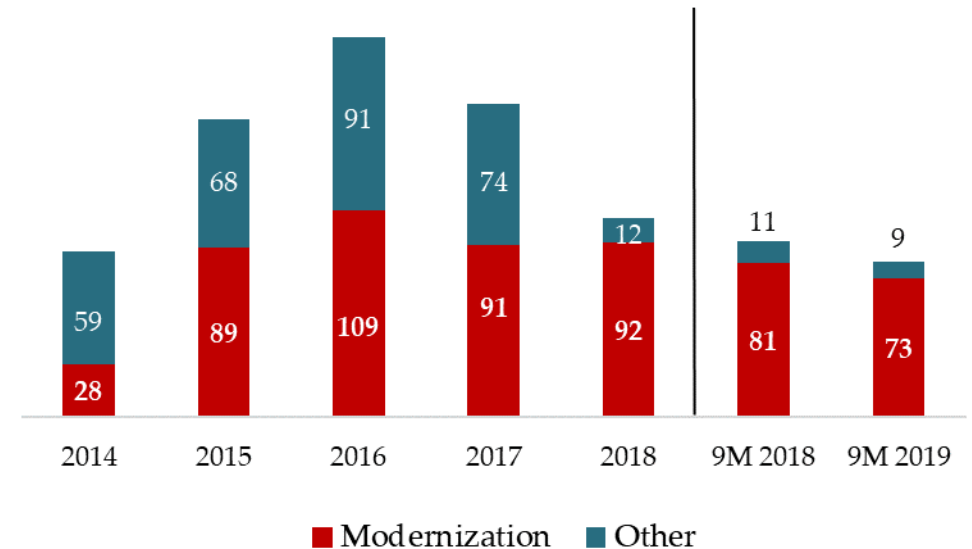
**40** Railroad tunnels

**1,334** Railroad bridges

## Modernization

- Expected to be completed by the beginning of 2020;
- Designed to increase transportation capacity of infrastructure from the current annual 27 million tons to 48 million, with the possibility of further expansion to a potential 100 million per annum;
- Supports future corridor developments: Anaklia Deep Sea port, Poti Port expansion, etc.;
- Reduced operational expenses;
- Improved operational safety;
- Increased train speeds;
- From 2010 till 30 June 2019 the Company invested GEL 863m in Modernization project.

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





## Baku-Tbilisi-Kars (“BTK”)

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



**Economic  
Overview**

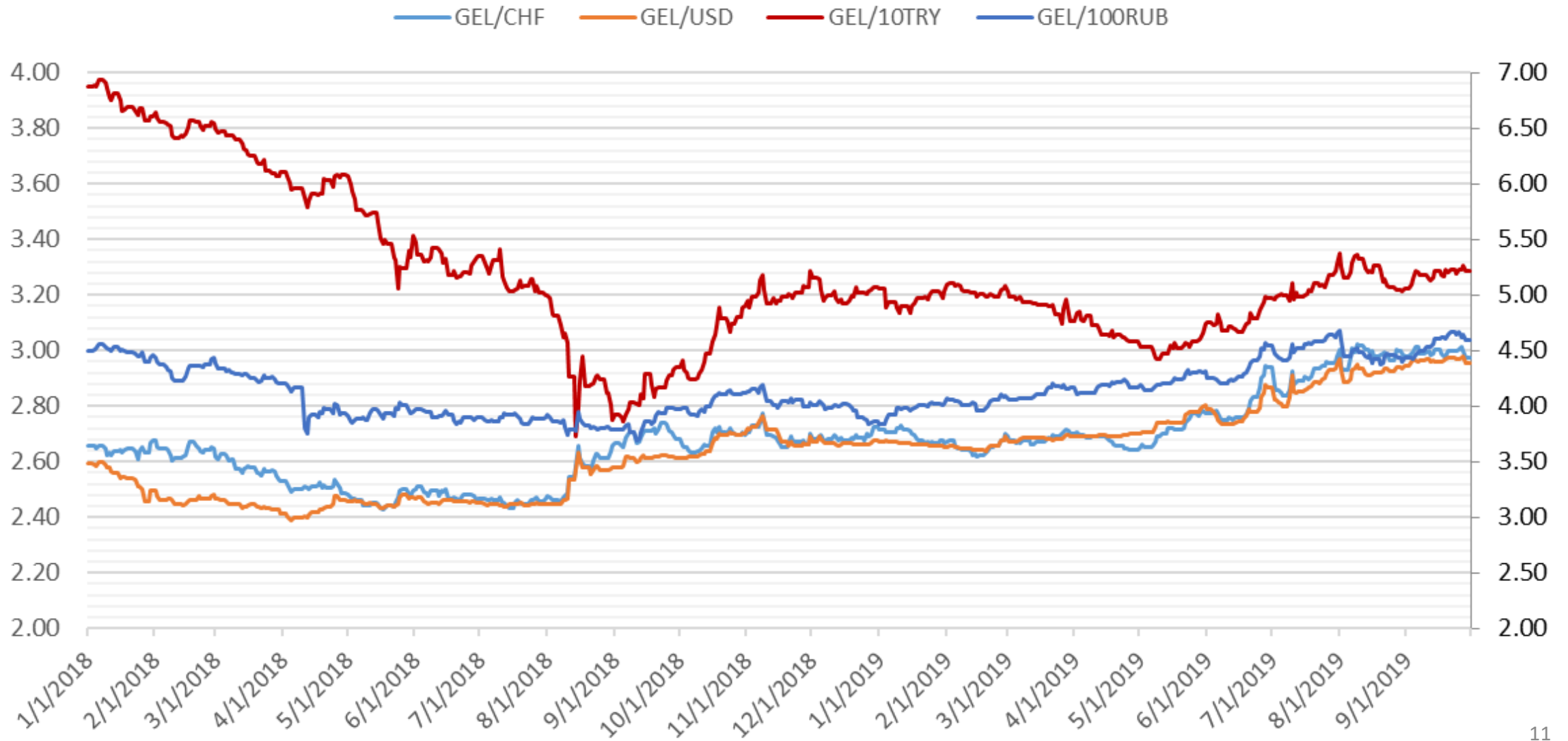
**GR Today**



**Financial  
Results**

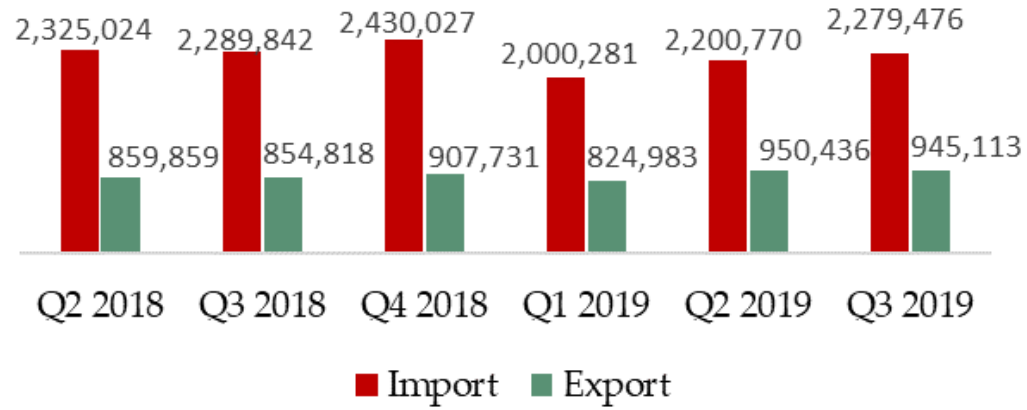
**Liquidity  
Position**

# GEL Exchange Rate

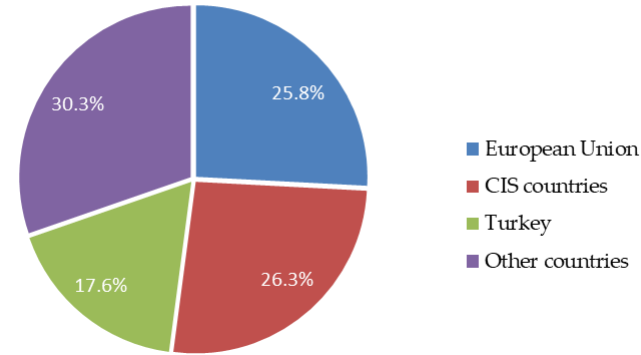


# Macroeconomic Environment in Georgia

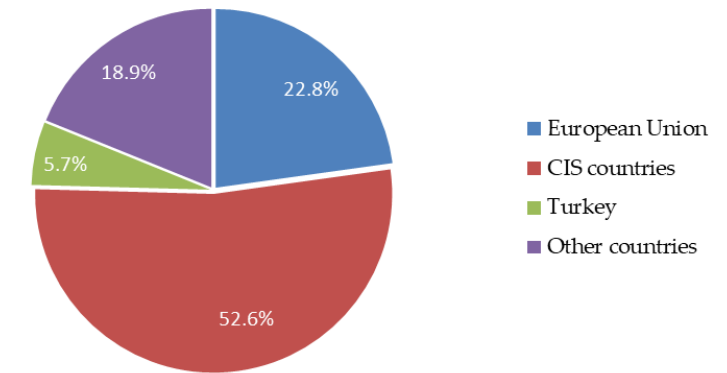
## Georgian Trade Dynamics



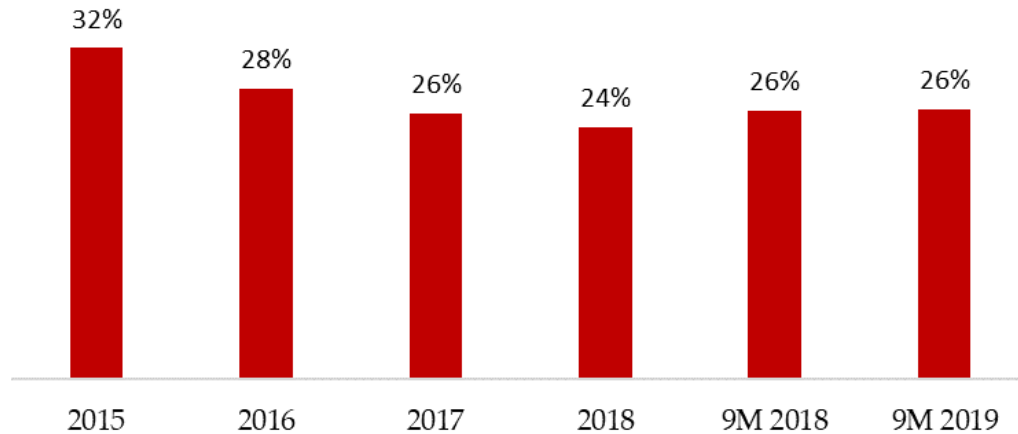
Import by countries for 9M 2019



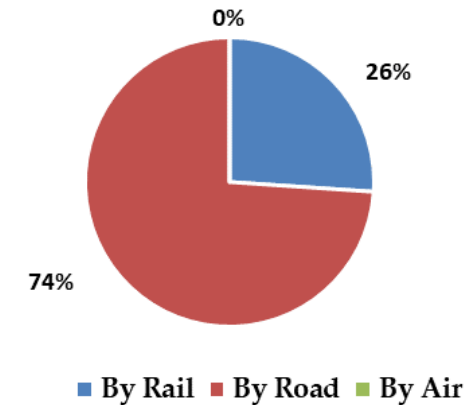
Export by countries for 9M 2019



## Share of GR in Total Freight Transportation in Georgia



## Freight transportation by types for 9M 2019



Global Commodity Prices (BLOOMBERG) <b>Commodity</b>	Price	% change		
	Q3 2019	Q3 2019	Q4 2019	Q1 2020
ICE Brent (Crude oil)	58.24	-0.70%	-1.87%	-0.96%
ICE Gasoil	580.00	-0.26%	-3.02%	-1.72%
UK NBP Nat Gas	41.95	10.82%	4.25%	-12.84%
Grain	487.25	0.67%	1.43%	1.33%
Aluminum	1,746.00	0.27%	0.27%	1.31%
Iron ores	62.50	-4.32%	-8.47%	-5.94%

## % Change from 2017

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

Economic  
Overview

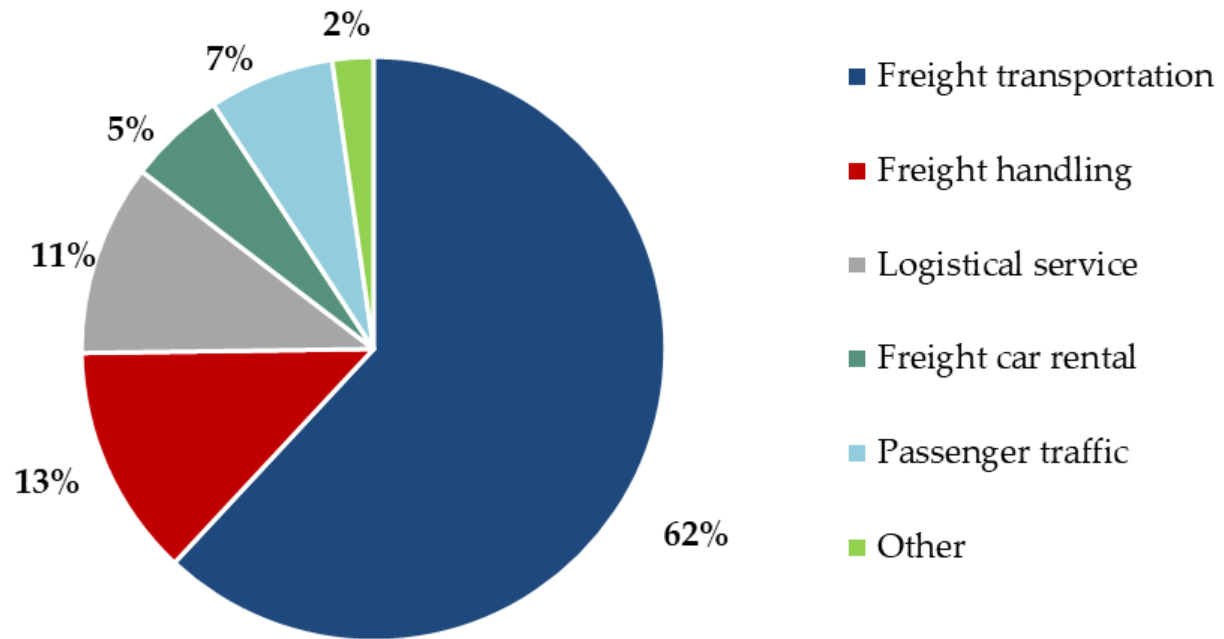
GR Today



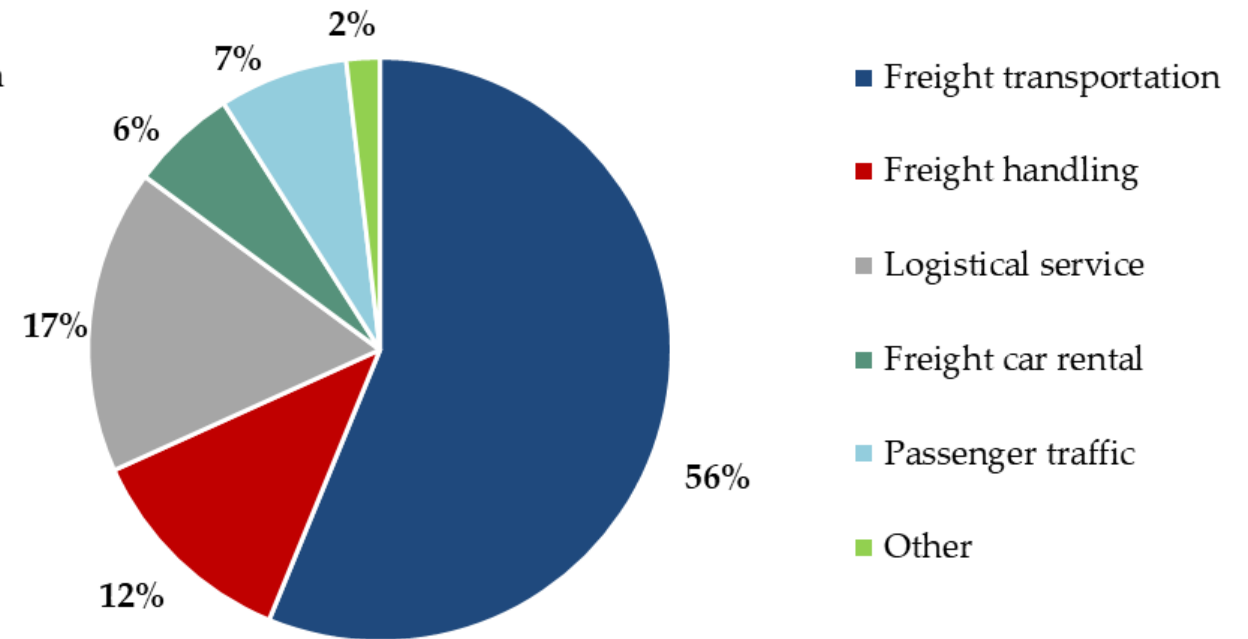
**Financial  
Results**

Liquidity  
Position

### Revenue Breakdown 9M 2019



### Revenue Breakdown 9M 2018



# Revenue Breakdown

<i>9 month period ended 30 September</i>	9M 2019	9M 2018	% Change	Abs. Change
Freight transportation	225,572	176,620	27.7%	48,952
Freight handling	46,768	37,795	23.7%	8,973
Logistical service	38,685	52,983	-27.0%	-14,298
Freight car rental	19,529	18,523	5.4%	1,006
Passenger traffic	25,334	22,463	12.8%	2871
Other	8,275	5,835	41.8%	2440
<b>Revenue</b>	<b>364,163</b>	<b>314,219</b>	<b>15.9%</b>	<b>49,944</b>
<b>Other income</b>	<b>13,229</b>	<b>17,449</b>	<b>-24.2%</b>	<b>-4,220</b>

## Significant Changes

- **Freight transportation:**
  - Tariffs denominated in USD;
  - The upturn in revenue caused by increased volumes;
  - Average revenue per ton-kilometer increased by 19.1%.
- **Logistical service:**
  - Decreased logistical revenue from completion of two year contract of oil trade between one significant counterparty company and GR's subsidiary company.
- **Freight car rental:**
  - Increased revenue by the Group's subsidiary company contribution, generated by freight car rental revenue from grain carriers.
- **Passenger transportation:**
  - Increased revenue by rise in average passenger transportation tariffs.
- **Other income:**
  - Continuing operations increased by about 3%.
  - Non-continuing operations decreased by about 30%.

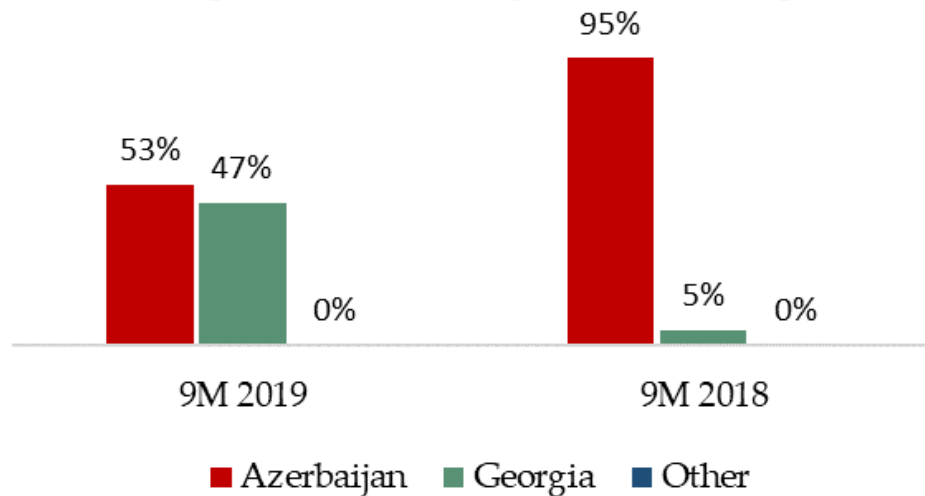


# Freight Revenue Breakdown

<i>9 month period ended 30 September</i>	9M 2019	9M 2018	% Change	% Change at constant currency	Abs. Change
<b>Freight transportation</b>	<b>225,572</b>	<b>176,620</b>	<b>27.7%</b>	<b>14.4%</b>	<b>48,953</b>
<b>Liquid cargoes</b>	<b>91,145</b>	<b>74,414</b>	<b>22.5%</b>	<b>9.7%</b>	<b>16,731</b>
Oil products	90,768	71,627	26.7%	13.5%	19,141
Crude oil	377	2,787	-86.5%	-87.9%	-2,410
<b>Dry cargoes</b>	<b>134,427</b>	<b>102,206</b>	<b>31.5%</b>	<b>17.8%</b>	<b>32,221</b>
Ores	28,769	20,591	39.7%	25.2%	8,178
Grain	6,010	5,624	6.9%	-4.3%	386
Ferrous metals and scrap	7,043	6,928	1.7%	-8.9%	114
Sugar	12,523	6,994	79.0%	60.4%	5,529
Chemicals and fertilizers	10,692	10,330	3.5%	-7.3%	363
Construction freight	6,606	4,708	40.3%	25.7%	1,899
Industrial freight	5,633	3,927	43.4%	28.5%	1,706
Cement	1,687	1,262	33.6%	19.7%	424
Other	55,464	41,842	32.6%	18.7%	13,622
Freight turnover (million ton-km)	2,082	1,942	7.2%	-4.0%	140
Revenue / ton-km (in Tetri)	10.83	9.09	19.1%	6.7%	1.74

9 month period ended 30 September	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL '000)	377	2,787	-86.5%	-87.9%
Freight volume (ton '000)	12	124	-90.5%	NA
Freight turnover (million ton-km)	3	49	-93.6%	NA
Revenue / ton-km (in Tetri)	12.10	5.64	114.5%	92.2%

Transportation volume by countries of origin

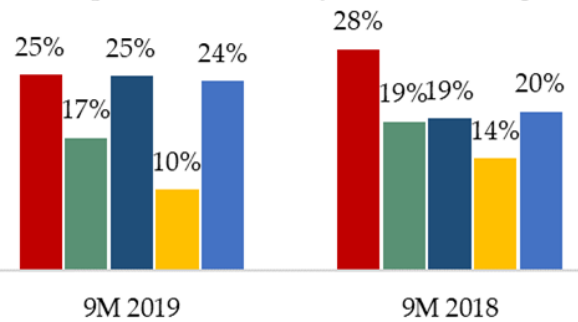


- Decrease (Down by 94, compared to 9M 2018) in crude oil transportation volume from Azerbaijan;
- Increase in average revenue per ton-kilometer due to the changes in transportation direction mix;

# Oil products

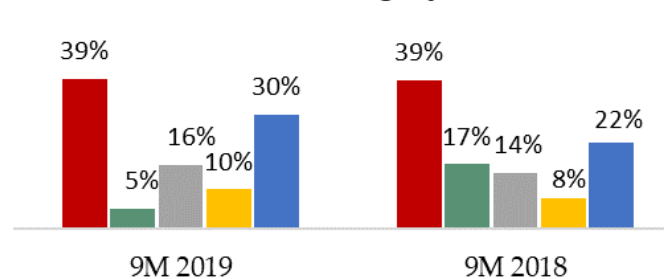
9 month period ended 30 September	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL '000)	90,768	71,627	26.7%	13.5%
Freight volume (ton '000)	2,175	2,335	-6.8%	NA
Freight turnover (million ton-km)	626	686	-8.7%	NA
Revenue / ton-km (in Tetri)	14.49	10.43	39.0%	24.5%

Transportation volume by countries of origin



■ Azerbaijan ■ Turkmenistan ■ Russia  
■ Kazakhstan ■ Other

Product Category Mix

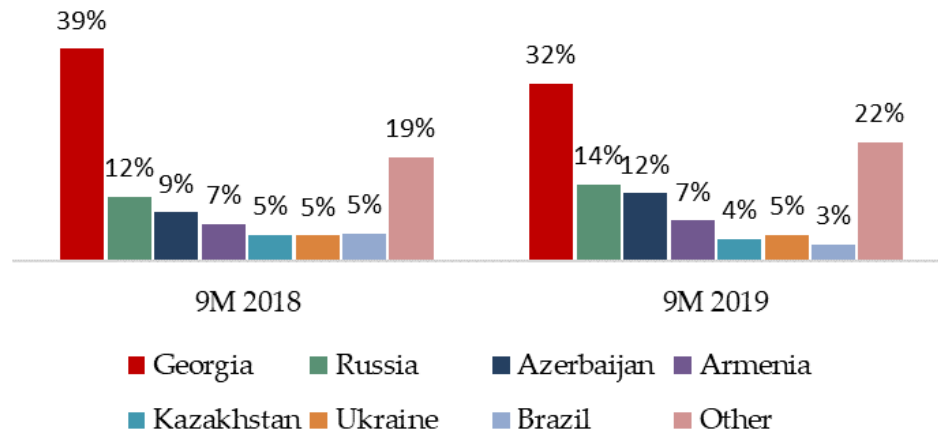


■ Fuel diesel ■ Gasoil  
■ Special petrol ■ Light aviation fuel  
■ Other

- Decreased transportation of gasoil from Kazakhstan by 280,000 tons.
- Decreased share of volumes from Kazakhstan and Azerbaijan (which covers longer distances) reduced the average transportation distance.
- Increase in average revenue per ton-kilometer due to increased shares of special petrol and aviation light (more profitable products).

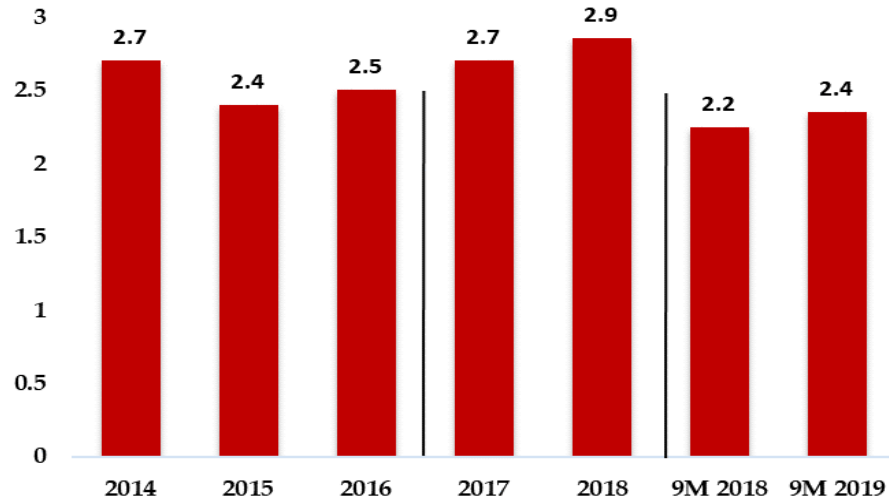
9 month period ended 30 September	9M 2019	9M 2018	% Change	% Change at constant currency
Revenue (GEL'000)	134,427	102,206	31.5%	22.5%
Freight volume ( ton '000)	5,576	5,052	10.4%	NA
Freight turnover (million ton-km)	1,453	1,206	20.5%	NA
Revenue / ton-km (in Tetri)	9.25	8.48	9.1%	1.7%

Transportation volume by countries of origin

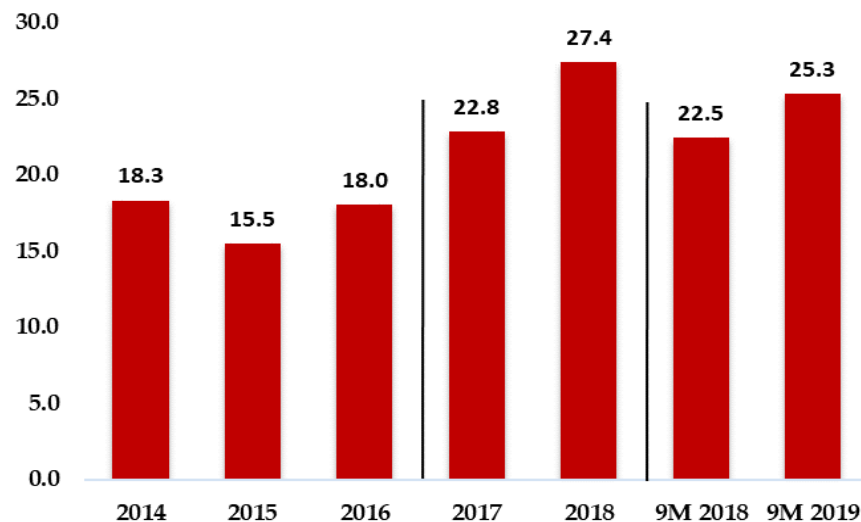


- Increased transportation of ores (by 205,000 tons), chemicals and fertilizers (by 50,000 tons), sugar (by 31,000 tons) and industrial freight (by 27,000 tons), as well as there was a significant increase in other product category (by 385,000 tons).
- Decreased Transportation of grain (by 55,000 tons), construction freight (by 89,000 tons) and cement (by 10,000 tons).
- Increased revenue per ton-km was mainly caused by changes in product category mix and transportation direction mix.

## Passenger Transported (in million)



## Passenger Revenues (GEL million)



## Overview

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

## Roadmap to Profitability

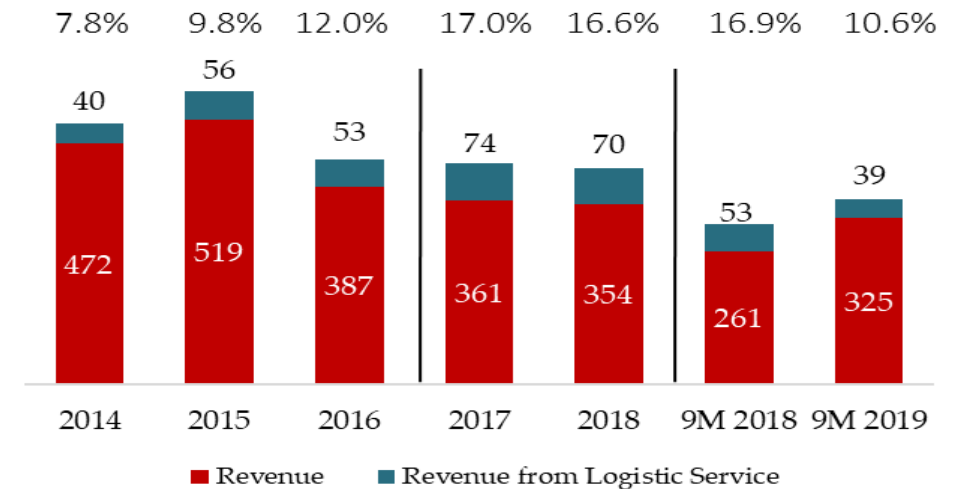
- Medium-term strategic objective to achieve break even :
  - Increasing revenue per passenger by attracting new higher paying customers willing to switch from car and minibus to rail;
  - Adjusting schedules to optimise utilisation.
- GR is increasing its service quality with higher speed and comfort: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

## Description of GR's freight forwarders

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

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

### As a percentage of total revenue

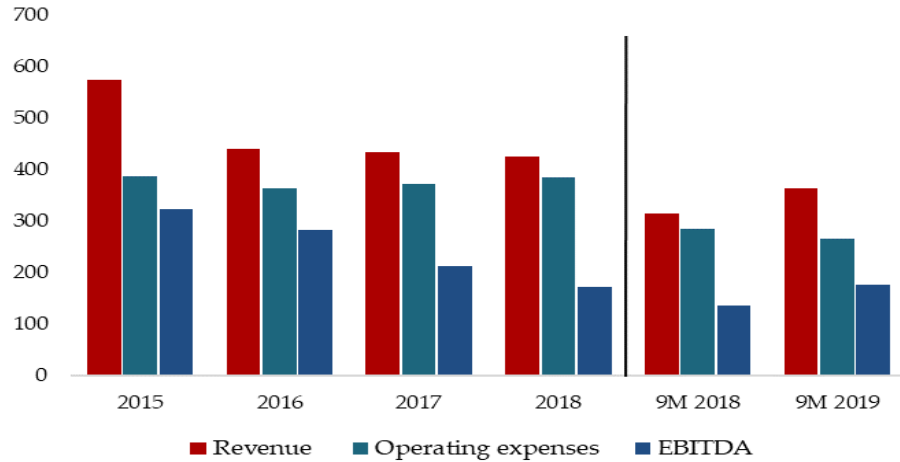


### Comment

- To reach subsidiaries margin (GEL 39 million) GR's subsidiaries transported about 2.4 million tons in the first nine months of 2019.

# Adding logistics elements to the Company

## Key performance indicators



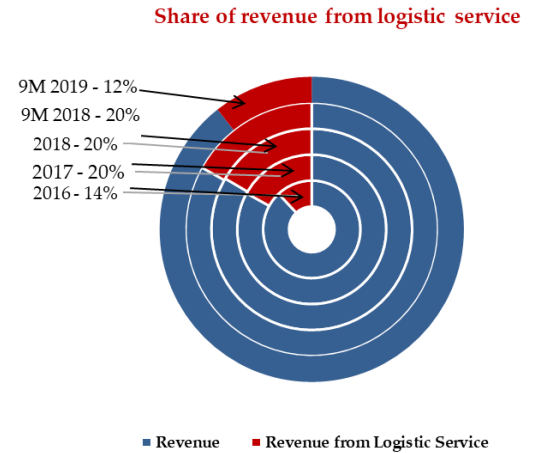
## GR as a logistic company

As a logistic company Georgian Railway expects to:

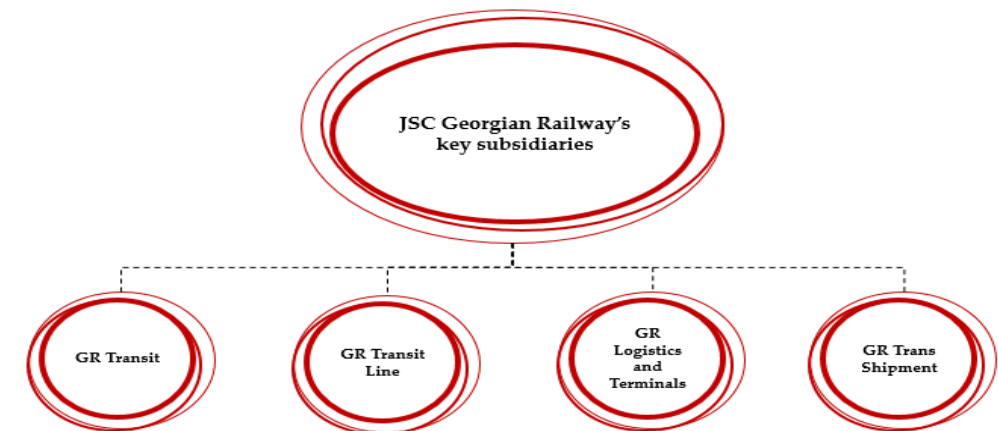
- Have deeper understanding of customers' industries and business processes and be able to provide better service to its customers;
- Increase its competitiveness;
- Increase its financial flexibility, growth and profitability.

## Comments

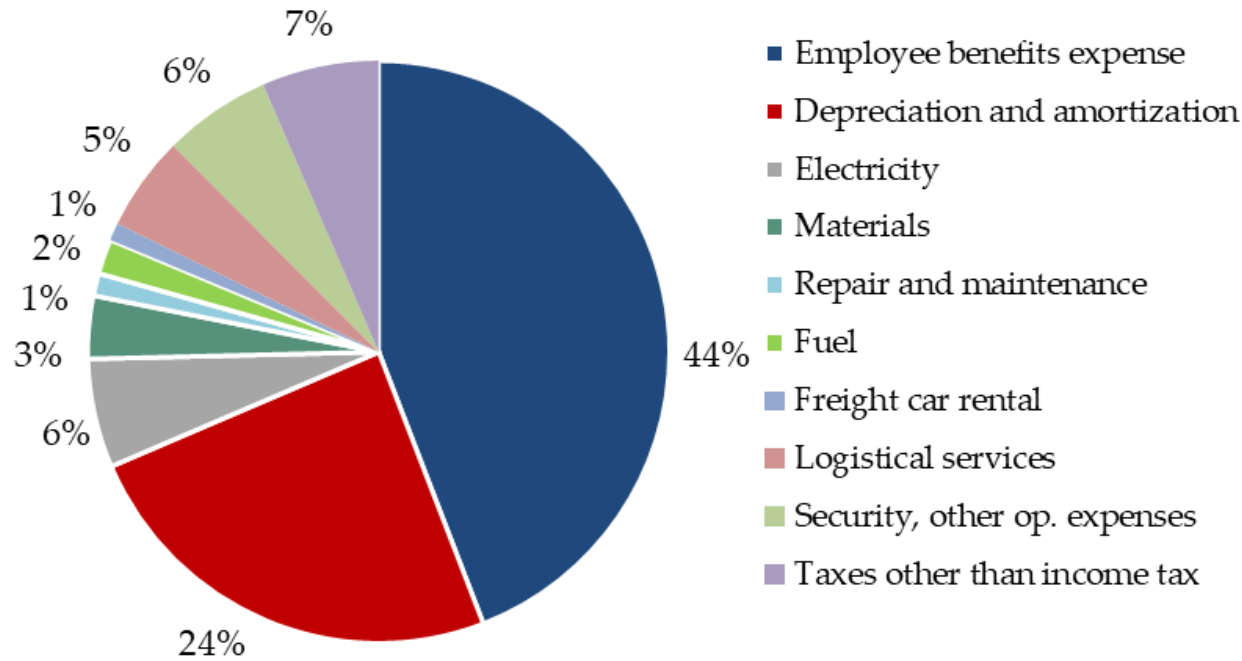
Georgian Railway entered in freight forwarding business from April 2013 and since than was increasing its significance. GR aims to increase revenues from logistics up to 25% within 5 years.



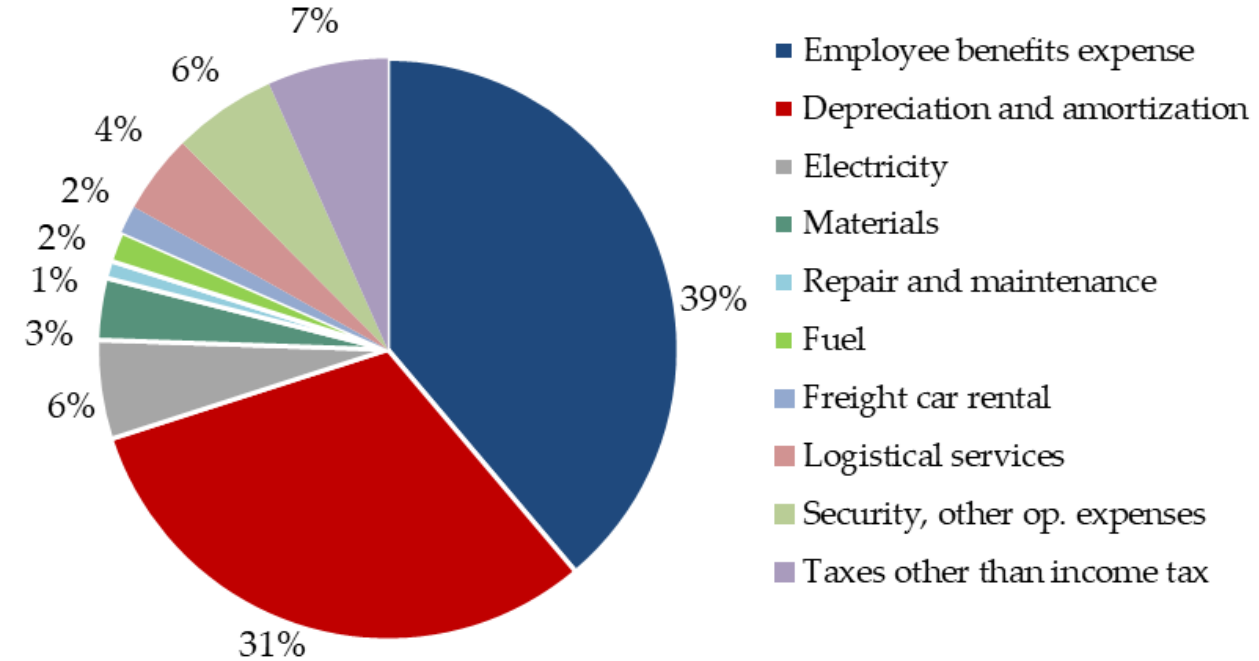
## GR's freight forwarders



### 9M 2019



### 9M 2018





# Operating Expenses

## Operating expenses

9 Month period ended 30 September

In GEL '000

	9M 2019	9M 2018	% Change	Abs. change
Employee benefits expense	117,308	110,280	6.37%	7,028
Depreciation and amortization expense	64,939	88,622	-26.72%	-23,683
Electricity	16,076	15,640	2.79%	436
Materials	9,272	9,765	-5.05%	-493
Repair and maintenance	3,307	2,749	20.29%	558
Fuel	5,150	4,749	8.44%	401
Freight car rental	2,589	4,385	-40.96%	-1,796
Logistical service	13,983	12,488	11.97%	1,495
Security, other op. expenses	15,873	16,353	-2.94%	-480
Taxes other than income tax	17,277	19,010	-9.12%	-1,733
Impairment loss/gain on trade receivables	22,519	-6,149	-466.22%	28,668
<b>Total</b>	<b>288,293</b>	<b>277,894</b>	<b>3.74%</b>	<b>10,400</b>

## Significant Changes

- **Employee benefits expense:**
  - N of employees – 12,704;
  - Increased employee benefits expenses, mainly due to employee bonuses and pension fund expenses.
- **Depreciation and amortization expense:**
  - Decrease due to impairment of property, plant and equipment in 2018.
- **Electricity:**
  - Increase due to rise in gross ton-kilometers by about 6 percent.
- **Logistical service:**
  - Increased expenses of GR's subsidiary that serves container transportation, partly offset by reduced expenses of another subsidiary which mainly serves crude oil and oil products transportation.
- **Taxes other than income tax:**
  - Decreased property tax due to impairment of PP&E.

## Non-current assets

*In GEL '000*

	30-Sep-19	31-Dec-18	% Change	Abs. change
Property, plant and equipment	1,846,728	1,826,591	1.1%	20,137
Other non-current assets	94,454	97,525	-3.1%	-3,071
Loan receivable	24,287	20,480	18.6%	3,807
<b>Total non-current assets</b>	<b>1,965,469</b>	<b>1,944,596</b>	<b>1.1%</b>	<b>20,873</b>

## Current assets

	30-Sep-19	31-Dec-18	% Change	Abs. change
Inventories	34,257	32,882	4.2%	1375
Tax assets	0	3,899	-100.0%	-3,899
Trade and other receivables	40,910	40,912	0.0%	-2
Prepayments and other current assets	2,032	415	389.7%	1,617
Cash and cash equivalents	246,616	241,308	2.2%	5,308
<b>Total current assets</b>	<b>323,815</b>	<b>319,416</b>	<b>1.4%</b>	<b>4,399</b>
<b>Total assets</b>	<b>2,289,284</b>	<b>2,264,012</b>	<b>1.1%</b>	<b>25,272</b>

## Significant Changes

- **Property, plant and equipment**
  - Increase in property, plant and equipment mainly due to the Construction in Progress (mostly under the Modernization Project).
- **Cash and cash equivalents**
  - Increase in cash and cash equivalents, caused by increased cash receipts from customers and decreased cash outflows on acquisition of property, plant and equipment.

# Balance Sheet (continued)

## Equity

In GEL '000

	30-Sep-19	31-Dec-18	% Change	Abs. change
Share capital	1,053,335	1,053,714	0.00%	-379
Non-cash owner contribution reserve	100,322	100,244	0.10%	78
Retained earnings	-688,606	-624,742	10.20%	-63,864
<b>Total equity</b>	<b>465,051</b>	<b>529,216</b>	<b>-12.10%</b>	<b>-64,165</b>

## Non-current liabilities

	30-Sep-19	31-Dec-18	% Change	Abs. change
Loans and borrowings	1,552,290	1,336,665	16.10%	215,625
Advances received from the Government	46,593	46,594	0.00%	-1
<b>Total non-current liabilities</b>	<b>1,598,883</b>	<b>1,383,259</b>	<b>15.60%</b>	<b>215,624</b>

## Current liabilities

	30-Sep-19	31-Dec-18	% Change	Abs. change
Loans and borrowings	38,920	134,194	-71.0%	-95,274
Trade and other payables	158,999	191,610	-17.0%	-32,611
Liabilities to the Government	5,729	5,317	7.8%	412.27103
Provisions	12,565	11,356	10.6%	1,209
Other current liabilities	7,746	9,060	-14.5%	-1314
Current tax liabilities	1,391	0	100.0%	1,391
<b>Total current liabilities</b>	<b>225,350</b>	<b>351,537</b>	<b>-35.9%</b>	<b>-126,187</b>
<b>Total liabilities</b>	<b>1,824,233</b>	<b>1,734,796</b>	<b>5.2%</b>	<b>89,437</b>
<b>Total equity and liabilities</b>	<b>2,289,284</b>	<b>2,264,012</b>	<b>1.1%</b>	<b>25,272</b>

## Significant Changes

- **Loans and borrowings (LT & ST)**
  - Increase in long-term borrowings by GEL 215.1 million due significant depreciation of GEL against USD by about 10 percent. Group's debts are denominated in USD.
- **Trade and other payables**
  - Decrease in trade and other payables mainly due to decreased amount of payments to suppliers as well as decreased liability on ongoing infrastructure project.

Economic  
Overview

GR Today



Financial  
Results

Liquidity  
Position

# Liquidity Position

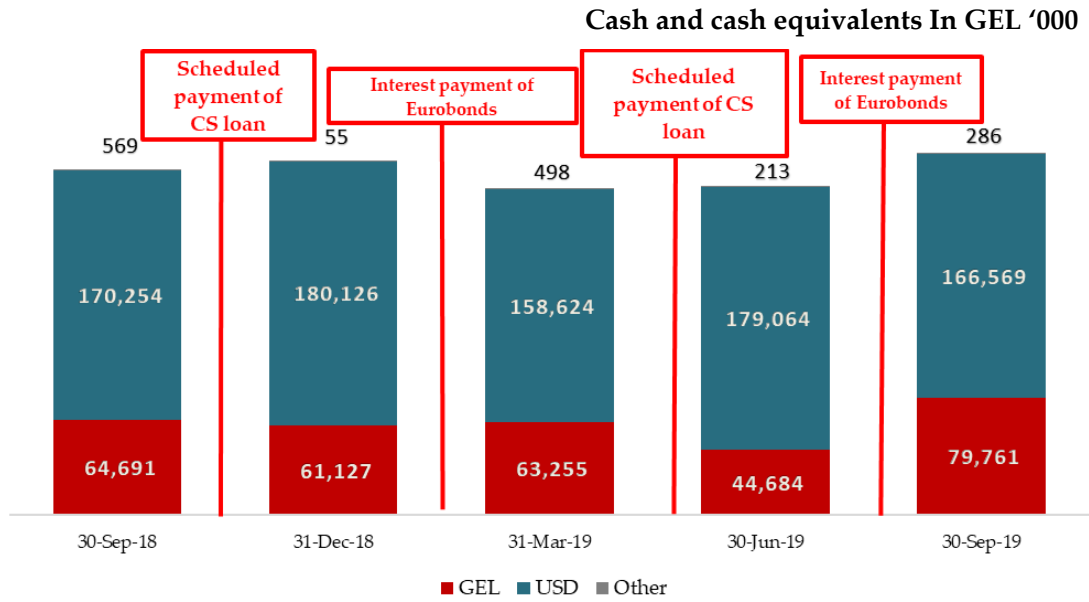
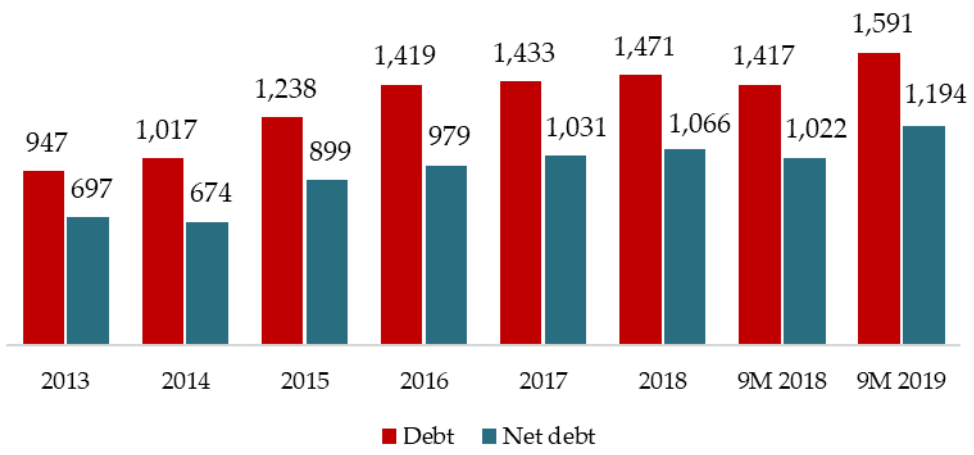
(in GEL million) 30-September-19  
Amount

Cash and Bank Deposits	
Cash and Cash Equivalents	246.6
Available credit lines	150.2
Debt	
Total Indebtedness	1,591.2
<b>Net Debt</b>	<b>1,194.4</b>

**Current Net Debt Position**

- GR's debt balances include Eurobonds issued in 2012 and additional borrowing from Credit Suisse drawn in 2016 and 2017;
- Gross debt as at 30 September 2019 has increased by 8% compared to 31 December 2018, driven by the depreciation of GEL against USD by about 10%.
- Cash balances and undrawn credit facilities offset Gross debt.

**Debt ( in GEL million) as for 30 September 2019**



## Liquidity & Solvency Ratios

### Liquidity

<u>Current Ratio</u>	<b>1.44</b>
<u>Quick Ratio</u>	<b>1.28</b>
<u>Cash Ratio</u>	<b>1.09</b>

### Solvency

<u>Net Debt to EBITDA</u>	<b>6.93</b>
<u>Debt to Equity</u>	<b>3.42</b>
<u>Debt to Assets</u>	<b>0.70</b>

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

GEL	USD	GEL eqv.
37,000	40,000	150,208

## Cash Position as at 30 September 2019

<i>in GEL '000</i>	<b>30-Sep-19</b>
<b>GEL</b>	79,761
<b>USD</b>	166,569
<b>CHF</b>	277
<b>EUR</b>	1
<b>GBP</b>	2
<b>RUB</b>	7
<b>Total</b>	<b>246,616</b>

