



**Georgian  
Railway**  
Est. 1872

**Management Discussion and Analysis for  
the nine months and Q3 ended  
30 September 2021**

**Financial and non-financial highlights**

**Revenue**

(‘000 GEL)

<u>Q3 2021</u>	<u>9M 2021</u>
<b>131,324</b>	<b>408,951</b>

+10.4% from Q3 2020    +12.3% from 9M 2020  
-12.3% from Q2 2021

**Results from operating activities**

(‘000 GEL)

<u>Q3 2021</u>	<u>9M 2021</u>
<b>33,004</b>	<b>126,219</b>

+61.8% from Q3 2020    +35.7% from 9M 2020  
-40.0% from Q2 2021

**Adjusted EBITDA**

(‘000 GEL)

<u>Q3 2021</u>	<u>9M 2021</u>
<b>50,803</b>	<b>179,503</b>

-12.8% from Q3 2020    +4.1% from 9M 2020  
-28.6% from Q2 2021

**Adjusted EBITDA**

**margin**

<u>Q3 2021</u>	<u>9M 2020</u>
<b>38.7%</b>	<b>43.9%</b>

-10.3 points from Q3 2020    -3.4 points from 9M 2020  
-8.8 points from Q2 2021

**Net debt to adjusted**

**EBITDA**

30 Sep 2021

**5.71**

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# 1. PROFIT OR LOSS STATEMENT

9 Month period ended 30 September

GEL '000	Q3 2021	Q3 2020	y-o-y	Q2 2021	q-o-q	9M 2021	9M 2020	y-o-y % change	y-o-y Abs. change
Revenue	131,324	118,910	10.4%	149,761	-12.3%	408,951	364,242	12.3%	44,709
Other income	1,468	4,787	-69.3%	1,231	19.3%	4,963	9,709	-48.9%	-4,745
Impairment loss on trade receivables	-412	-17,794	-97.7%	1,519	-127.1%	-897	-19,695	-95.4%	18,798
Employee benefits expense	-42,501	-39,942	6.4%	-44,089	-3.6%	-127,127	-122,752	3.6%	-4,375
Depreciation and amortization	-17,388	-20,071	-13.4%	-17,653	-1.5%	-52,387	-59,738	-12.3%	7,351
Electricity, consumables and maintenance costs	-14,618	-9,627	51.8%	-11,049	32.3%	-36,262	-30,347	19.5%	-5,915
Other expenses	-24,870	-15,866	56.8%	-24,737	0.5%	-71,022	-48,419	46.7%	-22,603
<b>Result from operating activities</b>	<b>33,004</b>	<b>20,398</b>	<b>61.8%</b>	<b>54,981</b>	<b>-40.0%</b>	<b>126,219</b>	<b>93,000</b>	<b>35.7%</b>	<b>33,219</b>
<b>Net finance income/loss</b>	<b>9,982</b>	<b>-124,150</b>	<b>-108.0%</b>	<b>-32,508</b>	<b>-130.7%</b>	<b>-114,969</b>	<b>-262,251</b>	<b>-56.2%</b>	<b>147,282</b>
<b>Profit before income tax</b>	<b>42,987</b>	<b>-103,752</b>	<b>-141.4%</b>	<b>22,473</b>	<b>91.3%</b>	<b>11,250</b>	<b>-169,251</b>	<b>-106.6%</b>	<b>180,501</b>
Income tax expense(benefit)	-93	-49	89.8%	-126	-26.2%	-391	-386	1.3%	-5
<b>Profit and total comprehensive income</b>	<b>42,893</b>	<b>-103,802</b>	<b>-141.3%</b>	<b>22,347</b>	<b>91.9%</b>	<b>10,859</b>	<b>-169,637</b>	<b>-106.4%</b>	<b>180,496</b>
<i>Adjusted EBITDA</i>	<i>50,803</i>	<i>58,262</i>	<i>-12.8%</i>	<i>71,116</i>	<i>-28.6%</i>	<i>179,503</i>	<i>172,433</i>	<i>4.1%</i>	<i>7,070</i>
<i>Adjusted EBITDA Margin</i>	<i>38.69%</i>	<i>49.00%</i>	<i>NA</i>	<i>47.49%</i>	<i>NA</i>	<i>43.89%</i>	<i>47.34%</i>	<i>NA</i>	<i>-3.4%</i>

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

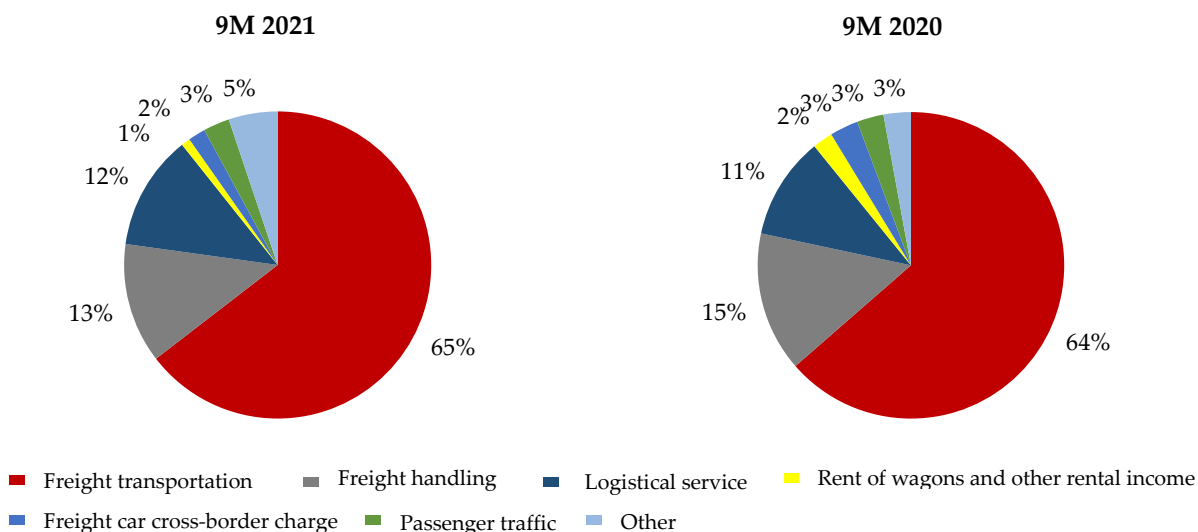
## 1.1 REVENUE ANALYSIS

9 Month period ended 30 September

GEL '000	Q3 2021	Q3 2020	y-o-y	Q2 2021	q-o-q	9M 2021	9M 2020	% Change	% Change at constant currency	Abs. Change
Freight transportation	81,935	70,239	16.7%	97,857	-16.3%	263,979	231,600	14.0%	7.1%	32,379
Freight handling	16,162	18,474	-12.5%	17,020	-5.0%	51,667	53,777	-3.9%	-9.8%	-2,109
Logistical service	15,288	10,447	46.3%	16,601	-7.9%	49,579	39,378	25.9%	18.3%	10,201
Rent of wagons and other rental income	1,444	3,360	-57.0%	1,187	21.7%	3,850	7,782	-50.5%	-53.5%	-3,932
Freight car cross-border charge	2,327	3,959	-41.2%	221	952.9%	7,478	10,958	-31.8%	-35.9%	-3,480
Passenger traffic	7,411	5,116	44.9%	3,125	137.2%	11,303	10,279	10.0%	3.3%	1,024
Other	6,757	7,316	-7.6%	13,749	-50.9%	21,094	10,468	101.5%	89.3%	10,626
<b>Revenue</b>	<b>131,324</b>	<b>118,910</b>	<b>10.4%</b>	<b>149,761</b>	<b>-12.3%</b>	<b>408,951</b>	<b>364,242</b>	<b>12.3%</b>	<b>5.5%</b>	<b>44,709</b>
<b>Other income</b>	<b>1,468</b>	<b>4,787</b>	<b>-69.3%</b>	<b>1,231</b>	<b>19.3%</b>	<b>4,963</b>	<b>9,709</b>	<b>-48.9%</b>	<b>-52.0%</b>	<b>-4,745</b>
<b>Freight transportation</b>	<b>81,935</b>	<b>70,239</b>	<b>16.7%</b>	<b>97,857</b>	<b>-16.3%</b>	<b>263,979</b>	<b>231,600</b>	<b>14.0%</b>	<b>7.1%</b>	<b>32,379</b>
<b>Liquid cargoes</b>	<b>37,960</b>	<b>26,459</b>	<b>43.5%</b>	<b>44,081</b>	<b>-13.9%</b>	<b>120,582</b>	<b>85,608</b>	<b>40.9%</b>	<b>32.3%</b>	<b>34,974</b>
Oil products	37,474	26,448	41.7%	44,044	-14.9%	120,028	85,369	40.6%	32.1%	34,659
Crude oil	486	11	4318.2%	36	1250.0%	554	239	131.8%	117.7%	315
<b>Dry cargoes</b>	<b>43,975</b>	<b>43,780</b>	<b>0.4%</b>	<b>53,776</b>	<b>-18.2%</b>	<b>143,397</b>	<b>145,992</b>	<b>-1.8%</b>	<b>-7.7%</b>	<b>-2,595</b>
Ores	9,200	8,016	14.8%	9,247	-0.5%	25,531	27,053	-5.6%	-11.4%	-1,522
Grain	351	2,931	-88.0%	1,216	-71.1%	2,438	6,335	-61.5%	-63.9%	-3,897
Ferrous metals and scrap	3,015	2,030	48.5%	3,344	-9.8%	8,697	8,989	-3.2%	-9.1%	-292
Sugar	-2,932	2,761	-206.2%	5,643	-152.0%	8,314	6,944	19.7%	12.5%	1,370
Chemicals and fertilizers	7,098	3,460	105.1%	5,907	20.2%	21,970	17,208	27.7%	19.9%	4,761
Construction freight	1,579	1,532	3.1%	1,743	-9.4%	4,676	5,302	-11.8%	-17.2%	-626
Industrial freight	1,192	1,421	-16.1%	1,403	-15.0%	4,144	4,424	-6.3%	-12.0%	-280
Cement	76	152	-50.0%	122	-37.7%	309	399	-22.6%	-27.3%	-90
Other	24,396	21,477	13.6%	25,152	-3.0%	67,318	69,339	-2.9%	-8.8%	-2,020
<i>Freight turnover (million ton-km)</i>	<i>797</i>	<i>639</i>	<i>24.7%</i>	<i>819</i>	<i>-2.7%</i>	<i>2,455</i>	<i>2,133</i>	<i>15.1%</i>	<i>8.1%</i>	<i>322</i>
<i>Revenue / ton-km (in Tetri)</i>	<i>10.28</i>	<i>10.98</i>	<i>-6.4%</i>	<i>11.95</i>	<i>-14.0%</i>	<i>10.75</i>	<i>10.86</i>	<i>-1.0%</i>	<i>-6.1%</i>	<i>-0.10</i>

\* Negative figures of revenue from Sugar in Q3 2021, was due to special tariffs set on the clients for maintaining competitive edge.

The following charts represent revenue breakdown for the 9 months ended 30 September 2021 and 2020:



### Freight transportation revenue

Most of the Group’s revenue (about 65 percent in the first nine months of 2021) is derived from freight transportation. GR’s freight transportation revenue consists of liquid and dry cargoes. The split between liquid and dry cargo revenue in the first nine months of 2021 was about 46 and 54 percent, respectively. Freight transportation revenue, has increased by 14.0% percent (GEL 32.4 million) during the nine months ended 30 September 2021, compared to the same period of the previous year.

	Average rate			Reporting date spot rates				
	9M 2021	9M 2020	% Change	30-Sep-21	30-Sep-20	% Change	31-Dec-20	% Change
USD	3.25	3.06	6.46%	3.12	3.29	-5.02%	3.28	-4.69%
CHF	3.57	3.22	10.98%	3.36	3.56	-5.58%	3.71	-9.38%

The Group’s transportation revenue depends on several factors, including GEL/USD exchange rate as the Group’s tariffs for freight transportation are denominated in USD. Fluctuations in GEL/USD exchange rate also affect the Group’s profitability, as significant part of the expenses are denominated in GEL.

Despite COVID-19 global pandemic during the first nine months of 2021, GR managed to continue freight operations and even increased transportation volumes.

Total freight volume transported by the Group during the nine months ended 30 September 2021 has increased by 11.6 percent, compared to the same period of previous year. Transported volumes of liquid cargo have increased by 44.0 percent and transported volumes of dry cargo have increased by 0.1 percent (see Appendix 1).

## Oil Products

9 month period ended 30 September

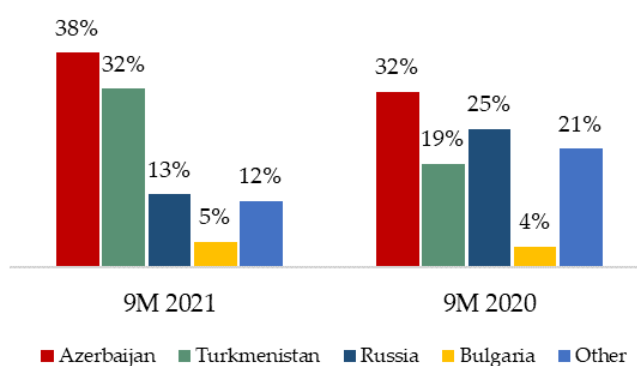
	9M 2021	9M 2020	% Change	% Change at constant currency
Revenue (GEL '000)	120,028	85,369	40.6%	32.1%
Freight volume (ton '000)	3,043	2,126	43.1%	NA
Freight turnover (million ton-km)	965.5	614.5	57.1%	NA
Revenue / ton-km (in Tetri)	12.43	13.89	-10.5%	-15.9%

### Main directions of cargo

Oil products currently are the main component of liquid cargo (nearly 99 percent of the transportation volume of liquid cargo in nine months of 2021). They are mainly transported by rail, as there is practically no competition from pipelines.

Oil products transported by the Group during nine month period ended 30 September 2021 mainly originated from Azerbaijan, Turkmenistan, Russia and Bulgaria with significant changes in transportation direction mix compared to the same period of 2020. The share of Russia was down to 13 percent from 25 percent, while the share of Turkmenistan and Azerbaijan increased by about 13 and 7 percentage points, respectively in total oil products transported by the Group.

Transportation volume by countries of origin

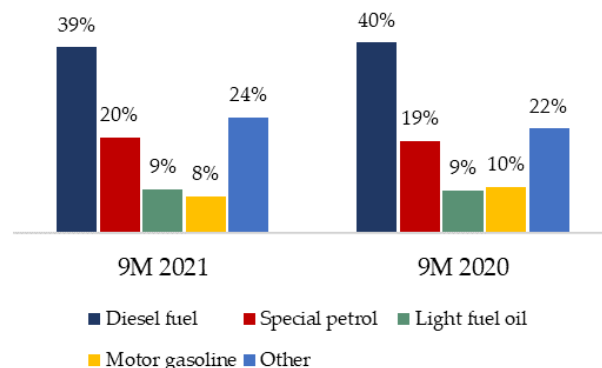


### Factors influencing performance

Ton-kilometers – 57.1 percent increase in transportation turnover was mainly driven by increased transported volume (by 43.1 percent), mostly attributable to increased transportation from Turkmenistan by about 578,000 tons and from Azerbaijan 500,000 tons.

Revenue/ton-km (in Tetri) - decrease in average revenue per ton-kilometer during the period under review, compared to the same period of the previous year, was mainly due to changes in product direction mix. The share of Russia (which is relatively more profitable direction) decreased, while the share of Turkmenistan (which is relatively less profitable direction) increased.

Product Category Mix



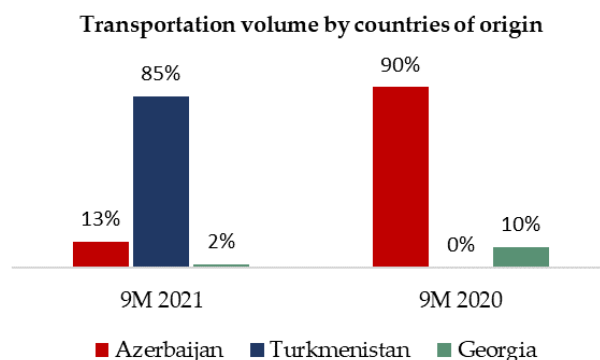
## Crude Oil

9 month period ended 30 September

	9M 2021	9M 2020	% Change	% Change at constant currency
Revenue (GEL '000)	554	239	131.6%	117.5%
Freight volume (ton '000)	27.7	5.6	399.2%	NA
Freight turnover (million ton-km)	10.9	2.0	447.8%	NA
Revenue / ton-km (in Tetri)	5.06	11.97	-57.7%	-60.3%

### Main directions of cargo

Within the nine months ended 30 September 2021, the main countries of origin were Turkmenistan and Azerbaijan with approximately 24,000 tons and 4,000 tons, respectively. In the same period of 2020 volumes were mostly transported from Azerbaijan to Georgia with approximately 5,000 tones.



### Factors influencing performance

Ton-kilometers – Transportation turnover increased by 448 percent due to transported volumes from Turkmenistan (approximately 24,000 tons) in the first nine months of 2021.

Revenue/ton-km (in Tetri) – significant decrease in revenue per ton-kilometer was due to change in product direction mix. The share of Azerbaijan (which is relatively more profitable direction) has decreased, while the share of Turkmenistan (which is relatively less profitable direction) has increased in total crude oil transportation in the first nine months of 2021, compared to the same period of 2020.

## Ores

9 month period ended 30 September

	9M 2021	9M 2020	% Change	% Change at constant currency
Revenue (GEL '000)	25,531	27,053	-5.6%	-11.4%
Freight volume (ton '000)	1,419	1,418	0.0%	NA
Freight turnover (million ton-km)	237.4	265.5	-10.6%	NA
Revenue / ton-km (in Tetri)	10.76	10.19	5.6%	-0.9%

### Main directions of cargo

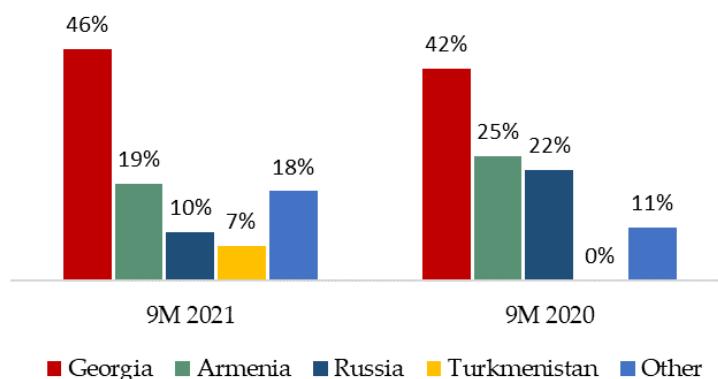
Ore products transported by the Group during nine month period ended 30 September 2021, mainly originated from Georgia, Armenia, Russia and Turkmenistan. Main destination countries were Georgia, China, Azerbaijan and Bulgaria.

## Factors influencing performance

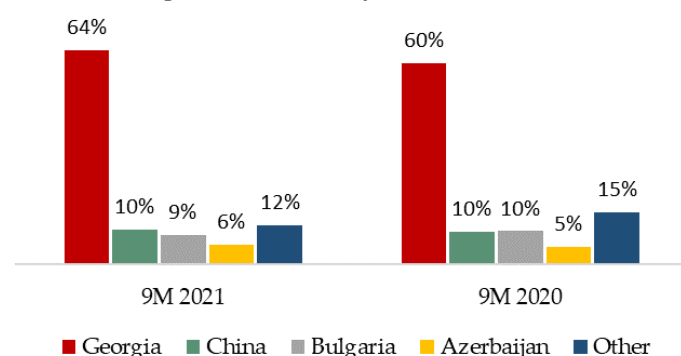
Ton-kilometers – 10.6 percent decrease in transportation turnover was mainly driven by decreased transportation from Russia and Armenia by approximately 174,00 tons and 79,000 tons, respectively in the first nine months of 2021, compared to the same period of 2020.

Revenue/ton-km (in Tetri) – 5.6 percent increase in average revenue per ton-kilometer was mainly due to change in product direction mix and product category mix. The share of freight volumes from Georgia (which is relatively more profitable direction) has increased while the share of Russia (which is relatively less profitable direction) decreased. As well as, the share of manganese ores and concentrates (which is relatively more profitable product) increased significantly, while the share of bituminous coal (which is relatively less profitable product) has decreased, in the first nine months of 2021, compared to the same period of the previous year.

Transportation volume by countries of origin



Transportation volume by destination countries



## Grain and grain products

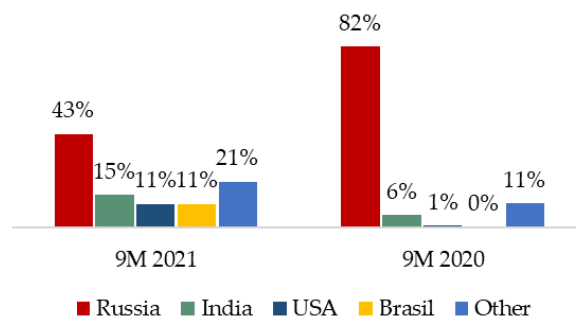
9 month period ended 30 September

	9M 2021	9M 2020	% Change	% Change at constant currency
Revenue (GEL '000)	2,438	6,335	-61.5%	-63.8%
Freight volume (ton '000)	84	240	-65.0%	NA
Freight turnover (million ton-km)	20.5	56.0	-63.4%	NA
Revenue / ton-km (in Tetri)	11.90	11.30	5.3%	-1.1%

## Main directions of cargo

Grain and grain products transported by the Group during nine months ended 30 September 2021, mainly originated from Russia, India, USA and Brazil. While the main destination countries were Georgia, Azerbaijan, Armenia and Turkey.

Transportation volume by countries of origin



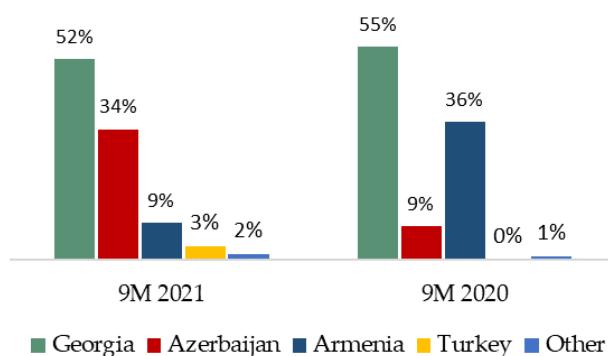


## Factors influencing performance

Ton-kilometers – 64 percent decrease in transportation turnover was mainly driven by decreased transportation from Russia by 162,000 tons.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was mainly due to change in product category mix. The share of unroasted malt (which is relatively less profitable product) has decreased, while the share of soybeans (which is relatively more profitable product) has increased in total grain and grain products transported by the Group in the first nine months of 2021, compared to the same period of 2020.

Transportation volume by destination countries



## Sugar

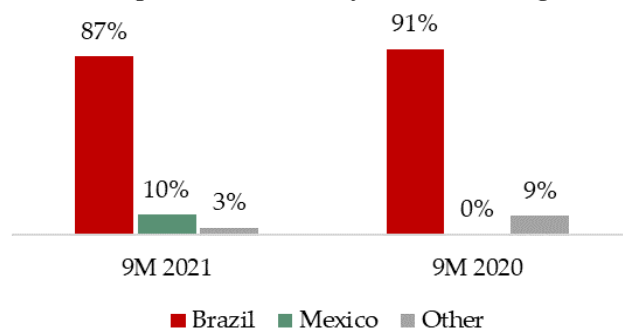
9 month period ended 30 September

	9M 2021	9M 2020	% Change	% Change at constant currency
Revenue (GEL '000)	8,314	6,944	19.7%	12.5%
Freight volume (ton '000)	313	173	81.6%	NA
Freight turnover (million ton-km)	116.0	59.1	96.3%	NA
Revenue / ton-km (in Tetri)	7.17	11.75	-39.0%	-42.7%

## Main directions of cargo

The main origin countries were Brazil and Mexico, together generating about 87 percent of total sugar transported in the nine month period ended 30 September of 2021, while the main origin country was Brazil with 91 percent in the same period of 2020. The main destination countries were Azerbaijan, Georgia and Armenia in the nine months of 2021, compared to the same period of 2020.

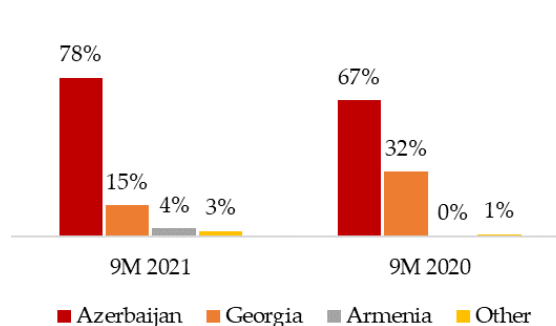
Transportation volume by countries of origin



## Factors influencing performance

Ton-kilometers – 96 percent increase in freight turnover during the period under review, compared to the same period of the previous year, was mainly driven by increased transportation from Brazil and Mexico by 117,000 tons and 30,000 tons, respectively in the nine months ended 30 September 2021, compared to the same period of 2020.

Transportation volume by destination countries



Revenue/ton-km (in Tetri) – decrease in average revenue per ton-kilometer was due to higher increase in average haul, rather than in revenue, which in turn is related to increased share of volumes transported from/to the countries covering longer distances in the first nine months of 2021, compared to the same period of 2020.

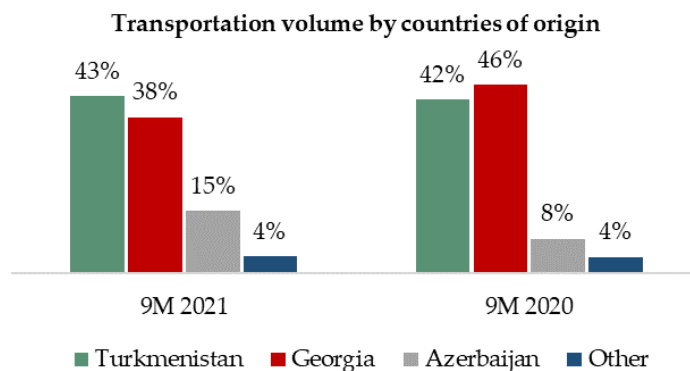
## Chemicals and fertilizers

9 month period ended 30 September

	9M 2021	9M 2020	% Change	% Change at constant currency
Revenue (GEL '000)	21,970	17,208	27.7%	19.9%
Freight volume (ton '000)	857	729	17.5%	NA
Freight turnover (million ton-km)	289.6	236.8	22.3%	NA
Revenue / ton-km (in Tetri)	7.59	7.27	4.4%	-2.0%

### Main directions of cargo

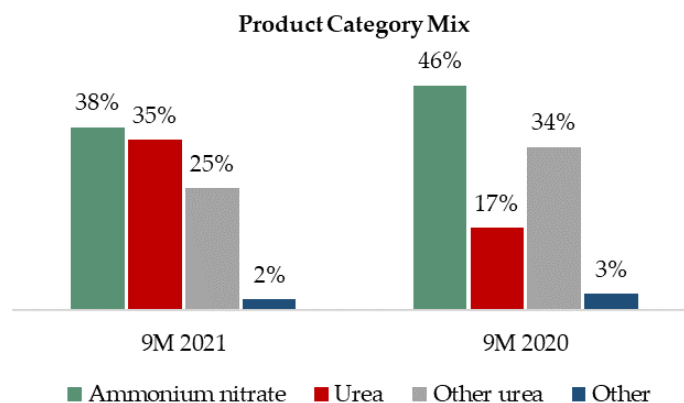
Chemicals and fertilizers transported by the Group during nine months ended 30 September of 2021, mainly originated from Turkmenistan, Georgia and Azerbaijan (368,000 tons, 325,000 and 129,000 tons, respectively).



### Factors influencing performance

Ton-kilometers – 22.3 percent increase in freight turnover during the period under review, compared to the same period of the previous year, was mainly driven by increased volumes from Azerbaijan, Turkmenistan and Uzbekistan by 69,000 tons, by 60,000 tons and by 17,000 tons, respectively in the first nine months of 2021, compared to the same period of 2020.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was caused by change in product direction mix. The share of Uzbekistan (which is relatively more profitable direction) has increased, while the share of Georgia (which is relatively less profitable direction) has decreased, in the first nine months of 2021, compared to the same period of 2020.



## Other products

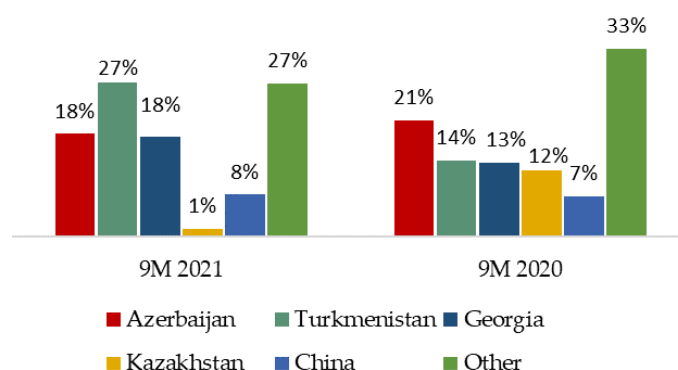
9 month period ended 30 September

	9M 2021	9M 2020	% Change	% Change at constant currency
Revenue (GEL '000)	67,318	69,339	-2.9%	-8.8%
Freight volume (ton '000)	1,865	2,051	-9.1%	NA
Freight turnover (million ton-km)	568.3	641.8	-11.5%	NA
Revenue / ton-km (in Tetri)	11.85	10.80	9.6%	3.0%

### Main directions of cargo

Freight from other products category in nine months ended 30 September 2021 was mainly originated from Turkmenistan, Azerbaijan, Georgia and China (512,000 tons, 341,000 tons, 334,000 tons and 140,000 tons, respectively), while the main destination countries were Russia, Turkey and Georgia (237,000 tons, 228,000 tons and 190,000 tons, respectively).

Transportation volume by countries of origin

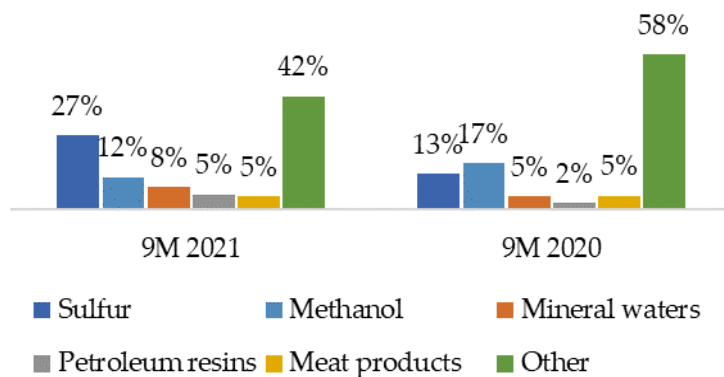


### Factors influencing performance

Ton-kilometers – 12 percent decrease in transportation turnover was mainly driven by decreased volumes from Kazakhstan and Azerbaijan by 216,000 tons and 84,000 tons, respectively.

Revenue/ton-km (in Tetri) – increase in average revenue per ton-kilometer was mainly driven by product direction mix and product category mix. The share of Kazakhstan (which is relatively less profitable direction has decreased), while the share of Georgia (which is relatively more profitable direction) has increased. As well as the shares of petroleum resins and mineral waters (which are relatively more profitable products) have increased, while the share of Aluminum foil (which is relatively less profitable product) has decreased, in the first nine months of 2021, compared to the same period of 2020.

Product Category Mix



## Freight handling

Revenue from freight handling decreased by GEL 2.1 million in the first nine months of 2021 compared to the same period previous year. It was mainly driven by decreased revenue from 24-hour services and fewer penalty charges.

## Logistical services

Increase in revenue from logistical services by GEL 10.2 million during the first nine months ended 30 September 2021, compared to the same period of the previous year, was caused by increased transportation of GR's subsidiary companies, serving crude oil and oil product transportation, as well as serving container transportation.

## Freight car cross-border charge

The Group's revenue from freight car cross-border charges decreased by 31.8 percent (or GEL 3.5 million) in the first nine months ended 30 September 2021, compared to the same period of the previous year. This downturn was primarily due to decrease in the usage of GR's semi-wagons on foreign railway networks.

## Rent of wagons and other rental income

The Group's revenue from rent of wagons and other rental income - GEL 3.9 million for the first nine months ended 30 September 2021, compared to GEL 7.8 million for the corresponding period in 2020, is reflecting a decrease of 50.5% (or GEL 3.9 million). This decrease was primarily due to the expiration of some contracts and not extending them due to COVID-19.

## Passenger transportation

9 month period ended 30 September

In '000 GEL

	9M 2021	9M 2020	% Change	Abs. change
Revenue	11,303	10,279	10.0%	1,024
Number of passengers	599	867	-30.9%	-268

Revenue from passenger transportation has increased by 10.0 percent during the nine months ended 30 September 2021, compared to the same period of the previous year, while the number of passengers has decreased by 30.9 percent. The disproportional change is related to increased share of more profitable directions, as well as increased demand on business class tickets.

The Passenger SBU were materially adversely impacted from the second half of March 2020, as well as in the first two months of 2021, by the impact of the COVID-19 pandemic. In line with Government regulations, passenger transportation was ceased from the second half of March 2020 until 15 June 2020 and, subject to certain limited exceptions, from 28 November 2020 until 27 February 2021.

## Other revenue

The increase in other revenue by GEL 10.6 million during the first three quarters of 2021, compared to the same period of 2020 was mostly attributable to increased revenue from sale of scrap by GEL 11.3 million.

## 1.2 OTHER INCOME

In order to better illustrate the operational profitability of the Group, other income is split into two categories: continuing operations (such as income from services of heavy equipment, penalties on creditors and debtors, etc.) and non-continuing operations (such as gain or loss from sale of fixed assets and other items which are not expected to reoccur in the following periods).

### Other income

9 month period ended 30 September

In GEL '000

	9M 2021	9M 2020	% Change	Abs. change
Continuing operations	1,938	1,664	16.5%	274
Non-continuing operations	3,025	8,045	-62.4%	-5,020
<b>Total</b>	<b>4,963</b>	<b>9,709</b>	<b>-48.9%</b>	<b>-4,746</b>

Continuing operations increased by GEL 0.3 million during the first nine months ended 30 September 2021, compared to the same period of the previous year, mostly due to increased accrued penalties on creditors. Decrease of GEL 5.0 million in non-continuing operations, mostly is related to reversal of different provisions in the first nine months of 2020.

## 1.3 OPERATING EXPENSES

Total operating expenses for the first nine months ended 30 September 2021 increased by GEL 6.7 million, compared to the same period of the previous year. The increase was mainly caused by increase in electricity expense, as well as upturn was partially due to provision made against one counterparty company.

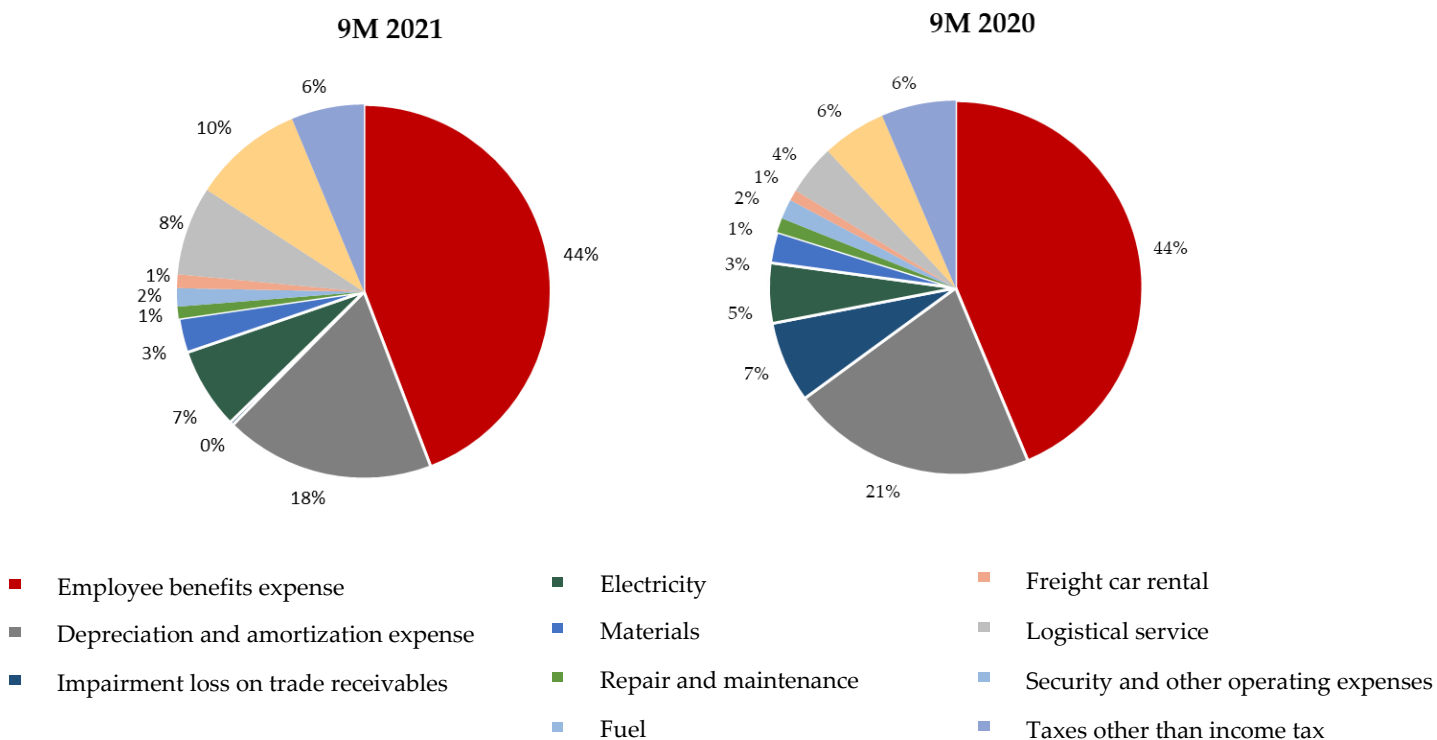
### Operating expenses

9 month period ended 30 September

In GEL '000

	9M 2021	9M 2020	% Change	Abs. change
Employee benefits expense	127,127	122,752	3.6%	4,375
Depreciation and amortization expense	52,387	59,738	-12.3%	-7,351
Impairment loss/gain on trade receivables	897	19,695	-95.4%	-18,798
Electricity	20,254	14,599	38.7%	5,655
Materials	8,531	7,500	13.8%	1,031
Repair and maintenance	2,936	3,469	-15.4%	-533
Fuel	4,541	4,780	-5.0%	-239
Freight car cross-border charge	3,407	2,637	29.2%	770
Logistical service	22,040	12,192	80.8%	9,848
Security and other operating expenses	27,514	15,544	77.0%	11,970
Taxes other than income tax	18,062	18,047	0.1%	15
<b>Total</b>	<b>287,695</b>	<b>280,951</b>	<b>2.4%</b>	<b>6,744</b>

The following charts represent the cost structure for the first nine months ended 30 September 2021 and the same period of 2020:



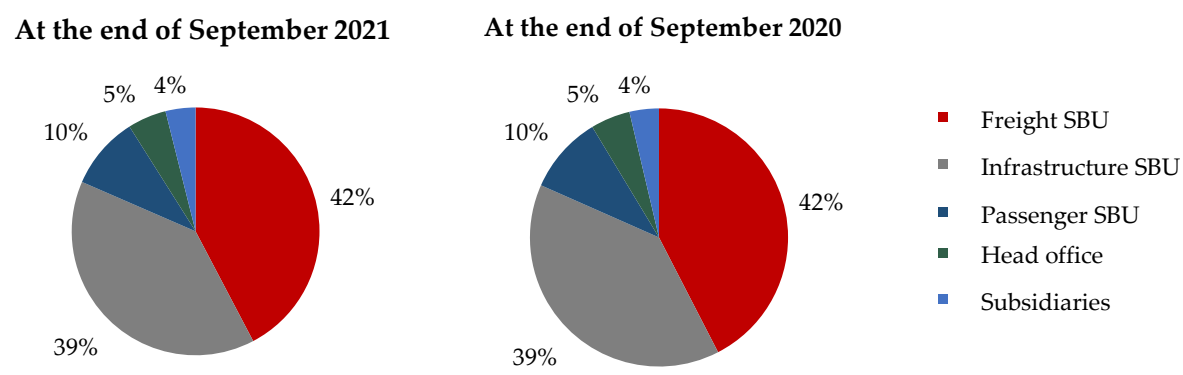
**Employee benefits expense**

The increase in employee benefits expense during the first nine months ended 30 September 2021, compared to the same period of the previous year, was mainly due to increase in salary expenses.

Number of employees (excluding subsidiaries) by the end of September 2021 was equal to 11,813 and by the end of September 2020 was 12,089.

Following charts show the headcount by strategic business units and head office of the Company

**Distribution of staff by business units**



## Depreciation and amortization expense

The decrease of GEL 7.4 million in depreciation and amortization expenses in the first nine months of 2021, compared to the same period of 2020, was primarily due to a decline in property, plant and equipment.

## Security and other operating expenses

Increase of GEL 12.0 million in security and other operating expense category was mainly caused by the increase in other operating expenses, which in turn was due to provision made against legal case in the first nine months of 2021, compared to the same period of previous year.

## Electricity expenses

9 month period ended 30 September

In GEL '000

	9M 2021	9M 2020	% Change	Abs. change
Electricity expense of traction	17,158	12,135	41.4%	5,023
Utility expenses	3,096	2,464	25.7%	633
<b>Total</b>	<b>20,254</b>	<b>14,599</b>	<b>38.7%</b>	<b>5,656</b>

There was a 26 percent increase in utility expenses during the first nine months ended 30 September 2021, compared to the same period of 2020. The Group actively responds to the risks that are coming from COVID-19 and allowed most of its employees to perform their duties from safe distance during 2020, after improving epidemic condition in the country in 2021, part of employees moved back to office based activity. Electricity expenses on traction increased as well by GEL 5.0 million, due to increased transported volumes, as well as increased average tariffs on electricity.

## Purchased electricity and weighted average tariff

9 month period ended 30 September

	9M 2021			9M 2020		
	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)
January	9.9	479.6	0.155	13.2	543.7	0.131
February	9.3	452.0	0.155	11.1	434.1	0.130
March	12.1	585.1	0.156	11.1	468.9	0.130
April	10.0	489.8	0.153	9.1	436.6	0.130
May	10.9	537.9	0.153	9.6	459.8	0.130
June	10.0	461.1	0.153	9.7	442.8	0.130
July	10.9	497.3	0.188	10.0	442.1	0.130
August	11.0	503.2	0.243	10.1	407.2	0.130
September	10.7	508.7	0.264	9.3	384.3	0.130
<b>Total</b>	<b>94.8</b>	<b>4,514.8</b>	<b>0.180</b>	<b>93.2</b>	<b>4,019.5</b>	<b>0.130</b>

Note: The table above includes only electricity consumed of traction

### Freight car cross-border charge expenses

Freight car cross-border charge expenses increased by about GEL 0.8 million, mostly due to increased usage of various freight wagons, including platform cars, semi-wagons and tank cars in the first nine months ended 30 September 2021, compared to the same period of the previous year.

### Logistical services

Expenses for logistical services represent operating expenses of Georgian Railway's logistical subsidiaries. The expenses for logistical services in the first nine months ended 30 September 2021 increased by about 80.8 percent (GEL 9.8 million), compared to the same period of the previous year. The increase was mainly attributable to a subsidiary, that serves liquid cargo transportation.

### Impairment loss/gain on trade receivables

GEL 19.7 million impairment loss on trade receivables in nine months ended 30 September 2020 was caused by increase of gross receivables balance compared to previous period.

### Taxes other than income tax

9 month period ended 30 September

In GEL '000

	9M 2021	9M 2020	% Change	Abs. change
Property tax	9,019	9,069	-0.5%	-50
Land tax	8,893	8,873	0.2%	20
Other taxes*	149	105	42.5%	45
<b>Total</b>	<b>18,062</b>	<b>18,047</b>	<b>0.1%</b>	<b>15</b>

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

During the first nine months ended 30 September 2021, taxes other than income tax remained at about the same level, compared to the same period of 2020.



## 1.4 FINANCE INCOME AND COST

### Finance income and cost

9 month period ended 30 September

In GEL '000

	9M 2021	9M 2020	% Change	Abs. change
Interest income	17,344	13,361	29.8%	3,982
Impairment gain on PPE	0	6,602	-100.0%	-6,602
Impairment loss on issued loans	-3	108	-102.9%	-112
Impairment gain/loss on cash in bank	88	180	-51.0%	-92
Unwinding of discount	-419	0	100.0%	-419
Premium on early redemption of issued bonds	-115,686	0	100.0%	-115,686
Interest expense	-84,664	-93,507	-9.5%	8,844
FX gain/loss	68,371	-188,996	-136.2%	257,367
<b>Net finance income/loss</b>	<b>-114,969</b>	<b>-262,251</b>	<b>-56.2%</b>	<b>147,282</b>

In the first nine months ended 30 September 2021 the Group showed GEL 115.0 million net finance loss, compared to the net finance loss of GEL 262.3 million in the same period of 2020. The positive difference of GEL 147.3 million was mainly due to the fluctuation of GEL against foreign currencies.

GEL/USD exchange rate fluctuation has significant effect on net finance income/cost. Due to GEL appreciation against USD by 4.69 percent as at 30 September 2021 compared to 31 December 2020 (GEL/USD exchange rate 3.12 versus 3.28), the Group experienced net foreign exchange gain of GEL 68.4 million.

Higher interest income by GEL 4.0 million in the first nine months ended 30 September 2021 compared to the same period of 2020, was mainly due to the higher average cash balances.

Premium on early redemption of issued bonds of GEL 115.7 million is related to Eurobond refinance process that took place in the second quarter of 2021. GR repurchased Eurobonds due 2022 by the end of June 2021, issued Green bonds with 4 percent coupon rate and paid costs related to early redemption, as well as refinancing costs.

## 1.5 INCOME TAX EXPENSE / BENEFIT

In May 2016, the Parliament of Georgia adopted amendments to the Tax Code of Georgia. The new tax code is effective from 1 January 2017. According to the new tax code, previously active profit tax regulation was changed to so-called "tax on distributed profits" model. During the first nine months of 2021 income tax expense remained at about the same level, compared to the same period of 2020.

## 2. BALANCE SHEET

9 month period ended 30 September

	30-Sep-21	30-Jun-21	% Change	Abs. change	31-Dec-20	% Change	Abs. change
<b>TOTAL ASSETS</b>	<b>2,255,962</b>	<b>2,187,337</b>	<b>3.14%</b>	<b>68,626</b>	<b>2,347,764</b>	<b>-3.91%</b>	<b>-91,801</b>
<i>Changes are mainly due to:</i>							
Property, plant and equipment	1,808,522	1,813,433	-0.27%	-4,911	1,829,561	-1.15%	-21,039
Trade and other receivables	22,745	20,303	12.03%	2,442	23,579	-3.54%	-834
Cash and cash equivalents	248,321	184,270	34.76%	64,051	322,986	-23.12%	-74,665
<b>TOTAL LIABILITIES</b>	<b>1,884,688</b>	<b>1,860,085</b>	<b>1.32%</b>	<b>24,603</b>	<b>1,988,478</b>	<b>-5.22%</b>	<b>-103,790</b>
<i>Changes are mainly due to:</i>							
Loans and borrowings (LT)	1,613,621	1,634,584	-1.28%	-20,963	1,702,980	-5.25%	-89,359
Loans and borrowings (ST)	31,950	16,203	97.19%	15,747	74,356	-57.03%	-42,406

### Significant changes in assets

Property, plant and equipment - GEL 21.0 million decrease in property, plant and equipment in the first nine months of 2021, compared to 31 December 2020, was mainly due to the lower works mostly under the Modernization Project and respective suspension of borrowing costs, due to COVID-19.

Cash and cash equivalents – GEL 74.7 million decrease by the end of September 2021, compared to 31 December 2020, was mainly caused by fees and expenses related to bond refinance process. (See heading 3 “Cash Flow Statement”).

### Significant changes in liabilities

Decrease in both long-term, as well as short-term loans and borrowings is partially caused by appreciation of GEL against USD by 4.69%. Additionally, in the process of bond refinance, some short term liabilities have been covered, as a result for the 30 September 2021, compared to 31 December 2020, Loans and borrowings (LT) has decreased by GEL 89.4 million and Loans and borrowings (ST) by GEL 42.4 million.

### 3. CASH FLOW STATEMENT

9 month period ended 30 September	In GEL '000	
	9M 2021	9M 2020
<b>Cash flows from operating activities</b>		
Cash receipts from customers	409,139	359,041
Cash paid to suppliers and employees	-214,781	-192,552
<b>Cash flows from operations before income taxes paid</b>	<b>194,358</b>	<b>166,489</b>
Income tax paid		
<b>Net cash from operating activities</b>	<b>194,358</b>	<b>166,489</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-30,395	-43,276
Proceeds from sale of property, plant and equipment	4,822	2,431
Interest received	15,129	11,420
Refund of the loan	-	-
<b>Net cash used in investing activities</b>	<b>-10,444</b>	<b>-29,425</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	1,577,389	0
Repayment of borrowings	-1,583,120	-6,990
Payment for debt issue cost	-115,686	0
Interest paid	-121,271	-116,363
<b>Net cash from used in financing activities</b>	<b>-242,688</b>	<b>-123,353</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-58,774</b>	<b>13,711</b>
Cash and cash equivalents at 1 January	322,986	257,975
Effect of exchange rate fluctuations on cash and cash equivalents	-15,979	21,151
Cash Provision	88	180
<b>Cash and cash equivalents at the end of the period</b>	<b>248,321</b>	<b>293,017</b>

#### Operating activities

Net cash from operating activities increased by GEL 27.9 million in the first nine months ended 30 September 2021, compared to the same period of the previous year. The change was driven by increase in cash receipts from customers by GEL 50.1 million, which was partially offset by the decrease in cash paid to suppliers and employees by GEL 22.2 million.

## **Investing activities**

Cash used in investing activities decreased by GEL 19.0 million in the first nine months ended 30 September 2021, compared to the same period of the previous year. The decrease was mainly due to the decrease in acquisition of property, plant and equipment. This was mainly caused due to lower cash outflows on Modernization Project in the first nine months of 2021, compared to the same period of 2020.

## **Financing activities**

Higher interest paid and the premium on early redemption of issued bonds in the first nine months ended 30 September 2021, compared to the same period of the previous year, was mainly due to bond refinance process that took place in second quarter, by purchasing previously issued Eurobonds and issuing new green bond. GR repurchased Eurobonds due 2022 with tender offer with early consent method and payed around USD 36 million for repurchase fees as well as USD 18 million on accrued interest, that overall resulted decrease in company's cash balances.

## APPENDIX 1

### Breakdown of freight transportation in tons

9 month period ended 30 September

In thousand tons

	9M 2021	9M 2020	% Change	Abs. Change
<b>Liquid cargoes</b>	<b>3,070</b>	<b>2,132</b>	<b>44.0%</b>	<b>938</b>
Oil products	3,043	2,126	43.1%	916
Crude oil	28	6	399.2%	22
<b>Dry cargoes</b>	<b>5,980</b>	<b>5,975</b>	<b>0.1%</b>	<b>5</b>
Ores	1,419	1,418	0.0%	1
Grain	84	240	-65.0%	-156
Ferrous metals and scrap	444	409	8.7%	36
Sugar	313	172	81.6%	141
Chemicals and fertilizers	857	729	17.5%	128
Construction freight	694	663	4.5%	30
Industrial freight	280	264	6.4%	17
Cement	24	29	-15.3%	-4
Other	1,865	2,051	-9.1%	-186
<b>Total</b>	<b>9,051</b>	<b>8,107</b>	<b>11.6%</b>	<b>944</b>

## APPENDIX 2

### Breakdown of freight transportation in ton-kilometers

9 month period ended 30 September

In million ton-kilometers

	9M 2021	9M 2020	% Change	Abs. Change
<b>Liquid cargoes</b>	<b>976</b>	<b>617</b>	<b>58.4%</b>	<b>360</b>
Oil products	966	615	57.1%	351
Crude oil	11	2	447.8%	9
<b>Dry cargoes</b>	<b>1,479</b>	<b>1,517</b>	<b>-2.5%</b>	<b>-38</b>
Ores	237	265	-10.6%	-28
Grain	20	56	-63.4%	-36
Ferrous metals and scrap	97	99	-2.0%	-2
Sugar	116	59	96.3%	57
Chemicals and fertilizers	290	237	22.3%	53
Construction freight	101	105	-3.4%	-4
Industrial freight	42	47	-8.9%	-4
Cement	6	7	-15.2%	-1
Other	568	642	-11.5%	-73
<b>Total</b>	<b>2,455</b>	<b>2,133</b>	<b>15.1%</b>	<b>322</b>

## APPENDIX 3

According to Condition 3 (d) of the “Terms and Conditions of the Notes” (The U.S. \$500,000,000 4% Notes due 17 June 2028 issued by Georgian Railway JSC on 10 June 2021), 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.

Given table sets forth calculation of Net Financial Indebtedness to EBITDA (adjusted EBITDA) as at 30 September 2021 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 30 September 2021 is the Incurrence date (or “the date of determination”) as defined in Condition 3 of the “Terms and Conditions of the Notes”.

### Calculations of ratio of Net Financial Indebtedness to EBITDA (adjusted EBITDA):

*In 000 GEL*

<b>Net Financial Indebtedness as at:</b>	<b>30-Sep-21</b>	<b>30-Jun-21</b>
Financial indebtedness	1,645,572	1,650,787
less:		
Available credit facilities	63,228	63,603
Cash and cash equivalents	248,321	184,270
<b>Net Financial Indebtedness:</b>	<b>1,334,023</b>	<b>1,402,914</b>
<b>The most recent 2 consecutive semi-annual period ended:</b>	<b>30-June-2021</b>	<b>30-June-2021</b>
Results from operating activities	149,859	149,859
Depreciation add-back	71,488	71,488
Impairment loss on property, plant and equipment add-back	0	0
Impairment loss on trade receivables	12,143	12,143
<b>EBITDA (adjusted EBITDA)</b>	<b>233,490</b>	<b>233,490</b>
<b>Net Financial Indebtedness/EBITDA (adjusted EBITDA)</b>	<b>5.71</b>	<b>6.01</b>