Georgian Railway
EST. 1872

2023

ANNUAL REPORT

A MESSAGE FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

The year of 2023 was marked by challenges, successes and opportunities for both our company and the nation of Georgia as a whole. Throughout this 12-month period, the shifting geopolitical landscape tested both our resilience and adaptability. In particular, we faced numerous obstacles that required strategic thinking and careful decisions to overcome. Nevertheless, I am proud to say that JSC Georgian Railway again demonstrated its unwavering commitment to prevail in sometimes difficult circumstances.

Of note, our persistent efforts to improve operations enabled us to maintain stability in cargo and passenger volumes on our mainline, making JSC Georgian Railway increasingly attractive to both freight owners and regular travelers. Instrumental in this success were our recent reforms and we believe that the positive impacts these have brought will continue to be felt.

Our strategy aligns with the strategic vision of the Government of Georgia (GoG) with our efforts helping to establish Georgia as a vital logistical and regional hub, contributing to the country's economic growth.

While passenger transportation is less commercially appealing, it remains a critical responsibility for our company. We understand well that accessible public transportation is essential for the state and our shareholders. Furthermore, we received substantial backing from the GoG and finalized an agreement under which we will be compensated with GEL 8 million for passenger operations in 2024.

We are also proud to be one of the few fully electrified railway networks in the world. Moreover, our commitment to sustainability has saved 800,000 tons of carbon dioxide (CO_2) over the last six years, showcasing the positive environmental impact of our work. In the coming years, as traffic increases, we will continue to strive for a greener future.

Of course, our more than 12,000 dedicated employees are our greatest asset. Their hard work and devotion drive our growth and success. With that in mind, I extend my deepest gratitude to each and every one of them. Broadly speaking, our achievements benefit not only our employees and their families, but also the entire country, enhancing the quality of life in Georgia.

As a responsible company, JSC Georgian Railway places a significant emphasis on improving our personnel's skills, providing them with retraining opportunities and nurturing the professional development of new employees. In 2015, we established the Railway Transport College with the Ministry of Education and Science (MoES) and the Technical University of Georgia. This institution has since strengthened the railroad labor market and introduced dual professional education to the industry, ensuring that our workforce is both highly skilled and knowledgeable.

Looking ahead, we know that it is crucial to strategically plan for the future of JSC Georgian Railway to maintain and accelerate the notable progress we have already made.

Sincerely,

Konstantine Guntsadze

Chairman of the Supervisory Board

JSC Georgian Railway

A MESSAGE FROM THE GENERAL DIRECTOR

I am very pleased to present the 2023 Annual Report for JSC Georgian Railway, which highlights the achievements and advances made 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 reaching 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 operation of our company and serving the nation with both diligence and excellence.

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

The efforts made to strengthen our company and to steer it towards accelerated growth have yielded some remarkable results. Indeed, despite the challenges posed by the fluctuating geopolitical situation in the region, JSC Georgian Railway was able to maintain the volume of transported cargo. This improvement underscores our dedication to meeting the evolving demands of our customers and driving the economic development of 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 increased train speed, as well as improved 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 as well.

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 in remote areas.

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 500 million in green projects, with half of that sum allocated specifically to the Railway 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 a healthy lifestyle 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.

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

Sincerely,

David Peradze

CEO

JSC Georgian Railway

SUPERVISORY BOARD

KONSTANTINE GUNTSADZE
Chairman of Supervisory Board | since 2012

Main field of competence | Jurisprudence
22 years of working experience in the industry
With GR Group for over 13 years

OLEG BICHIASHVILI
Supervisory Board Member | since 2012

Main field of competence | Logistics
51 years of working experience in the industry
With GR Group for over 50 years

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Supervisory Board Member | since 2022

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31 years of working experience in the industry
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Supervisory Board Member (with 2 votes)
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Supervisory Board Member | since 2020

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18 years of working experience in the industry
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MANAGEMENT BOARD

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Chief Executive Officer | since 2017

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Freight SBU Director | since 2021

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DACHI TSAGURIA
Passenger SBU Director | since 2018

11 years of working experience in the industry
With GR Group for over 10 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

30.08.2024

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

For the year (GEL '000)	2023	2022	2021
Revenue	627,173	674,773	547,868
Adjusted EBITDA	168,440	284,162	226,576
EBIT	91,545	217,577	168,179
Net income/(loss)	86,776	396,681	52,711
Net cash from operating activities	176,815	288,221	247,300
Acquisition of property, plant and equipment (PPE)	139,342	134,968	77,156

As at 31 December (GEL '000)	2023	2022	2021
Total assets	2,495,961	2,399,517	2,259,732
Total liabilities	1,627,917	1,618,249	1,846,603
Total equity	868,044	781,268	413,129

Financial ratios	2023	2022	2021
Revenue growth/decline	(7.05)%	23.16%	11.95%
Adjusted EBITDA margin	26.86%	42.11%	41.36%
Operating ratio	86.84%	70.10%	70.94%
Dividend payout ratio	0%	0%	0%
Interest coverage ratio	1.65	3.76	1.10
Net Debt to Adjusted EBITDA	6.49	3.93	5.88
Debt*/ Equity	1.6	1.8	3.9

Statistical data ('000)	2023	2022	2021
Tons	13,551	14,773	11,063
Ton-km	3,804,429	4,163,977	3,291,173
Number of passengers	2,283	1,605	939
Passenger-km	687,276	482,949	273,268
Average number of employees	12	12	12

Key operating measures	2023	2022	2021
Total freight revenue per ton-km *(in Tetri)*	11.3	11.5	12.9
Passenger revenue per passenger-km *(in Tetri)*	6.0	5.7	5.4
Revenue per average N of employees *(in GEL '000)*	51.20	54.43	44.21
Operating expenses per ton-km *(in GEL)*	0.14	0.11	0.12
Ton-km per average number of Freight SBU employees *(in '000)*	726.5	794.2	628.9
Passenger -km per average number of Passenger SBU employees *(in '000)*	609.3	407.7	230.9

Safety indicators	2023	2022	2021
Accident rate per million ton-km	0.04	0.04	0.04
Injuries per average number of employees *('000)*	0.76	0.67	0.50
Deaths per average number of employees *('000)*	0.03	0.08	0.00

**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	2024	BB-	POSITIVE	B

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1. DESCRIPTION OF THE COMPANY'S BUSINESS ACTIVITIES

1.1 HISTORY OF THE COMPANY

2023	Creating joint venture along with Kazakhstan and Azerbaijan to develop multimodal service
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	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

A 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

BUSINESS MODEL OF THE COMPANY

STAKEHOLDERS	PARTNERS	CONSUMERS	CORE ACTIVITY	REVENUE FLOWS	COST STRUCTURE
State	Foreign railways	Passengers	Freight transportation	Freight traffic	Employee benefits
Supervisory Board	Logistics companies	Logistics companies	Passenger transportation	Freight handling	Energy cost
Board of Directors	Freight forwarders	Freight forwarders	Logistics services	Logistics services	Repair and maintenance
Employees	Transportation companies	Private companies		Rent of wagons	Logistics expenses
Consumers	Suppliers			Passenger transportation	Security
Investors	Ports				
Debtors					
Population					
Labor unions					
Mass media					

JSC Georgian Railway (hereinafter referred to as “GR” or “the Company,” and as “the Group” encompassing all of its subsidiaries) is, according to statute, Georgia’s only integrated railway company. It principally provides freight transporting services for diverse cargo including oil, oil products, ores and grain, which mostly originate to the east of Georgia and are 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 the tracks, stations, terminals, other infrastructure and rolling stock comprising Georgia’s entire national railway system.

The Group’s mainline rail network, together with that of CFSC Azerbaijan Railways (“Azerbaijan Railways”), forms the Caucasus railway corridor, a key segment of the Transport Corridor Europe-Caucasus-Asia (TRACECA). The former is thus a key link in the shortest route from Central Asia and the Caspian Sea to the Black Sea and the Mediterranean Basin. Providing a pivotal connection in the transportation chain between Europe and Central Asia, the Group is uniquely positioned to capitalize on trade between these two regions. 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 newly-established railway line now connects Azerbaijan and Georgia to Türkiye 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 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 July 2024, Fitch Ratings affirmed its rating for GR as "BB–" with a "Positive" outlook. 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

DFG

SHAREHOLDER

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

1.3 CORPORATE GOVERNANCE

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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 to secure long-term sustainable success, and for over 12 years already it has updated its charter and internal regulations to include robust corporate governance principles accordingly.

The Group is governed by its Supervisory Board, which is elected by the shareholders and comprises competent individuals 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, function under the purview of 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 2011, after which ownership was transferred to the Joint Stock Company Development Fund of Georgia (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 was again placed 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 latter of which is responsible for the day-to-day management of the Company. A brief description of each body is set out below.

GENERAL MEETING OF SHAREHOLDERS

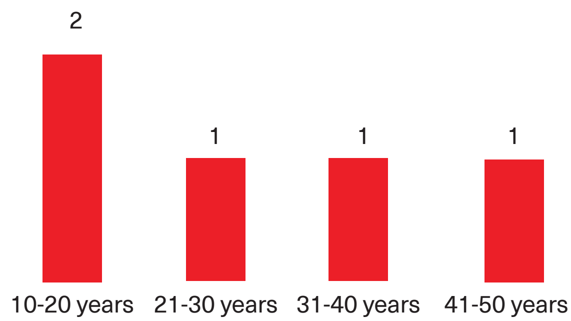
The Supervisory Board convenes the annual GMS no later than two months after the completion of the audit of the Group's annual International Financial Reporting Standards (IFRS) financial statements. Shareholder responsibilities include but are not limited to passing resolutions on electing and dismissing 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 the bounds of their respective capacities.

SUPERVISORY BOARD

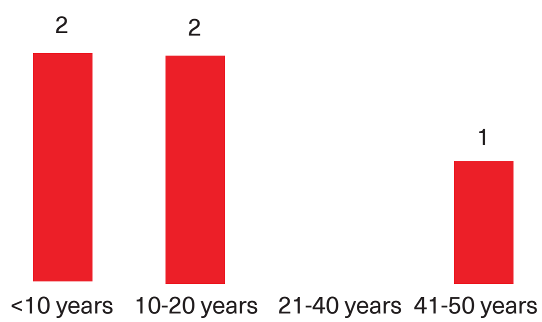
The Supervisory Board is responsible for overseeing the activities of the Board of Directors (Management Board), which mainly includes appointing and discharging the General Director and other members of the Management Board, reviewing annual reports and proposals of the Board of Directors relating to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

WORKING EXPERIENCE OF SUPERVISORY BOARD MEMBERS

IN THE INDUSTRY

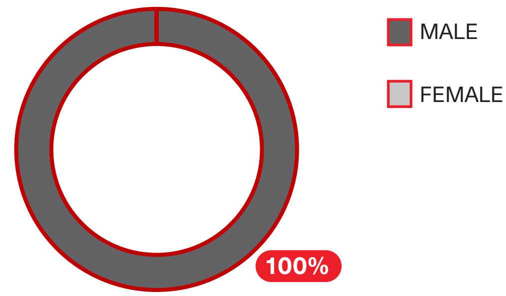


AT JSC GEORGIAN RAILWAY



As at December 31, 2023

SUPERVISORY BOARD GENDER SPLIT



The Supervisory Board is in charge of establishing 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 five members, of which four are independent non-executive members. Members of the Supervisory Board may be appointed and dismissed at a GMS. Unless otherwise specified at a GMS, each member of the Supervisory Board is elected for a 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.

SUPERVISORY BOARD AND COMMITTEES

31-Dec-23	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.*

JSC GEORGIAN RAILWAY COMMITTEES

AUDIT COMMITTEE

This committee: 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.

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 on the 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.

REMUNERATION COMMITTEE

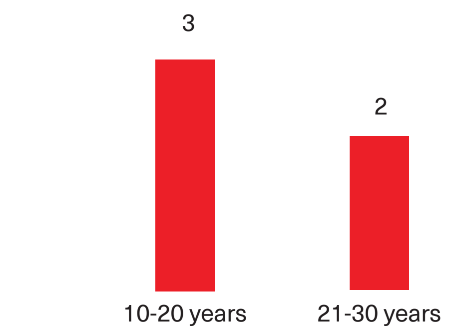
This committee: reviews, considers and agrees on proposals and provides recommendations about the Company's framework and policy regarding the remuneration of certain members of the Supervisory Board and Management Board, as well as other senior management personnel; approves the terms of any service 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 related to any schemes of performance-related remuneration, share incentive plans, pensions, bonuses and other incentive schemes.

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.

WORKING EXPERIENCE OF DIRECTORS

IN THE INDUSTRY



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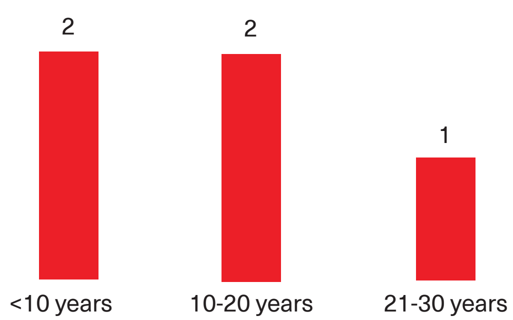
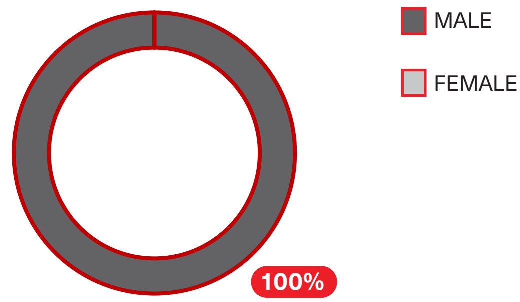


As at December 31, 2023

BOARD OF DIRECTORS GENDER SPLIT



As at 31 December 2023, 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 its decisions are adopted by the 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 who is responsible for chairing meetings of the Board of Directors, supervising the implementation of decisions of the Board of Directors, the Supervisory Board and the GMS, assigning tasks to 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-23	CEO	CFO	Freight SBU Director	Passenger SBU Director	Infrastructure SBU Director
DAVID PERADZE	●				
IRAKLI TITVINIDZE		●			
KAKHABER GUDIASHVILI			●		
DACHI TSAGURIA				●	
GEORGE MARUKASHVILI					●

INTERNAL REGULATORY POLICIES AND ETHICAL STANDARDS

CODE OF ETHICS AND CONDUCT

CORE PRINCIPLES OF GR'S CODE OF ETHICS AND CONDUCT

- TRANSPARENCY
- IMPARTIALITY
- PRIVACY
- AVAILABILITY

Under its Code of Ethics and Conduct, GR complies with the following professional standards:

» Adherence to legislation and internal corporate acts of the Company;
» Transparency and honesty; and
» Ensuring protection of personal and other confidential information.

GR's care for the communities it serves is evidenced through:

» Fair attitude towards clients;
» Mutual respect;
» Caring for each other's safety;
» Safe custody of company assets;
» Corporate social responsibility; and
» Crime risk management.

Furthermore, GR detects various types of problems and endeavors to eliminate them within a reasonable time, while responsibility is shared as appropriate by ordinary employees and by persons in managerial positions.

OUR VALUES

TEAMWORK

PROFESSIONALISM

CUSTOMER SATISFACTION

"Ambitious plans are achieved through mutual support, taking responsibility for our actions and applying the proper care to ensure customer satisfaction, all while fostering a commitment to excellence and continuous improvement.

GRIEVANCE MECHANISM (WHISTLE BLOWER POLICY)

The purpose of the JSC Georgian Railway Employee Grievance Mechanism (hereinafter referred to as "the Mechanism" or "the Rule") is to prevent the violation of the rights of the Company's employees and the timely, comprehensive and objective investigation/evaluation of actions/inactions taken or not by the relevant person(s), as well as peaceful resolution of disputes.

The Mechanism establishes the methods and processes applied to resolve a given complaint, regulates the procedures for submitting complaints, consideration of said complaint, as well as investigation of the identified violations. In addition, it determines the rights, duties and responsibilities of the parties engaged in the review process.

DATA PRIVACY/SECURITY POLICY

This policy is intended to ensure the protection of human rights and freedoms, including the right to privacy, in the course of personal data processing.

Here, the Company abides by the following principles:

- Data must be processed fairly and lawfully, without impinging on the dignity of a data subject;
- Data may be processed only for specific, clearly defined and legitimate purposes, while further processing of data for purposes that are incompatible with the original purpose shall be inadmissible;
- Data may be processed only to the extent necessary to achieve the respective legitimate purpose and data must be adequate and proportionate to the purpose for which they are processed;
- Data must be valid and accurate and must be updated, if necessary and data that are collected without legal grounds and irrelevant to the processing purpose must be blocked, deleted, or destroyed; and
- Data may be kept only for the period necessary to achieve the purpose of data processing. After the purpose of data processing is achieved, the data must be locked, deleted or destroyed, or stored in a form that excludes identification of a person, unless otherwise determined by law.

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.

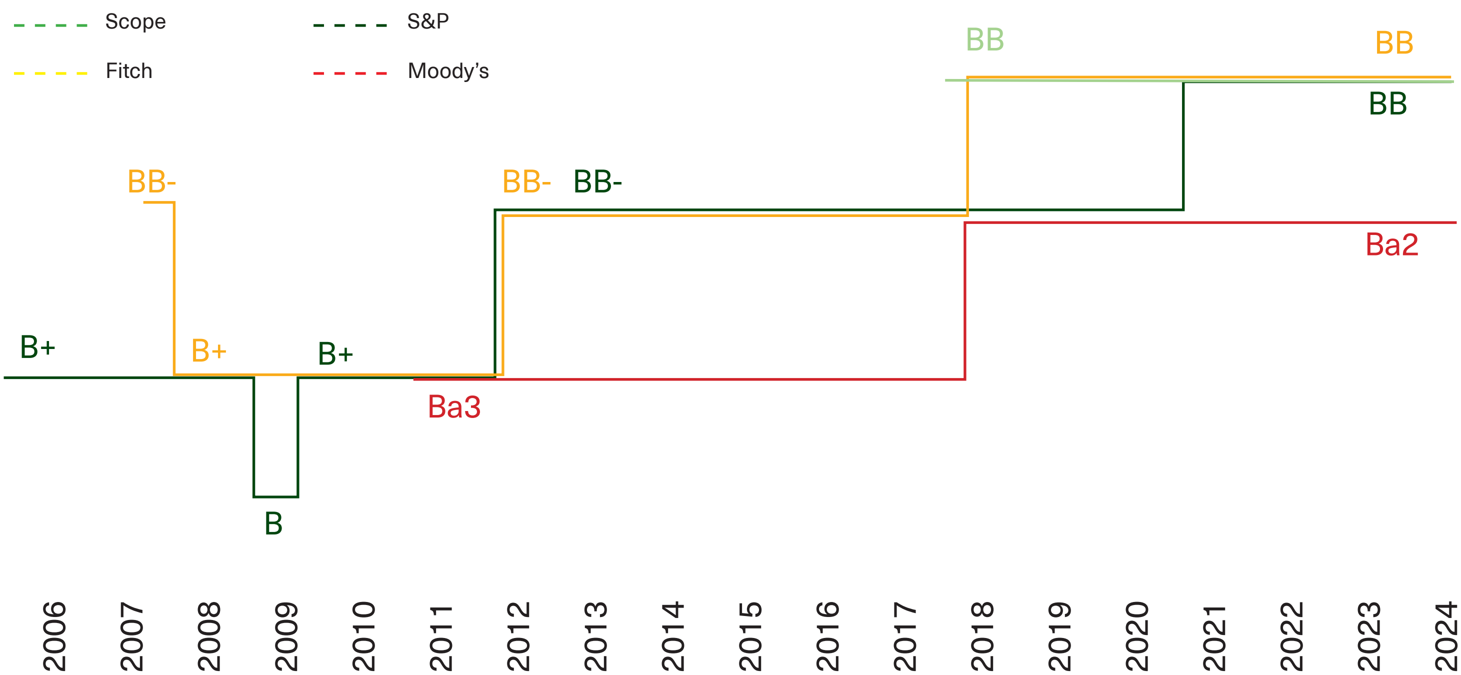
In particular, Georgia has been a member of the World Trade Organization (WTO) since 14 June 2000, while it also has free trade agreements (FTAs) with the Commonwealth of Independent States (CIS) and Türkiye. Moreover, under the Generalized System of Preferences (GSP), Georgia can export a variety of 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 an 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	N43	Out of 142 countries	*source: The World Justice Project*
OPEN BUDGET INDEX	N1	Out of 120 countries	*source: The International Budget Partnership*
CORRUPTION PERCEPTIONS INDEX	N49	Out of 180 countries	*source: Transparency International*
GLOBAL COMPETITIVENESS INDEX	N74	Out of 140 countries	*source: The World Economic Forum*
E-GOVERNMENT DEVELOPMENT SURVEY	N60	Out of 193 countries	*source: United Nations*
INDEX OF ECONOMIC FREEDOM	N32	Out of 184 countries	*source: The Heritage Foundation*
LOGISTICS PERFORMANCE INDEX	N79	Out of 139 countries	*source: The World Bank*
BUSINESS BRIBERY INDEX	N35	Out of 194 countries	*source: TRACE Association*

SOVEREIGN RATINGS FOR GEORGIA



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

The world's leading rating agencies permanently monitor and analyze countries' macroeconomic data, enabling them to give qualified and reliable opinions. In this regard, 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 maintained its outlook as 'Positive' in January 2024. In doing so, Georgia was returned to its pre-pandemic status.

Earlier, on 9 February 2024, S&P Global Ratings maintained Georgia's outlook as 'Stable' and affirmed its "BB" credit rating.

However, on 26 March 2024, Moody's set Georgia's rating at "Ba2" and improved its outlook from 'Negative' to 'Stable'.

	RATING		LAST UPDATE
FITCH RATINGS	BB	POSITIVE	12 January 2024
S&P GLOBAL	BB	STABLE	9 February 2024
MOODY'S	Ba2	STABLE	26 March 2024

MACRO-ECONOMIC OVERVIEW

In 2023, despite difficulties arising from the Russia-Ukraine War, Georgia's economy demonstrated remarkable resilience, characterized by robust economic activity and effective maintenance of macroeconomic and fiscal stability. Despite ongoing geopolitical tensions, which have led to alterations in trade routes and disruptions in supply chains, along with higher consumer prices in certain sectors, key macroeconomic trends continued in a positive trajectory. Moreover, in December 2023, Georgia attained candidacy for European Union membership, opening up many new possibilities for the country's future development.

GEORGIA'S KEY MACROECONOMIC INDICATORS

2023 compared to 2022

+7.5% REAL GROSS DOMESTIC PRODUCT

+17.3% INCOME FROM FOREIGN TRAVEL

-24.0% FOREIGN DIRECT INVESTMENT

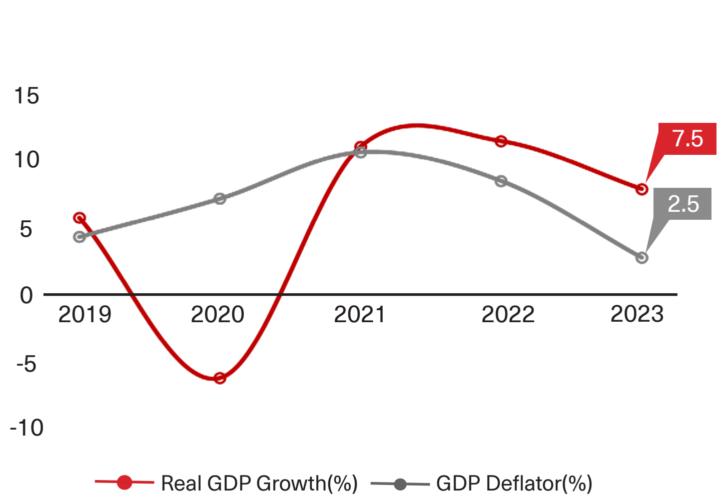
-5.7% REMITTANCE INFLOWS

+14.9% IMPORT

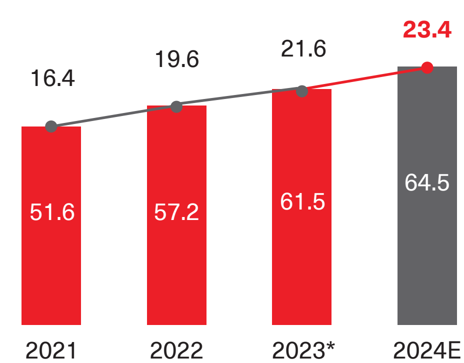
+9.1% EXPORT

Despite having to deal with an adverse external climate and geopolitical pressures, in 2023, Georgia's economy recorded notable rises in both tourism earnings and export revenues. Aided by these developments, Georgia's GDP continued to rise in 2023, increasing by 7.5% year-on-year. Conversely, the GDP price deflator dropped to 2.5%, signaling a gradual easing of inflationary pressures. The combination of a strong real GDP growth rate and a moderate GDP price deflator in 2023 evidence a transition towards a more balanced economic landscape, characterized by sustainable growth and price stability. Primarily due to diminished foreign direct investment (FDI) and remittances, the real GDP growth in 2023 was lower compared to the double-digit expansions of 11.0% and 10.6% recorded in 2022 and 2021, respectively. Looking ahead, the International Monetary Fund (IMF) forecasts 4.8% GDP growth for Georgia in 2024.

REAL GDP GROWTH AND GDP DEFLATOR TRENDS



REAL GDP GROWTH *(BLN GEL)*

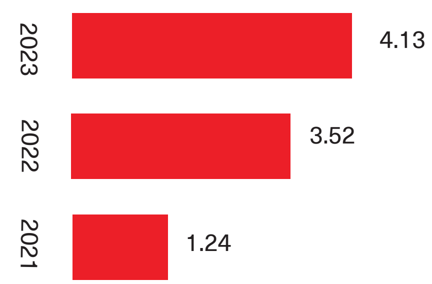


Sources: National Statistics Office of Georgia (Geostat), International Monetary Fund (IMF)
** Preliminary data*

Real GDP   GDP per capita

Increased consumption, which substantially contributed to GDP growth, was significantly driven by foreign travel. Specifically, in 2023, income from foreign travel grew by 17%t. That rise was largely attributed to a surge in the number of tourists from EU member states, Türkiye and Azerbaijan by 65%, 58% and 42%, respectively, in 2023, compared to the previous year (source: Geostat.ge). Furthermore, the rise in income from foreign travel also had a notable impact on the railway transport sector, as the number of railway passengers increased by almost 50% in 2023, compared to the figure recorded in 2022 *(see 7.2 Passenger SBU)*. It should be noted that the lower growth rate in income from foreign travel compared to the previous year was due to the re-classification of a certain percentage of migrants from Russia, Ukraine and Belarus as Georgian residents by the National Bank of Georgia (NBG)[1] , meaning their expenses were excluded from foreign the travel income figure.

INCOME FROM FOREIGN TRAVEL *(BLN USD)*

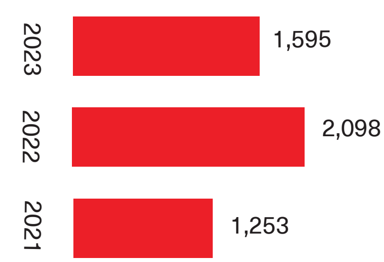


Source: National Bank of Georgia (NBG)

[1]As of 31 December 2023, 42.5% of Belarusian citizens, 30.5% of Russian citizens and 30.3% of Ukrainian citizens residing in Georgia were estimated to have been living in the country for one year, or were intending to stay for more than one year. According to the IMF's methodology, they are classed as Georgian residents and their expenses are thus not included in the foreign travel income calculations.

Investment plays a central role in GDP, with FDI specifically carrying significant importance in stimulating economic growth. In 2023, FDI inflows amounted to USD 1.6 billion, marking a decrease of 24% compared to the previous year. The total decline of USD 0.5 billion was mainly attributable to two sectors, namely "real estate activities" and "water supply, sewerage, waste management and remediation activities." This was partly due to the stabilization of the residential real estate market after a boom in 2022 when increased migration and appreciation of the Georgian Lari (GEL) led to higher prices. Therefore, in 2023, the combination of a high base effect, coupled with a large decline in debt instruments and reduced reinvestment, led to a decrease in FDI. Moreover, in 2023, the share of the transport sector's contribution to FDI amounted to 8.7%, compared to 4.1% in 2022 and 0.4% in 2021.

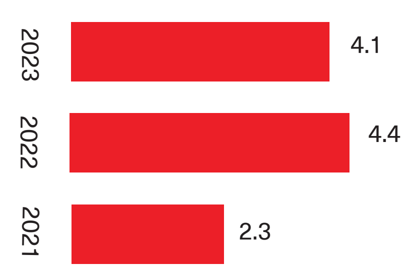
FDI IN GEORGIA *(MLN USD)*



Source: National Statistics Office of Georgia (Geostat)

The combination of reduced FDI and an outflow of migrants from Russia as well as the sharp depreciation of the Russian Ruble (RUB) led to a decrease in remittance inflows by 6% in 2023, compared to the previous year. Notably, 10 countries accounted for 88.4% of total money transfers to Georgia from abroad. In addition, despite the downturn in the intake of foreign currencies, in 2023, the GEL strengthened against foreign currencies *(see Foreign Currency Exchange Rate against the GEL below)*.

REMITTANCE INFLOWS *(BLN USD)*

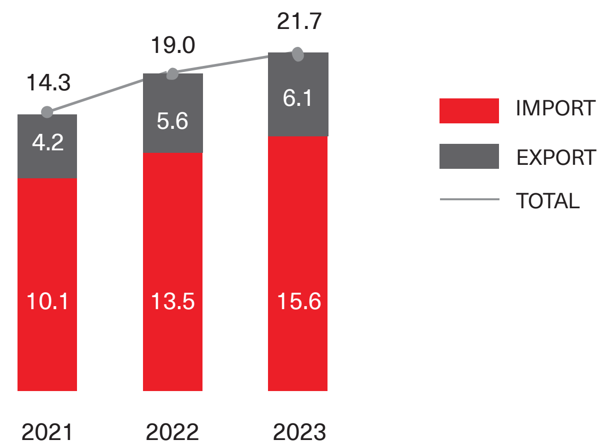


Source: National Bank of Georgia (NBG)

INTERNATIONAL TRADE

Changes in demographics and economic trends in Georgia have had a significant impact on the demand for domestic goods and services, with a consequent effect on the country's trade balance. Indeed, Georgia's trade balance currently shows a deficit, as the revenue generated from imports is more than double the amount earned from exports. Clearly, this highlights the country's high dependence on imports. As Georgia continues to receive an increasing number of tourists, the demand for imported products has risen. Pertinently, imports witnessed a substantial increase of 15% in 2023, compared to 2022. On the other hand, the export of goods also grew in 2023, by 9% compared to the previous year. It is also worth noting that GR, which holds a monopoly when it comes to rail transportation, is playing a vital role in facilitating the transportation of exported and imported goods from and to Georgia.

INTERNATIONAL TRADE *(BLN USD)*

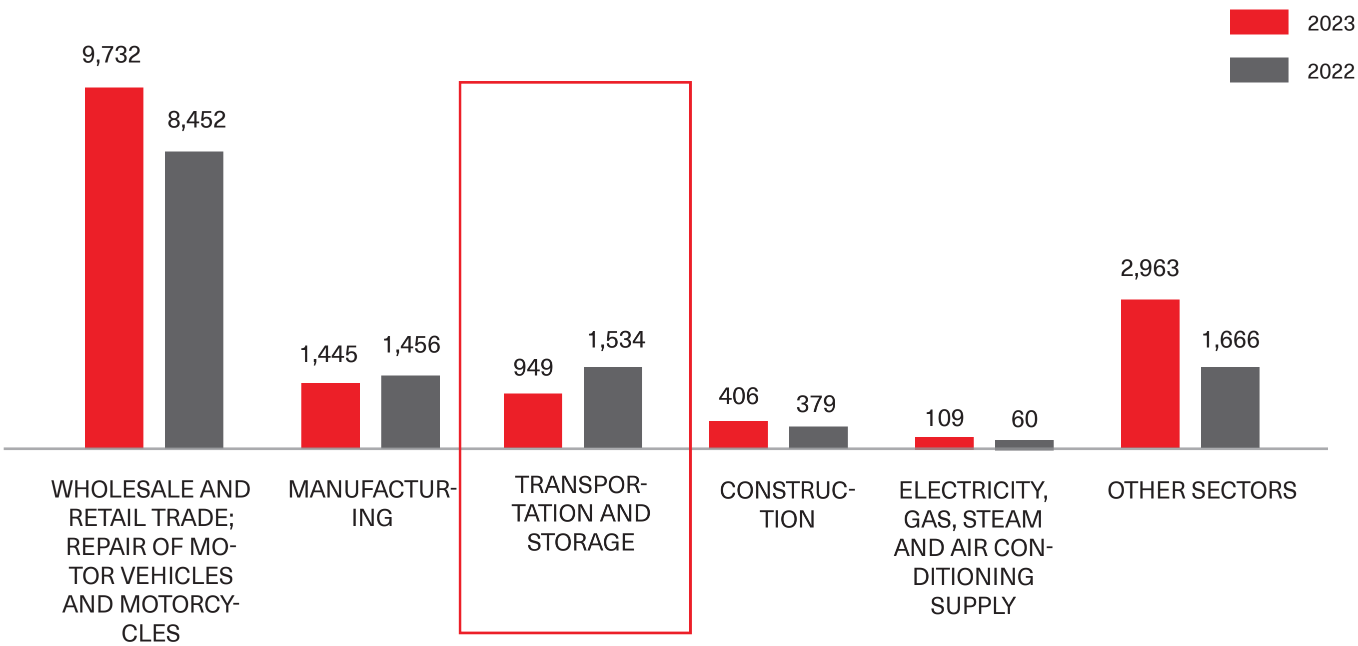


Source: National Statistics Office of Georgia (Geostat)

IMPORTS

In 2023, imports into Georgia rose across various economic sectors. Notably, there was a significant increase in imports in the wholesale and retail trade sector, which amounted to GEL 1.3 billion. However, the transportation and storage sector recorded a decrease of GEL 0.6 billion, compared to 2022. The main imported products in 2023 were motor vehicles (accounting for 17.8), followed by petroleum and petroleum oil (8.5%), medicaments (4.1%), petroleum gases (2.6%) and automatic and data processing machines (2.1%).

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



Source: National Statistics Office of Georgia (Geostat)

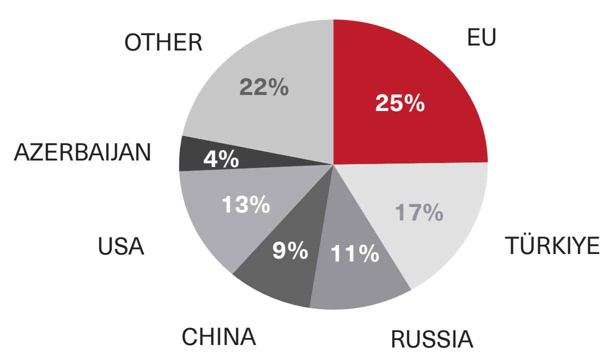
Once the COVID-19 pandemic started to subside, imports began to increase and soon surpassed the pre-pandemic level. In 2023, imports increased from all of Georgia's main trading partners for Georgia, except Russia and Ukraine.

IMPORTS *y-o-y change*	2021	2022	2023
EU MEMBER STATES	*25%*	*33%*	*25%*
TÜRKIYE	*30%*	*30%*	*8%*
RUSSIA	*15%*	*79%*	*-5%*
CHINA	*22%*	*30%*	*18%*
USA	*17%*	*56%*	*102%*
AZERBAIJAN	*17%*	*7%*	*2%*
UKRAINE	*16%*	*-37%*	*-9%*
OTHER COUNTRIES	*37%*	*35%*	*-2%*

Source: National Statistics Office of Georgia (Geostat)

SHARE OF IMPORTS BY COUNTRIES

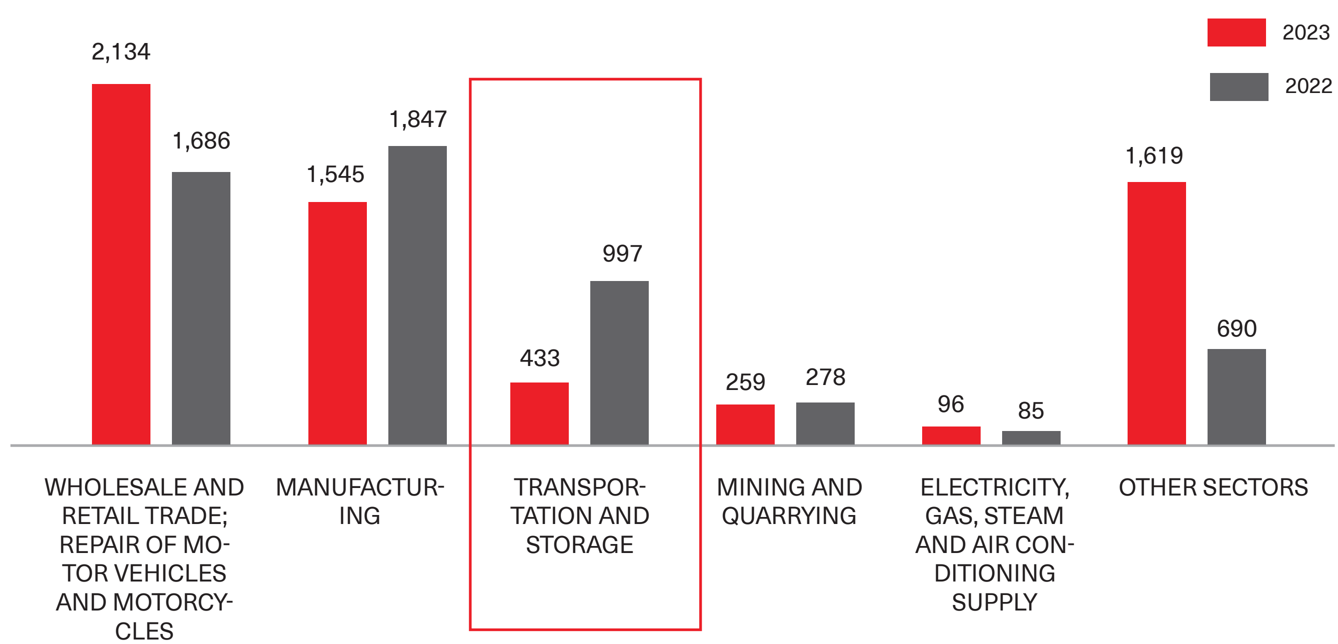
Full Year 2023



EXPORTS

In 2023, exports grew across various economic sectors as well. Significant increases were observed in the wholesale and retail trade sector, amounting to GEL 0.5 billion, compared to 2022. However, in 2023, the transportation and storage sector recorded a decrease of GEL 0.6 billion, compared to 2022. The main exported products in 2023 were motor vehicles (accounting for 33.8%), followed by ferro-alloys (5.7%), wine of fresh grapes (4.9%), spirituous beverages (4.6%) and precious metal ores and concentrates (3.3%).

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



Source: National Statistics Office of Georgia (Geostat)

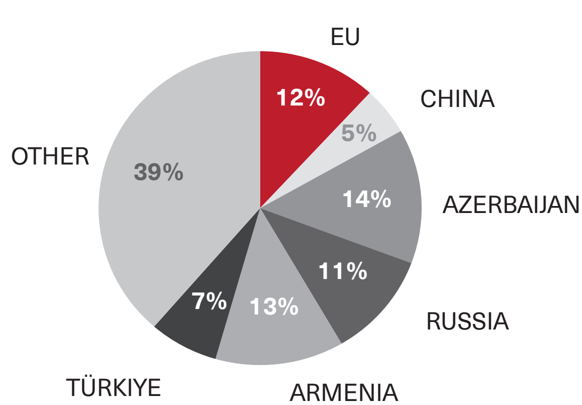
As was the case for imports, as the COVID-19 pandemic subsided, exports increased and went beyond the pre-pandemic level. In 2023, exports increased to all of Georgia's main trading partners except Ukraine, China, EU member states and Türkiye.

EXPORTS *y-o-y change*	2021	2022	2023
EU MEMBER STATES	*3%*	*20%*	*-18%*
CHINA	*29%*	*20%*	*-58%*
RUSSIA	*38%*	*5%*	*2%*
AZERBAIJAN	*21%*	*27%*	*28%*
TÜRKIYE	*69%*	*35%*	*-6%*
UKRAINE	*41%*	*-24%*	*-57%*
ARMENIA	*37%*	*128%*	*35%*
OTHER COUNTRIES	*28%*	*61%*	*59%*

Source: National Statistics Office of Georgia (Geostat)

SHARE OF EXPORTS BY COUNTRIES

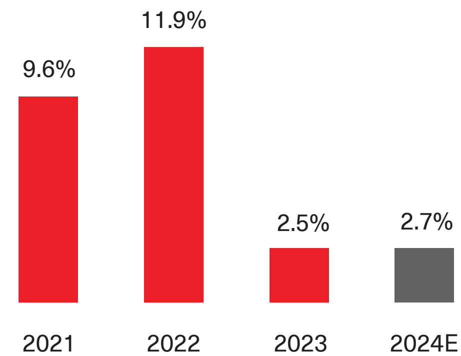
Full Year 2023



ANNUAL INFLATION

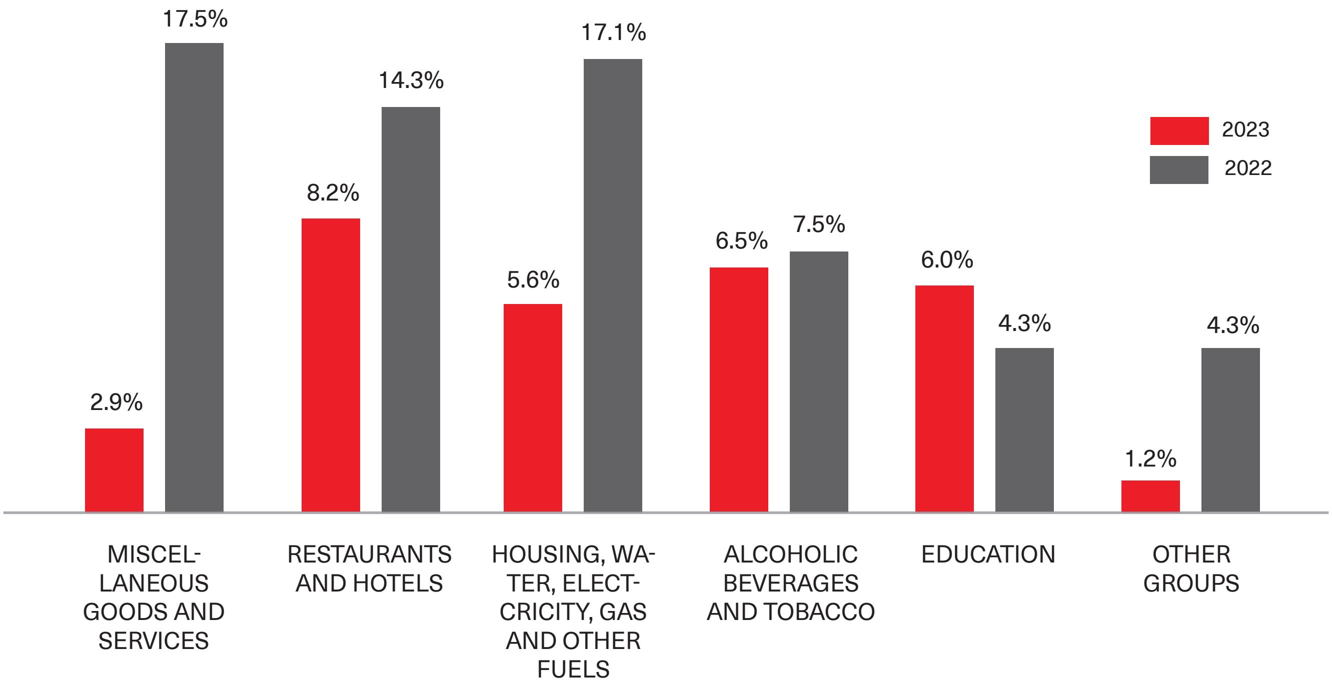
The socio-economic and geopolitical developments that unfolded in 2023 resulted in the global inflation rate dropping to 6.8%, compared to 8.7% in 2022. Within Georgia particularly, the average annual inflation rate has remained below the 3% target since April 2023, declining significantly to 2.5% in 2023 overall, compared to 11.9% in 2022. This decrease was primarily driven by lowered demand and falling prices in the food and non-alcoholic beverages sector, with an average inflation rate of 2.9% in 2023, compared to 17.5% in 2022. Furthermore, demand decreased and prices rose in housing, water, electricity, gas and other fuels, for which collectively the average inflation rate reached 6.6% in 2023, compared to 17.1% in 2022. Elsewhere, the transport sector recorded a -5.0% inflation rate in 2023, compared to 15.4% in 2022. The NBG maintained the Monetary Policy Rate at 11.00% set in March 2022 for the rest of the year to address persistent price pressures. Meanwhile, from May 2023, the NBG started gradually reducing the interest rate and as of December 2023 it was lowered to 9.50%. From February 2024, the National Bank reduced the interest rate to 9.00%, in March 2024 by another 0.75 percentage points to 8.25% and in May by 0.25 percentage points to 8.00%. According to the IMF, it is projected that inflation will increase to 2.7% in 2024.

ANNUAL INFLATION RATE



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

AVERAGE INFLATION BY SECTORS



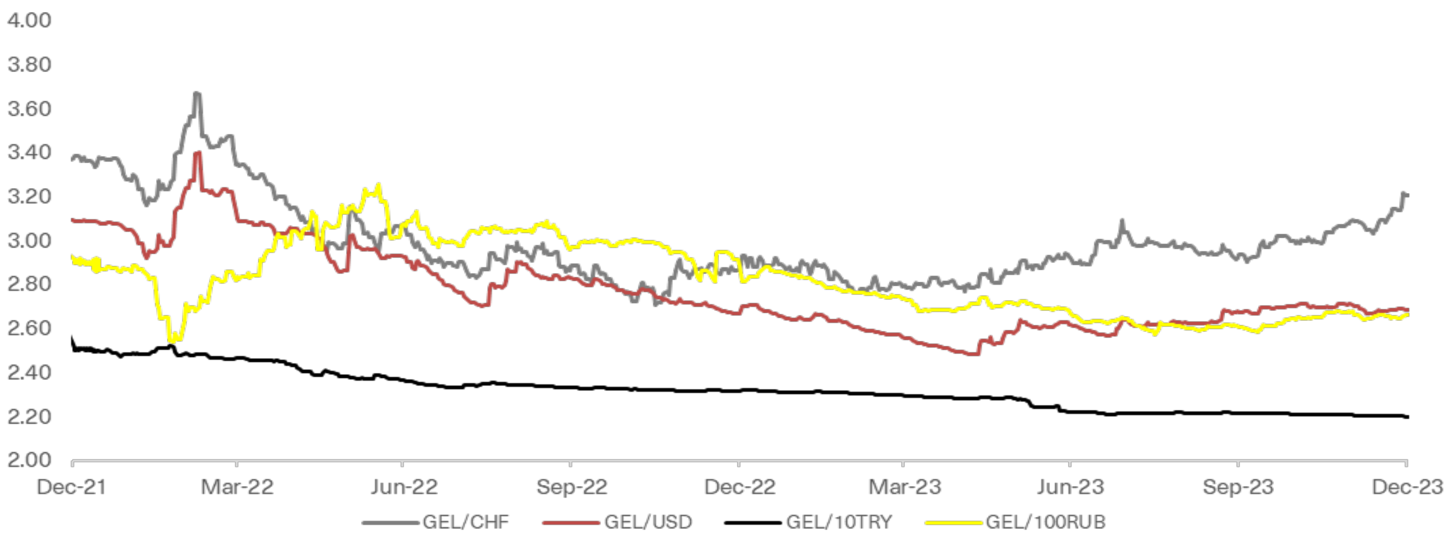
Source: National Statistics Office of Georgia (Geostat)

The Group's operating expenses have been affected by the inflation rate. In particular, fuel costs have decreased primarily as a result of petroleum price changes, while electricity costs have experienced reductions mainly attributed to the decreased average tariffs for electricity in 2023, compared to 2022 *(see I.Profit and Loss Statement; Fuel Expenses, Electricity Expenses).*

EXCHANGE RATE

The GEL exchange rate against foreign currencies showed positive trends in 2023. In particular, it appreciated on average by 9.9% against the US Dollar (USD) and by 4.4% against the Swiss Franc (CHF) in 2023, compared to 2022. The strengthening of the Georgian currency was largely caused by enhanced FX inflows due to increases in exports of goods and tourism revenues and came in spite of reduced money transfers. The USD/GEL exchange rate stood at 2.6894 on 31 December 2023, compared to 2.7020 on 31 December 2022, representing a 0.5% 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 2023 would have been 1% lower 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 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 in 2022-2023, coinciding with the general recovery of the global economy as the COVID-19 pandemic subsided. Georgia's economy has been significantly impacted by the conflict as both Russia and Ukraine are among its main economic partners in terms of trade, tourism and remittances.

The impact of the conflict on Georgia's economy has been twofold thus far. On the one hand, since Georgia is more dependent on imports than exports, the ongoing war involving two key trading partner countries has exacerbated Georgia's trade deficit. Simultaneously, escalating prices, mainly for food, electricity and housing, have led to higher inflation in 2022.

On the other hand, the war has resulted in a dramatic influx of migrants and tourists to Georgia, boosting tourism revenues, money transfers and real estate purchases. Since the beginning of the war, numerous foreign companies have registered in Georgia, which has boosted FDI. Meanwhile, remittances have served as a key source of foreign funds into the local economy, spurring consumption and contributing to an improved economic growth rate (+11.0% in 2022, according to Geostat.ge).

However, financial transaction dynamics slowed down in 2023 due to a decline in net remittances received from Russia, influenced by two primary factors: the outflux of migrants from Russia and the significant devaluation of the RUB. Consequently, in the second half of 2023, Georgia's economic growth trend began to return to its historical norm (+7.0% in Q32023 and +6.9% in Q42023, according to Geostat.ge).

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 took 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 much of 2020.

The COVID-19 pandemic had a severe effect on Georgia. Mobility limitations, 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 main restrictions imposed to combat the COVID-19 pandemic. Eventually, vaccines were distributed which lessened the risk of the coronavirus and helped to revive future prospects for the economy and business environment in Georgia and around the world. Despite the relatively high number of COVID-19 cases in Georgia in 2021, the economy gradually recovered, with its outlook becoming more positive. Notably, real GDP grew by 10.6% during 2021 (source: Geostat.ge).

In 2022, the impact of the COVID-19 pandemic weakened and the gradual lifting of restrictions began. Indeed, the Georgian government scrapped all COVID-19 restrictions by June 2022. Accordingly, the economy grew by double digits, with significant increases in tourism, FDI and exports/imports, while the unemployment rate decreased to 17.3%, the lowest rate in two decades (source: Geostat.ge).

In 2023, in the post-pandemic phase, Georgia's macroeconomic indicators have returned to normal, reflecting the resilience of the economy.

2.2 TRANSPORT SECTOR IN GEORGIA

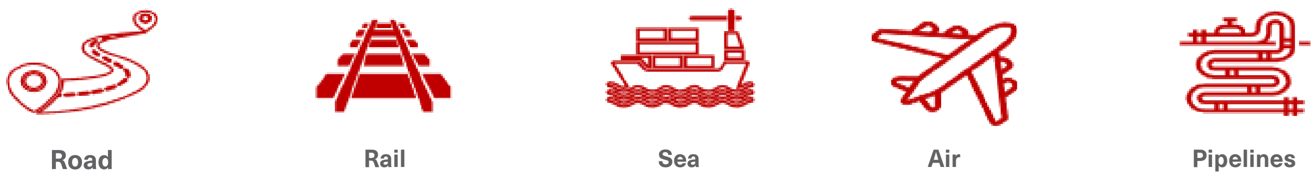
The transport sector in Georgia is vital to the country's economic development, trade facilitation and connectivity with neighboring countries and global markets. Georgia's strategic location in the Middle Corridor underscores its importance as a crucial transit hub linking Europe to Asia and, despite geopolitical challenges in recent times, there remain promising opportunities for the transport sector to expand.

The Georgian government has concentrated heavily on the development of international trade and travel since 2005. Local government, the private sector, as well as international agencies have all invested substantially in upgrading the transport infrastructure and increasing the efficiency of related services.

THE EUROPEAN COMMISSION AND WORLD BANK TOGETHER DEVELOPED THE "TRANS-EUROPEAN TRANSPORT NETWORK (TEN-T) INDICATIVE CAPITAL INVESTMENTS IMPLEMENTATION PROGRAM," WHICH DEFINES HOW PRIORITY PROJECTS IN AZERBAIJAN, BELARUS, MOLDOVA, GEORGIA, ARMENIA AND UKRAINE WILL BE IMPLEMENTED IN ORDER TO STIMULATE CONNECTIVITY AND ECONOMIC GROWTH IN EASTERN PARTNERSHIP COUNTRIES. THIS PROGRAM PROVIDES FOR THE CONSTRUCTION OF 4,800 KM OF NEW ROAD AND RAIL LINES, SIX PORTS AND 11 LOGISTICS CENTERS.

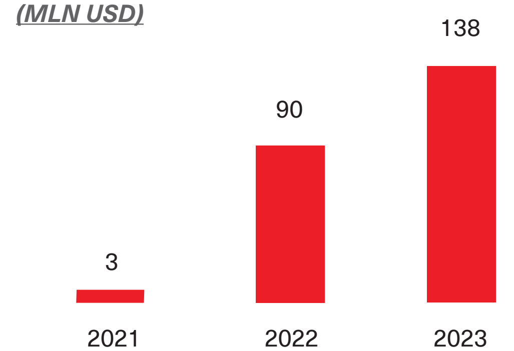
ACCORDING TO THE PROGRAM, THE EUROPEAN UNION WILL IMPLEMENT 18 PROJECTS IN THE GEORGIAN TRANSPORT SECTOR BY 2030 WORTH EUR 3.4 BILLION IN TOTAL, INCLUDING TWO EUR 349 MILLION PROJECTS ON RAILWAY TRANSPORTATION (8.3 INFRASTRUCTURE DEVELOPMENTS IN GEORGIA).

Georgia's transport system comprises the following five main areas:



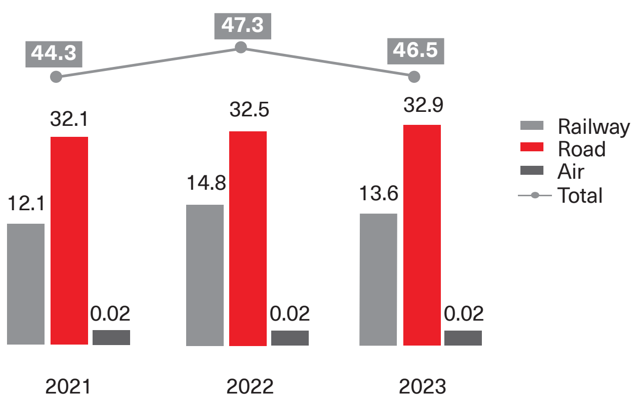
The stable growth of Georgia's transport sector has been accentuated by an increase in FDI flowing into it. Of note, this experienced a notable upward trend from 2021 to 2023. In 2023, FDI allocated to the transport sector amounted to USD 138 million, approximately 50% higher than in 2022 and exactly 46 times the 2021 figure. This steep rise was attributed to improvements in both infrastructure and technology, including advances in customs procedures, logistics efficiency, tracking and tracing systems and other related areas *(see 2.1 Country Profile).*

FDI IN GEORGIA'S TRANSPORT SECTOR *(MLN USD)*



Source: National Statistics Office of Georgia (Geostat)

TRANSPORTED VOLUME IN GEORGIA BY MODE OF TRANSPORT *(MLN USD)*



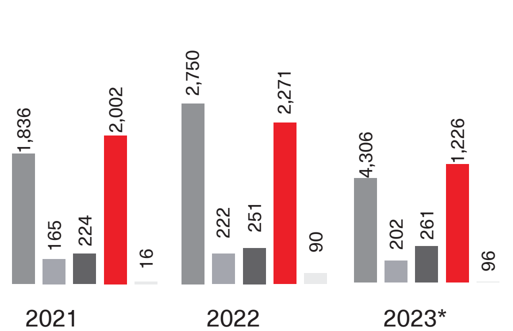
Source: Ministry of Economy and Sustainable Development of Georgia

In the period of 2021 to 2023, Georgia maintained an average transported volume of 46.0 million tons. In 2023, a volume of 46.5 million tons was transported through Georgia, representing a 1.8% decrease compared to 2022 and a 5.0% increase compared to 2021. In terms of mode of transport, the share of railway varied between 29% and 31% in total the transported volume, while the share of road fluctuated between 69% and 71%.

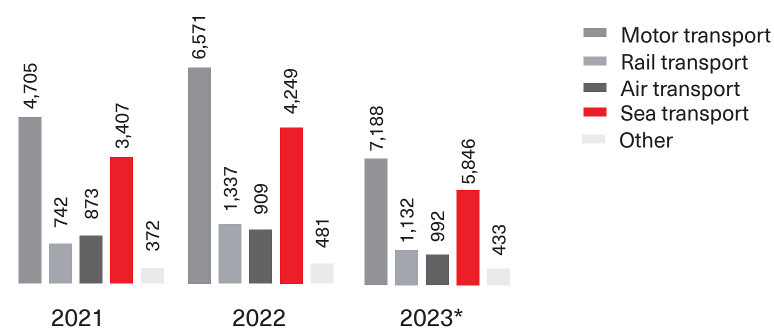
Road remained the dominant mode of transportation for both imports and exports in 2023, carrying 46% of imports and 71% of exports, respectively. The second-most popular mode of transport in this regard is sea, with respective shares of 37% for imports and 20% for exports in 2023.

TRANSPORTATION OF GEORGIA BY MODE OF TRANSPORT

EXPORT
(Mln USD)



IMPORT
(Mln USD)



Source: National Statistics Office of Georgia (Geostat)

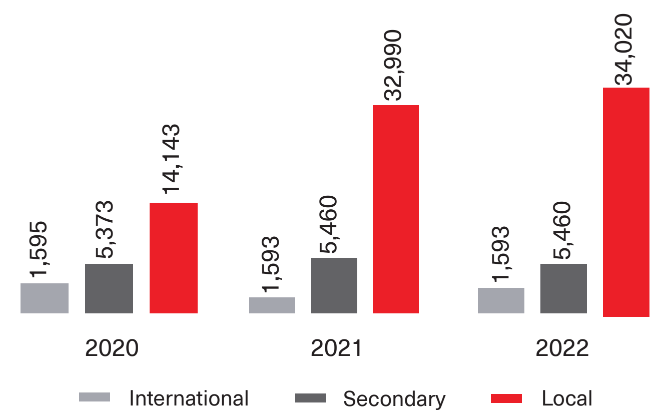
ROAD TRANSPORTATION

In the Georgian transport sector, road transportation plays a significant role. Specifically, it accounted for 71% of total freight transportation in Georgia in 2023. In particular, transit is one of the main operational features of road transportation in Georgia. Meanwhile, road serves export, import and domestic transportation needs and is also the most popular means of transport for passengers, whether it be by car, bus, or minibus.

In Georgia, the roads used for transportation are categorized into three types: international, secondary and local[1]. The following definitions are stipulated in 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 secondary 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 city 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 secondary importance, as well as roads connecting objects of special importance (sports complexes, historical and cultural monuments, etc.) with the administrative centers of the municipality and access roads to the nearest railway stations, airports and/or seaports. Roads of local importance may also include roads that, despite not meeting the criteria defined in this paragraph, still have defensive and/or special importance *(Source: matsne.gov.ge)*.

In 2022, the total length of roads in Georgia was 41,073 km, growing by 3% compared to 2021 (40,044 km) and by a staggering 95% compared to 2020 (21,110 km).

LENGTH OF COMMONLY USED ROAD IN GEORGIA *(KM)*



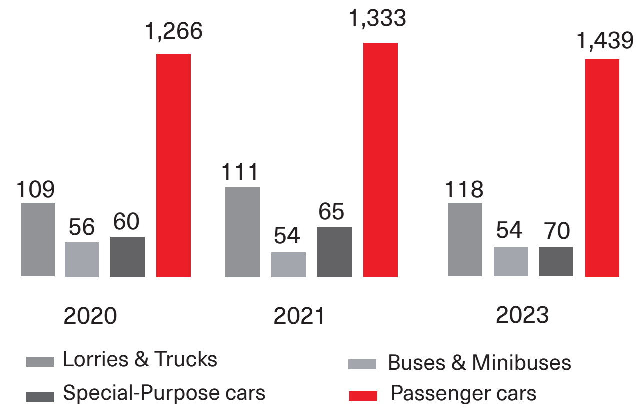
Source: National Statistics Office of Georgia (Geostat)

Note: Based on an amendment made to the Law of Georgia on Roads, from 2021, local roads were to include roads within the administrative boundaries of a settlement, which are not classified as international, secondary, or departmental road. Meanwhile, when it comes to calculation, the length of local roads does not include self-governing cities.

There are four main types of vehicle used for road transport in Georgia: passenger cars; lorries and trucks; special-purpose cars (including agricultural machines); and buses and minibuses.

In 2023, the total number of vehicles in Georgia increased by 8% compared to the previous year. In particular, the number of lorries and trucks increased by 6% in 2023, compared to 2022. That rise was mainly driven by an increase in the number of lorries and trucks in Tbilisi. Meanwhile, the number of buses and minibuses remained almost the same as in the previous year. 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. In regions where an increase in this category was recorded, the rise varied between 3% and 12% in 2023, compared to 2022. Furthermore, the number of light passenger cars in Georgia also grew (by about 8%). Similar to the situation for 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 3% and 16% in 2023, compared to 2022.

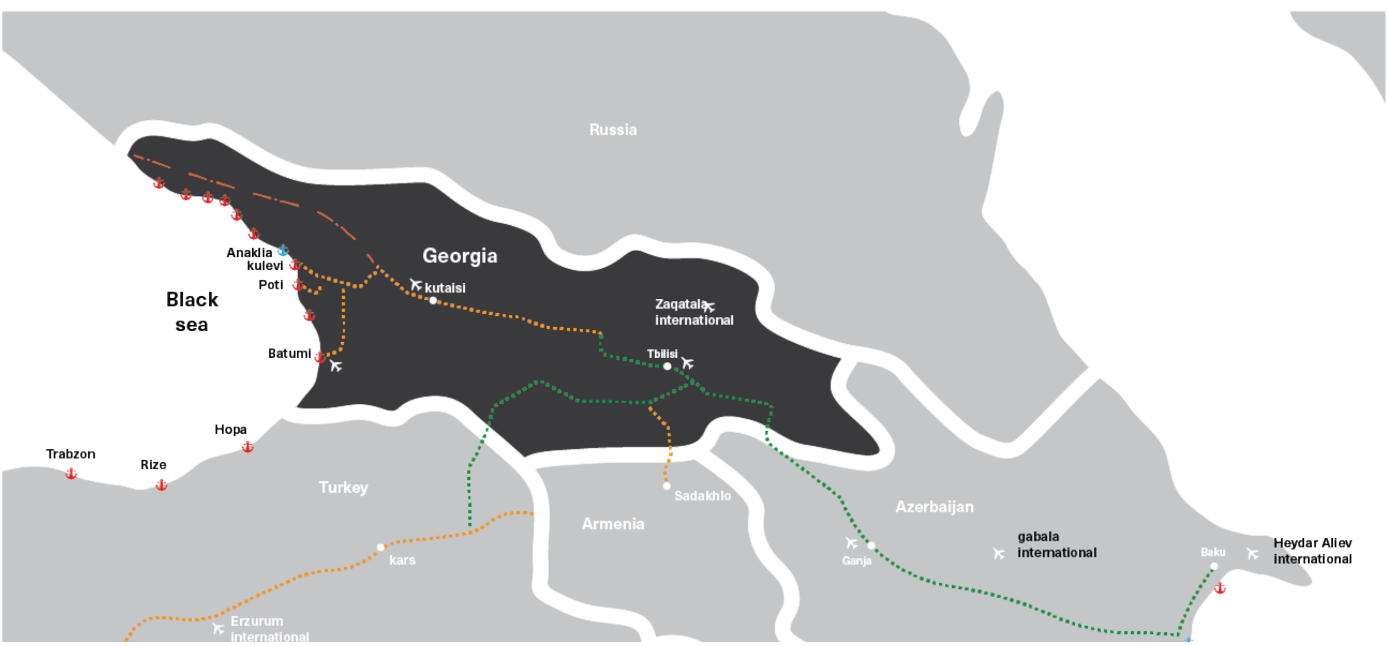
NUMBER OF REGISTERED VEHICLES IN GEORGIA *('000)*



Source: National Statistics Office of Georgia (Geostat)

RAILWAY TRANSPORTATION

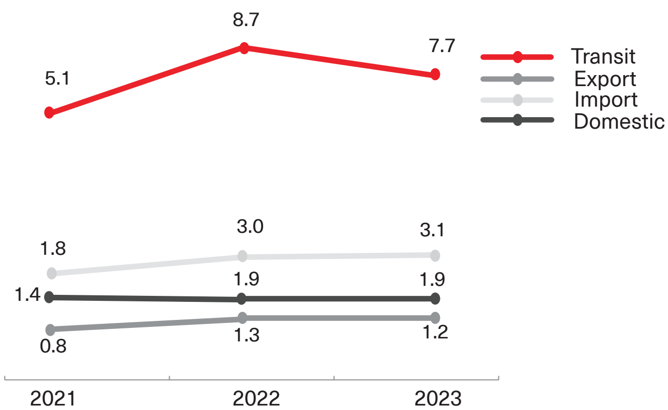
Georgia's railway sector, managed by Georgian Railway, is crucial to the country's economy and has a pivotal role in connecting Europe with Asia. Handling both freight and passenger transportation, it facilitates international trade and tourism. Notably, railway transportation in Georgia has shown resilience to global and regional shocks, albeit the activities of Georgian Railway in recent years 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. Having suitable infrastructure in place on the railway network and at ports is also crucial if Georgian Railway is to ensure that delays are minimized or avoided.



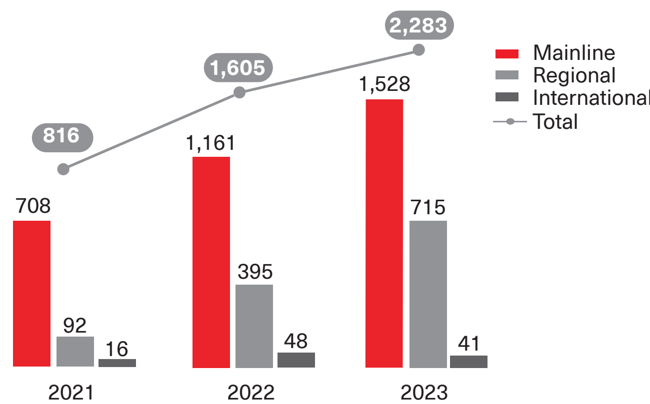
Railway transportation is the second-most popular transportation type for cargo in Georgia, accounting for 29% of total freight transportation in the country in 2023. JSC Georgian Railway, as the main railway operator in Georgia, provides export, import, domestic and transit transportation. The most demanded type of rail freight transportation is transit, the popularity of which has risen courtesy of geopolitical changes. Nevertheless, in 2023, 56% of the total cargo was transit, showing an 11% decline compared to the same indicator for the previous year.

Apart from carrying freight, rail transportation in Georgia also serves passengers. In particular, passenger transportation is either mainline, regional, or international. In 2023, the total number of passengers transported increased by 42% compared to the previous year. Specifically, there was a notable 81% increase in passengers traveling under the "regional" classification.

RAILWAY CARGO BY DIRECTION *(MLN TONS)*



NUMBER OF PASSENGERS TRANSPORTED BY RAILWAY *('000)*



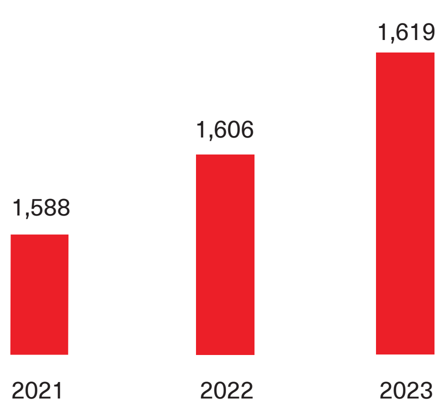
Source: Ministry of Economy and Sustainable Development of Georgia

SEA TRANSPORTATION

Sea transportation is another essential part of the Georgian transport sector. Ports are tightly linked with both railway and road transportation and together they form an integrated system for exports/imports and transit. Georgia's ports assume a vital role in facilitating the nation's trade activities and in ensuring a secure and efficient transportation framework that promotes safe trading and contributes to the country's economic well-being. These ports maintain direct connections with numerous countries via important shipping routes.

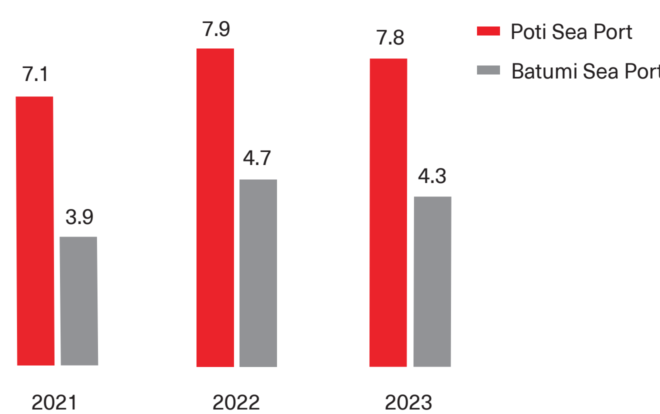
Over the last four years, a total of 6,572 ships entered ports and terminals in Georgia, with 1,619 ships entering in 2023 and 1,606 in 2022.

THE NUMBER OF SHIPS ENTERING IN SEAPORTS AND TERMINALS OF GEORGIA



Source: National Statistics Office of Georgia (Geostat)

VOLUME OF CARGO HANDLED AT SEAPORTS *(MLN TONS)*



Source: Ministry of Economy and Sustainable Development of Georgia

Around 11,1000 passengers were transported through the ports and terminals of Georgia in 2023, marking a 45% increase compared to 2022. In 2023, 5.6 thousand arrived and 5.5 thousand left the ports and terminals of Georgia.

The volume of cargo handled in Georgia's seaports in 2022 and 2023 was 12.1 and 12.6 million tons, respectively. In the 2023 volume specifically, 64% was handled at Poti, while the other 36% was handled at Batumi.

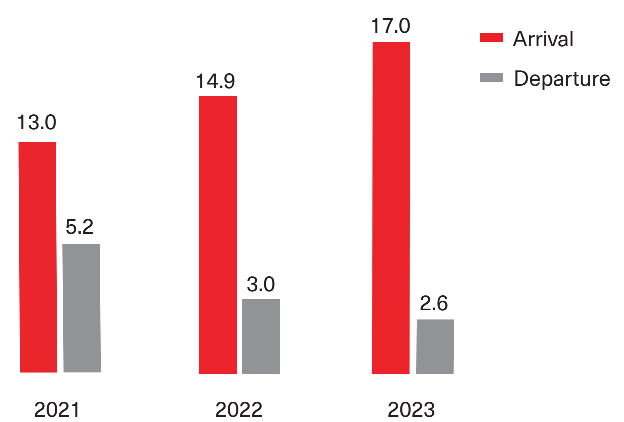
AIR TRANSPORTATION

Air transportation is the least popular of the main types of transport in Georgia. The country has four domestic airports (Natakhtari, Ambrolauri, Telavi and Mestia) and three international airports (Tbilisi Shota Rustaveli International Airport, Kutaisi Davit Agmashenebeli International Airport and Batumi Alexander Kartveli International Airport). Tbilisi Airport is served by three private cargo handling companies: Tbilisi Cargo Service Ltd; Lasare Ltd; and Georgian Post Ltd. Meanwhile, only three airlines currently provide regular cargo flights to five destinations, two of which are in neighboring countries - Türkiye and Azerbaijan. Crucially, air transportation is not yet tightly connected to the road, sea and railway transportation systems in Georgia.

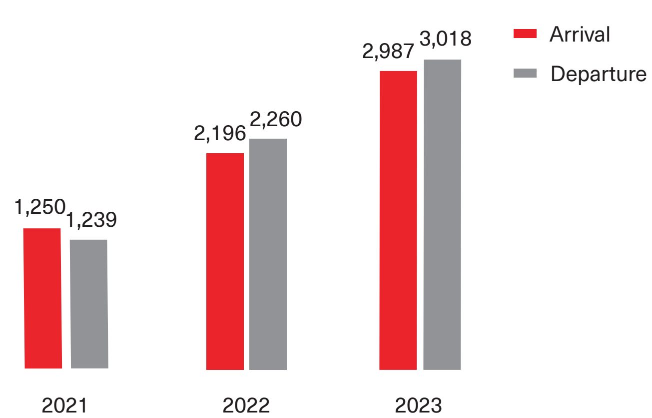
The volume of cargo carried through Georgian airports increased by 10% in 2023 compared to 2022. Over the same period, incoming cargo rose by 14%, whereas outgoing cargo dropped by 13%.

In 2023, there was a notable 34% rise in passenger traffic compared to 2022, which marked a 141% increase compared to 2021. At the same time, the number of arriving passengers reached 3.018 million, while the number of departing passengers hit 2.987 million.

FREIGHT AND MAIL CARRIED TROUGH THE AIRPORTS OF GEORGIA *('000 TONS)*



PASSENGERS CARRIED THROUGH THE AIRPORTS OF GEORGIA *('000)*



Source: National Statistics Office of Georgia (Geostat)

PIPELINES

Georgia's pipelines offer the main gateway through which Azerbaijan's oil and gas resources can reach the European market. The key players in the Georgian pipeline industry include the Georgian Oil and Gas Corporation (GOGC), BP and SOCAR.

The BTC Pipeline and the WREP transport oil across the territory of Georgia.

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.

The BTC Pipeline connects the Caspian Sea to the Mediterranean Sea, through Azerbaijan, Georgia and Türkiye. 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.

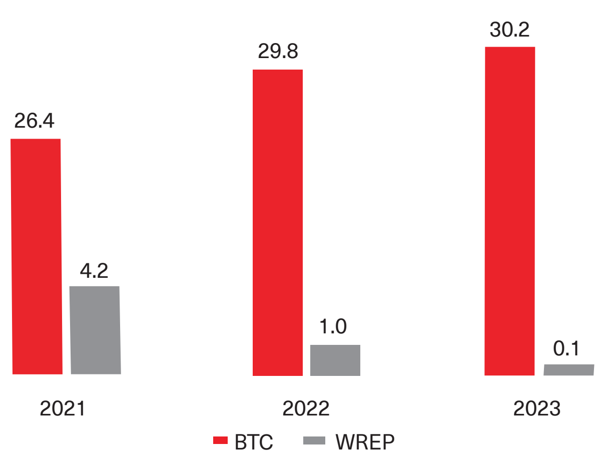
In February 2023, the WREP resumed operations after the Ceyhan Terminal in Türkiye was closed due to an earthquake, transporting 0.1 million tons of oil. Subsequently, the WREP has again been subject to closures, with volumes redirected to the BTC Pipeline, which loads tankers at the Mediterranean port of Ceyhan. Therefore, in 2023, the total volume of oil transported through the BTC Pipeline reached 30.2 million tons.

Gas is transited through Georgia via the SCP and the NSMP.

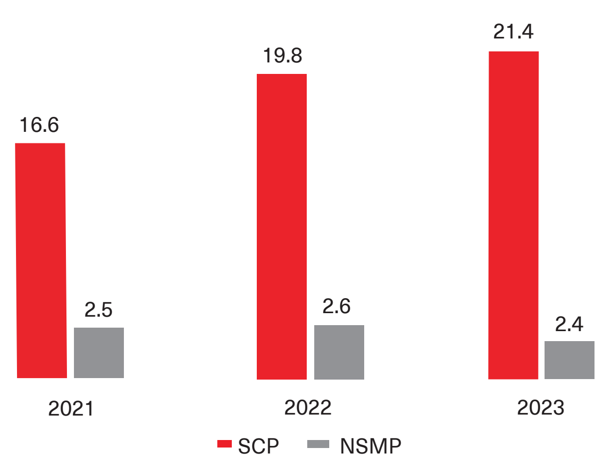
The 692-km-long SCP was designed to transport gas from the Shah Deniz field in Azerbaijani territory in the Caspian Sea, through Georgia and on to the Georgia-Türkiye border. The SCP passes through Georgia for 249 km, which is approximately 36% of the pipeline's total length.

The transit of Russian gas to Armenia is carried out through the North-South Main Gas Pipeline (NSMP). The pipeline stretches from the Georgia-Russia border to the Georgia-Armenia border (221 km) and supplies Georgia and Armenia with natural gas. Gas from Russia is transported to Armenia via the NSMP, of which the Georgian segment is 234 km and has an annual design throughput of 12 billion cubic meters.

OIL TRANSIT *(MLN TONS)*



NATURAL GAS TRANSIT *(MLN M3)*



Source: Georgian Oil & Gas Corporation (GOGC)

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.

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.

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 on 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 allow their employees to 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 GoG 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 for the same indicator (source: Geostat.ge).

In particular, the 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 among the biggest challenges posed by the pandemic. The second-most impacted business sector in Georgia was transportation and storage, in which 69% of enterprises reported declines in their revenue of more than 50%. Meanwhile, 27% of businesses in this sector 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 problems 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.

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.

With respect to the Group's operational and financial performance, the management does not anticipate any more significant adverse impacts from the COVID-19 pandemic.

The management however cannot preclude the possibility of a resumption 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 is also prepared for negative development scenarios and is ready to adapt its operational plans accordingly.

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. It runs through Georgia and Azerbaijan, which act as a sort of land bridge between the Caspian Sea and the Black Sea.

TRACECA

The TRACECA is the result of a technical assistance program financed by the EU, which was first established in 1993. It intended to develop a transport corridor between Europe and Asia via the Black Sea, as well as through 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, Türkiye, Uzbekistan and Ukraine. Iran also became a signatory member in 2009, while Turkmenistan participates without being a signatory member.

The main objectives of the 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 the TRACECA since 1993.

TRACECA

GR's network is a key segment of the 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 Infrastructure Developments in Georgia)* and with the subsequent new route from China to Europe, through Georgia and Türkiye, GR aims to capitalize on increased trade volumes.

According to data from the China State Railway Group, in 2023, the China-Europe freight trains completed 17,000 trips and transported 1.9 million TEUs, reflecting a year-on-year increase of 6% and 18%. Indeed, about 10% of Turkish imports were from China in 2023.

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 passes through Kazakhstan, Azerbaijan, , Georgia, , Romania, Hungary, Slovakia and Czech Republic before reaching Germany. After arriving at the port in Kazakhstan's Aktau, the containers are transported by feeder ship to the port in Azerbaijan's Baku and then by rail to 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 developments in the Baku-Tbilisi-Kars railway are going to be crucial here as well.

3. RELATIONSHIP BETWEEN GOVERNMENT AND GEORGIAN RAILWAY

Georgia's economic development, in the view of the GoG, is directly related to the development of the transport sector. Due to its location at the crossroads of Europe and Asia, through which strategic cargo flows both east and west, among the GoG's top priorities are to ensure the smooth functioning of the sector, modernize infrastructure and harmonize national legislation in line with international laws in order to integrate as much as possible with the Trans-European Transport Network (TEN-T).

JSC Georgian Railway was fully owned by the Georgian government until 2011 after which up until 2022 its ownership was transferred to the Joint Stock Company Development Fund of Georgia (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, the Georgian government resumed full control of JSC Georgian Railway at the end of 2022.

Georgian Railway, as the largest single entity in the transport sector, is of systemic importance to the country and represents a strategic national asset. At the same time, as one of the country's biggest corporate employers, it carries significant social importance.

3.1 JSC GEORGIAN RAILWAY'S CONTRIBUTION TO THE ECONOMY

LARGEST CORPORATE EMPLOYER

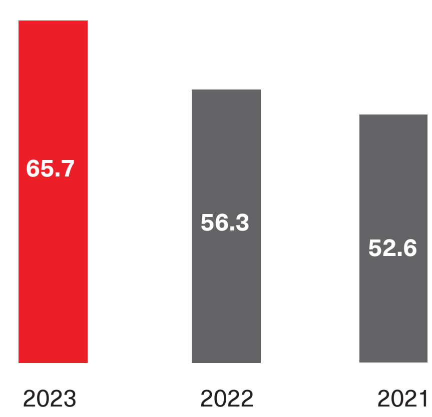
1% of total workforce of Georgia is employed in JSC Georgian Railway

LARGEST TAXPAYER

0.5% share in tax recieves by budget

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, Türkiye and Turkmenistan. In particular, the GoG has indicated that developing the country's infrastructure is one of its highest priorities, with the aim being that Georgia becomes a significant transportation hub, in 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 by the GoG to be akin to a public service obligation, enabling the GoG to promote regional development. Furthermore, the Group is a major taxpayer and a significant contributor to Georgia's GDP.

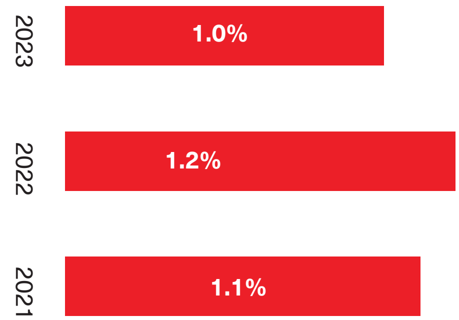
CASH OUTFLOW TO BUDGET *(MLN GEL)*



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

According to figures published by the National Statistics Office of Georgia (Geostat), the Group's consolidated revenue represented 1.0% of GDP in 2023, compared to 1.2% in 2022. The Group is also a leading corporate employer in Georgia, with its business supporting other employment opportunities in Georgia too. In addition, it is one of the largest taxpayers in the country.

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



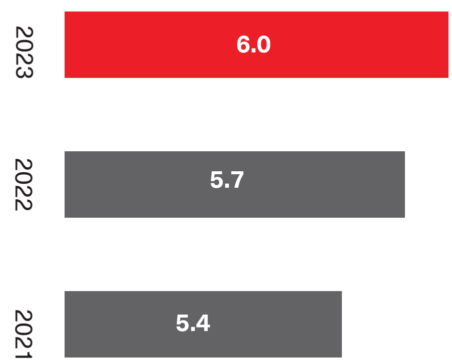
Source: National Statistics Office of Georgia (Geostat)

SUPPORTING PASSENGER TRANSPORTATION

Historically, the Group's passenger transportation services have generated net losses. Specifically, for these a loss of GEL 10.0 million was reported in 2023, following losses of GEL 15.5 million and GEL 21.3 million in 2022 and 2021, respectively. Nevertheless, fares are kept low due to the national importance of having affordable passenger rail transportation.

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 for the losses of the Passenger SBU starting from 2024 or earlier *(see 7.2 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.

AVERAGE PASSENGER TARIFF PER KILOMETER *(TETRI)*



The 2024 state budget designates GEL 8.0 million for compensation of passenger transportation. This will have a positive impact on the Group's revenue and, ultimately, on its profitability.

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 the Tbilisi Bypass Project in 2010 and 2011, at a value of GEL 33 million, to GR Capital. This land comprised approximately 40% of the total land required for the 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;

- 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 held by the Group, restricting its dividend payments. The agreement also includes a constraint according to which dividend payments must not exceed 50% of the Group's cumulative consolidated net income. In addition, there are restrictions related to ownership changes, but the Government's declaration to maintain full ownership represents 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 2023 ('000 GEL)	Freight Transportation Unit	Passenger Transportation Unit	Railway Infrastructure Unit	Head Office Unit	*WBS Unit*	*GR GROUP*
External Revenue	580,856	42,013	1,415	1,519	1,370	627,173
Revenue from sales to the Units	**1,938**	**0**	**96,461**	**0**	**15,933**	**114,332**
TO FREIGHT TRANSPORTATION UNIT	0	0	85,792	0	9,350	95,142
TO PASSENGER TRANSPORTATION UNIT	1,938	0	10,668	0	2,166	14,773
TO RAILWAY INFRASTRUCTURE UNIT	0	0	0	0	2,887	2,887
TO HEAD OFFICE UNIT	0	0	0	0	1,530	1,530
Other Income	2,140	2,239	2,642	1,880	93	8,993
TOTAL REVENUE	**584,934**	**44,252**	**100,517**	**3,399**	**17,395**	**750,498**
Employee benefits expense	(112,144)	(23,749)	(80,529)	(16,279)	(6,354)	(239,056)
Depreciation and amortization expenses	(15,658)	(11,811)	(43,793)	(1,339)	(4,293)	(76,895)
Electricity, consumables and maintenance	(51,863)	(8,446)	(12,917)	(1,159)	(337)	(74,722)
Impairment Loss on trade receivables	6,072	1	(80)	44	(21)	6,016
Other expenses	(106,984)	(7,053)	(27,369)	(7,228)	(5,315)	(153,948)
Cost of purchases from the Units	**(91,903)**	**(14,733)**	**(2,943)**	**(1,797)**	**0**	**(114,332)**
OF FREIGHT TRANSPORTATION UNIT	0	(1,938)	0	0	0	(1,938)
OF RAILWAY INFRASTRUCTURE UNIT	(85,792)	(10,668)	0	0	0	(96,461)
OF WBS UNIT	(9,350)	(2,166)	(2,887)	(1,530)	0	(15,933)
TOTAL EXPENSES	**(375,719)**	**(65,832)**	**(167,575)**	**(27,491)**	**(16,321)**	**(652,937)**
RESULTS FROM OPERATING ACTIVITIES	**209,216**	**(21,579)**	**(67,058)**	**(24,092)**	**1,075**	**97,561**
Finance income	29,955	10	839	8,056	0	38,859
Finance costs	(296)	(4,042)	(56,925)	173	0	(61,090)
Net Foreign exchange loss(gain)	455	654	6,526	4,434	(4)	12,065
NET FINANCE INCOME / (COSTS)	**30,113**	**(3,378)**	**(49,560)**	**12,663**	**(4)**	**(10,166)**
PROFIT / (LOSS) BEFORE INCOME TAX	**239,329**	**(24,958)**	**(116,619)**	**(11,429)**	**1,071**	**87,395**
Income Tax	0	0	0	(619)	0	(619)
NET PROFIT / (LOSS)	**239,329**	**(24,958)**	**(116,619)**	**(12,047)**	**1,071**	**86,776**

(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 2023 to Freight SBU equals to GEL 85.8 million, compared to GEL 77.5 million in 2022. Infrastructure charges of 2023 to Passenger transportation unit equals to GEL 10.7 million, compared to GEL 8.4 million in 2022.

(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 2023, the Passenger Transportation Unit reduced its expenditure on using Freight Transportation Unit locomotives from GEL 2.5 million in 2022 to GEL 1.9 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 2023 equals to GEL 15.9 million, compared to GEL 8.5 million in 2022. The nearly two-fold 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 CONTINUOUS FOCUS ON SUSTAINABLE DEVELOPMENT

"GREEN IS OUR CHOICE"

E

Green transportation with low carbon emissions

98% of the railway is electrified

Responsible waste management

All hazardous waste is disposed of carefully

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 12.4 mn spent on employees' healthcare and insurance in 2023

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 is thus an environmentally friendly mode of transport. The Group operates both freight and passenger transportation using electric locomotives and electric multiple units (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 acts under the slogan "Green is our Choice" and contributes to the achievement of national environmental policy goals. 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 performs 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 2023 and offers its employees a range of benefits and support systems. In particular, the Group provides medical insurance to its employees and their family members and finances certain healthcare expenditures not covered by insurance.

In order to meet the needs of the railway transportation needs of the public and the state, in 2015 the Company, the 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 main objectives are to develop dual vocational education in the railway sector and to improve the railway labor market *(see 4.3 Social Focus).*

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

PROCEEDS ALLOCATED TO ELIGIBLE GREEN PROJECTS

In 2021, one of the most strategically important events of the year not only for JSC Georgian Railway but the whole Georgian 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 that reduced coupon rate, the Company will be able to save around USD 140 million by 2028.

JSC Georgian Railway is the only company in the South Caucasus region to have achieved "green" status in transportation, showcasing its commitment to tackling environmental, social and governance challenges.

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.

SAVING AROUND USD 140 MILLION BY 2028

TRANSACTION PARTICIPANTS

JOINT LEAD MANAGERS AND BOOKRUNNERS

Citigroup Global Markets Limited and J.P. Morgan Securities PLC

JOINT LEAD MANAGERS

Renaissance Securities (Cyprus) Limited and TBC Capital LLC

CO-MANAGER (NO UNDERWRITING COMMITMENT)

JSC Galt & Taggart

FISCAL AGENT, PAYING AND TRANSFER AGENT

Citibank, N.A., London Branch

REGISTRAR

Citigroup Global Markets Europe AG

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 emissions electric railway lines and the acquisition and maintenance of supporting infrastructure and assets. Pertinently, 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's 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 transport sector. Projects financed under the Framework will further support electrification, modernization and extension of the country's railway infrastructure."

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

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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

According to the obligations set under the Green Bond Framework, GR's Corporate and Economic Department evaluates projects against the eligibility criteria with activities under the following categories excluded 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 thereto; 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 548.7 million to five different eligible green projects during the last six years, broken down as follows:

- USD 199.3 million allocated to the Railway Modernization Project, designed to modernize rail infrastructure and increase the safety and capacity of the mainline *(see 8.2 Ongoing Projects of the Company)*;
- USD 72.9 million allocated to the acquisition and maintenance costs of the Company's wagon and locomotive fleet;
- USD 144.6 million allocated to costs related to freight and passenger stations, logistics terminals and platforms;
- USD 92.9 million allocated to extensions, modernization, maintenance, energy efficiency and electrification of existing railway lines; and
- USD 39.0 million allocated to 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;
- Raise the annual volume of freight and cargo transported;
- Enhance the number of railway passengers;
- Boost 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 has been installed in 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 its emergency response. GR abides by the mantra "Green is our Choice" and makes a significant contribution to initiatives underpinning national environmental policy.

In 2023, JSC Georgian Railway successfully decommissioned 44 controlled facilities and transported a total of 89,546 kg of hazardous waste for incineration or recovery under the relevant contract. The Company strives to achieve sustainable development goals by gradually substituting operational materials with more environmentally friendly alternatives, such as water-based sleepers or concrete sleepers instead of creosote-treated ones. Moreover, it makes efforts to reuse various types of waste to minimize waste generation. In addition, when modernizing its existing service or infrastructure facilities, renovations are carried out using entirely eco-friendly materials.

As part of its daily operations, JSC Georgian Railway conducts identifies and monitors high-risk areas. Through inspections conducted in railway corridors, areas prone to atmospheric and natural changes are picked out, such as areas or zones susceptible to avalanches, landslides and/or geotectonic activity. Each location is equipped with an information brochure and designated personnel with appropriate qualifications who conduct periodic visual or other types of monitoring as needed. This proactive approach aims to mitigate risks within the railway corridors and to ensure movement therein is as safe as possible.

The Company is actively engaged in greening the railway track and surrounding infrastructure too. Specifically, in 2023, 807 units of trees were planted on GR's property and adjacent areas.

The Group is subject to various environmental protection laws and regulations including the Law of Georgia on "Red List" and "Red Book," the Law of Georgia on Cultural Heritage, the Maritime Code of Georgia and the Law of Georgia on Public Safety .   According to the applicable laws, the construction of railway facilities, as well as the development of railway 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 causing any environmental impact by way of its activities or in the course of the Railway 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 whereby waste generated during its operations is utilized 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 waste prevention and recovery measures;
- Descriptions of the 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.

In GR, the ISO 9001:2015 has been introduced to its at Corporate Governance Department and the Passenger SBU *(see 7.2 Passenger SBU)*. Accordingly, on an annual basis, risks are identified and agreed with the Group's management and action plans are implemented in accordance with the following standards:

- Trains and passenger coaches produce zero direct (tailpipe) CO_2 emissions; and
- 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).

ENVIRONMENTALLY FRIENDLY TRANSPORTATION MODE

GR abides by the slogan "Green is our Choice"

98% of Georgian Railway is electrified

Waste management plan established in compliance with the 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 Railway Modernization Project) aiming to lower GR's environmental impact (i.e. 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 conducts environmental audits and monitoring of the railway throughout the country

AVOIDED CO2 EMISSIONS

To estimate the extent of the 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 emissions in the absence of the railway network. To conduct such a comparison, minibus was used as the alternative type of transportation.

AVOIDED THE EQUIVALENT OF ABOUT 854,000 TONS OF CO2 EMISSIONS FROM 2018 TO 2023

ZERO DIRECT EMISSIONS

tons CO2 eq.	2023	2022	2021	2020	2019	2018
TOTAL AVOIDED EMISSIONS	172,852	181,847	139,931	120,344	125,689	113,752

Avoided just below the equivalent of 9,000 tons of CO2 in 2023, compared to 2022.

**The IPCC 2006 methodology was used to calculate greenhouse gas (CO2, CH4 and 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 here is to provide accessible and comfortable travel for people . Historically, fares for passenger 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)*.

The health and safety of its 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 the causes and inform appropriate measures to be taken to prevent similar incidents from reoccurring 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 provides other financial aid for special occasions such as the birth of a child and a child's first day at school, while also issuing bonuses to employees for certain holidays, events, etc.

In order to meet the railway transport needs of the public and the state, 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 the relevant vocational background 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 standards necessary for inclusive learning, to better accommodate students with 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 affordable passenger transportation, 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, SAP and six SIGMA programs)
- GR has an established health and safety policy
- Around 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 2023. The Company also effectively creates additional employment in related industries, such as railcar manufacturing and construction.

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

For the year ended 31 December	2023	2022	2021	*2023*	*2022*	*2021*
HEAD OFFICE	755	767	772	*6%*	*6%*	*6%*
INFRASTRUCTURE SBU	4,611	4,670	4,748	*38%*	*38%*	*38%*
FREIGHT SBU	5,221	5,253	5,233	*43%*	*42%*	*42%*
PASSENGER SBU	1,059	1,197	1,172	*9%*	*10%*	*10%*
SUBSIDIARIES	473	491	489	*4%*	*4%*	*4%*
TOTAL	12,119	12,378	12,414	*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 to succeed. 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 and their family members and finances certain healthcare expenditure not covered by insurance. In 2023, the amount it spent on employees' healthcare expenses totaled GEL 323,000.

The Group's average employment package (salary, bonuses, etc.) is relatively close to the average national salary. The Group also has a bonus system in place, according to which bonuses are distributed to all employees twice a year.

AVERAGE EMPLOYEE BENEFITS

'GEL

For the year ended 31 December	2023	2022	2021
JSC GEORGIAN RAILWAY	1,626	1,329	1,215
GEORGIA *(source: National Statistics Office of Georgia)*	1,858	1,543	1,305

ADDITIONAL BENEFITS

'000 GEL

For the year ended 31 December	2023	2022	2021
LOYALTY PROGRAM	1,756	762	475
HEALTHCARE FUNDING	323	304	304
Total	**2,079**	**1,066**	**779**

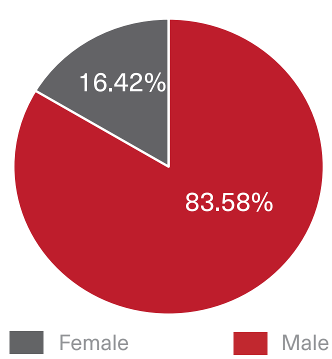
There is stiff competition among companies and organizations in Georgia for executives and other personnel who are both sufficiently qualified and experienced. However, due to the favorable working environment afforded by the Company to its employees, including a competitive compensation package, career opportunities and other advantages, its employee turnover rate is relatively low. Specifically, the Company's employee turnover rate was 6% in both 2023 and 2022 and 8% in 2021 (excluding subsidiaries).

EMPLOYEE TURNOVER RATE BY BUSINESS UNIT

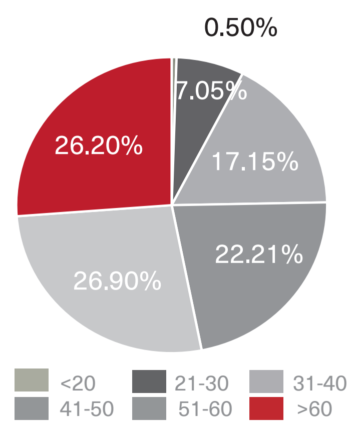
	31-Dec-23	31-Dec-22	31-Dec-21
HEAD OFFICE	*15%*	*13%*	*9%*
FREIGHT TRANSPORTATION SBU	*4%*	*6%*	*7%*
INFRASTRUCTURE SBU	*6%*	*7%*	*9%*
PASSENGER TRANSPORTATION SBU	*10%*	*5%*	*5%*
WBS	*8%*	*6%*	*3%*
Average turnover	*6%*	*6%*	*8%*

The charts below break the Company's personnel down according to age group and gender. Of note, the majority of GR employees are aged between 51 and 60. Meanwhile, the Group involves its workers in decision-making processes, which boosts their workplace engagement and offers them career advancement opportunities. This approach allows for the sharing of innovative ideas which in turn benefits the Group.

EMPLOYEE DISTRIBUTION BY GENDER

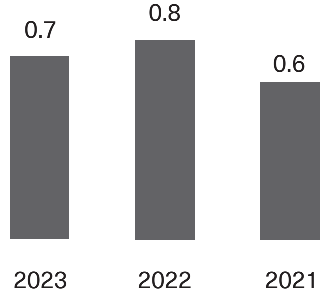


EMPLOYEE DISTRIBUTION BY AGE

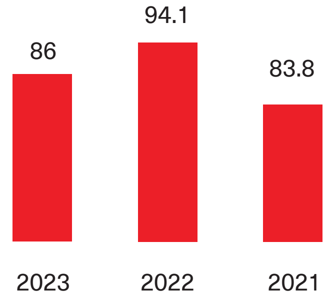


LABOR PRODUCTIVITY MEASURES

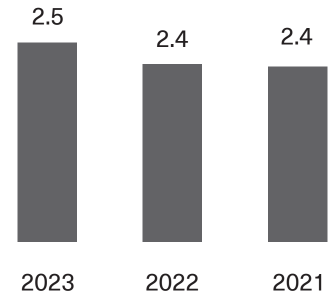
Ton-km per average number of Freight SBU employees (millions)



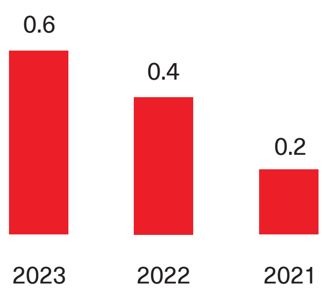
Freight revenue per average number of Freight SBU employees (GEL '000)



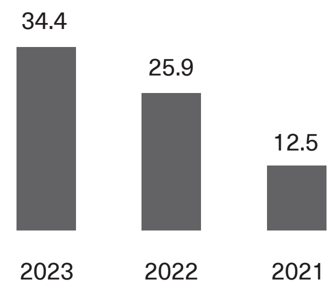
Average number of Infrastructure SBU employees per average expanded length (km) of infrastructure



Passenger-km per average number of Passenger SBU employees (millions)



Passenger revenue per average number of Passenger SBU employees (GEL '000)



As of 31 December 2023, 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 any 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 is transformed 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 was granted professional education status. The RTC started running classes in 2018.

The RTC was founded by:

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

The RTC's partners are:

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

The main objectives of the RTC are to develop dual vocational education 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 by the U.S. Millennium Challenge Account.

In 2018, the college building was renovated and adapted to accommodate inclusive learning for students with disabilities, as well as to provide the RTC with suitable training inventories, computer equipment and locomotive simulators. The refurbishment costs were covered by the MoES and GR.

A machine operator vocational training program was introduced at the institution in 2019, the first program of its kind in Georgia. Moreover, a training laboratory was built 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 MoES and the 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 other training programs were submitted for financing, namely “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.

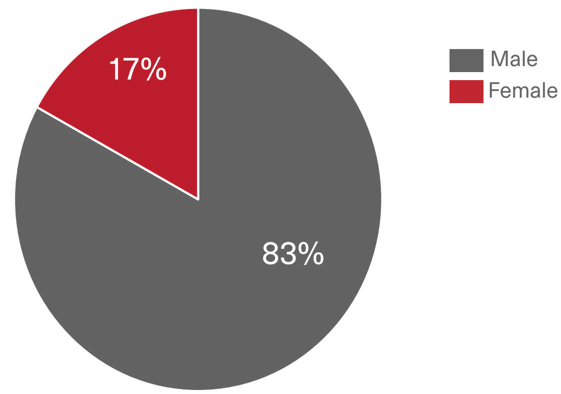
In 2022, Georgian Railway and the RTC launched a new initiative entitled “Equal Opportunities in the Railway Sector of Georgia and Strengthening the Technical Skills of Young People” with the support of the EBRD, the details of which are presented below:

- "Equal Opportunities in the Railway Sector of Georgia and Strengthening the Technical Skills of Young People" - a two-year project, within the framework of which both new and updated professional short-term educational programs of the RTC are to be created; and
- Gender-sensitive human resources management policies and procedures - to 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 should take to improve gender equality).

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

In the RTC, 609 professional students are currently enrolled, comprising 507 men and 102 women. This total exceeds the 2022 figure by 191, with a notable increase in the number of female students (by 53). In 2023, a total of 115 students successfully completed their chosen professional education program and attained the relevant qualifications. Since its establishment, the RTC has had a total of 371 graduates.

SHARE OF CURRENT STUDENTS BY GENDER



The RTC offers a total of 17 professional educational programs, outlined below:

DUAL FORM*

- Railroad gauge construction
- Railroad gauge monitoring
- Railway power supply
- Electric rolling stock of the railway
- Railway transportation
- Signaling, centralization and blocking of railway transport
- Railcar management
- Locomotive management

MODULAR FORM*

- Freight transportation logistics
- Machine tool operator
- Welding
- Labor safety and environmental technologies

INTEGRATED FORM*

- Railway transportation
- Railway power supply
- Signaling, centralization and blocking of railway transport
- Freight transportation logistics
- Railcar management

**The dual form of studying, also known as dual education or dual training, combines traditional classroom learning with practical on-the-job training. The modular learning allows to individualize the work with students, consulting with each of them and helping them individually. The integrated form of studying, or integrated education, brings together theoretical knowledge with practical skills throughout the entire learning process.*

In addition to its professional long-term educational programs, the RTC has also been authorized to offer the following 15 short-term professional training and retraining programs:

SHORT-TERM PROFESSIONAL PREPARATION PROGRAM

- Technical drawing, draftsperson
- Warehouse logistics specialist
- Electric welder
- Geodetic surveyor
- Wagon tester
- Track maintenance technician
- Railway power supply technician

SHORT-TERM PROFESSIONAL RETRAINING PROGRAM

- Argon arc welder
- Elevator maintenance and repair technician
- Gauge defects inspector
- Visual inspection specialist for rail and building elements
- Station operator
- Station dispatcher
- Railway signaling, centralization and blocking microprocessor equipment specialist

Until 2023, the RTC implemented seven short-term training/retraining programs. Starting in 2023, the "Railway Industry" grant project was initiated under the USAID "Industry-Led Skills Development" program, aiming to provide equal access to professional development opportunities. In addition, based on the needs of the Tetritskaro and Samtredia regions, an additional training program was prepared. The National Center for Educational Quality Enhancement confirmed that a further eight professional training/retraining programs would be implemented. In 2023, 43 trainees successfully completed their selected vocational training/retraining program and received the corresponding certificate, reflecting an increase of 11 compared to 2022. In addition, in 2023, training on short-term programs: "Argon arc welder", "Electric welder" and "Elevator maintenance and repair" started and is currently being conducted. A total of 35 student are enrolled and the training process is ongoing.

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 2023 was approximately GEL 1.9 billion. Specifically, it owns and operates the following assets:

RAIL NETWORK	1,408 km
FREIGHT RAILCARS	4,392
PASSENGER WAGONS	34
CONTAINERS	586
LOCOMOTIVES *(diesel/electric)*	94
ELECTRIC MULTIPLE UNITS *(EMUs)*	17

FREIGHT STATIONS	99 *(45 are commercial)*
PASSENGER STATIONS	31
LAND	50 km2
TUNNELS	42
PEDESTRIAN TUNNELS	23
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 to carry out the Group's current and planned railway operations without significant disruption, GR continues to conduct 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 of the Company)*.

RAIL NETWORK

GENERAL DESCRIPTION

The Group's mainline rail network, together with that of CJSC Azerbaijan Railways, 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. Meanwhile, 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 Türkiye. In 2017, the first train passed through this line *(see 8.3 Infrastructure Developments in Georgia)*.

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

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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 under 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 further to 100 million tons with relatively minor additional 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 coast, the modernization of the Azerbaijani railway network and the development of ports on the Caspian Sea in Kazakhstan.

ROLLING STOCK

As of 31 December 2023, the Group had 4,392 active freight railcars and 34 active passenger wagons. Earlier, in 2014, the Group purchased 480 containers to facilitate container transportation within the Caucasus Railway Corridor.

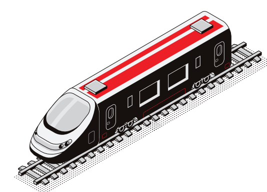
	31-Dec-23	31-Dec-22	31-Dec-21
ACTIVE FREIGHT RAILCARS	4,392	4,504	4,469

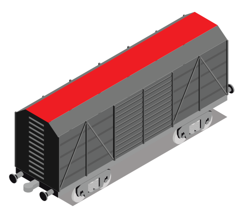
GENERAL DESCRIPTION

The Group's rolling stock undergoes regular maintenance and repair. Such work falls into the following 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 subject to regular inspection before loading, after unloading and during transportation through freight stations.

34

PASSENGER WAGONS





4,392

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 is afforded to third-party providers. In such cases, 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 undergo routine technical inspections, as a result of which minor repairs are performed at repair shops throughout its network.

The Group also performs 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 2023:

Age	Total Workforce (%)
Less than 21 years	6
21-25 years	7
26-30 years	1
31-35 years	22
More than 35 years	64

**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 2023:

Age	Total Workforce (%)
Less than 21 years	0
21-25 years	0
26-30 years	0
31-35 years	0
More than 35 years	100

**See 7.2 Passenger SBU*

CAPACITY

One of the main factors 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 2023 was performed by its railcars.

SHARE OF FREIGHT TRANSPORTED BY RAILCAR OWNERS

For the year ended 31 December	*2023*	*2022*	*2021*
The Group's railcars	*37%*	*38%*	*47%*
Railcars owned by other railways	*16%*	*18%*	*23%*
Railcars of private companies	*47%*	*44%*	*30%*

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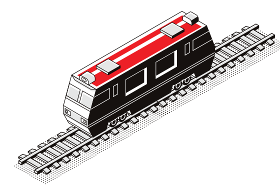
The Group's management believes that its current rolling stock allows it to operate efficiently, provided that the required maintenance and capital repairs are performed thereon. It also understands that utilizing the existing rolling stock would be significantly more cost-efficient than purchasing new 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 fills that through a combination of conducting capital repairs on rolling stock from the inventory, selective acquisition of new railcars, or adjusting tariffs to attract private railcar owners.

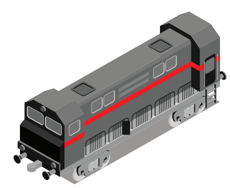
LOCOMOTIVES AND EMUs

As of 31 December 2023, the Group owned 17 units of active EMUs and 94 active locomotives, of which 71 were electric and 23 were diesel. In addition, the Group has another eight EMUs as well as 22 electric and 29 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.

17

PASSENGER TRAINS (EMUs)





94

ACTIVE LOCOMOTIVES

The following table sets out the distribution of the Freight SBU's total active locomotives by age, as of 31 December 2023:

Age	Total Fleet (%)
Less than 21 years	0
21-25 years	1
26-30 years	1
31-35 years	18
More than 35 years	81

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 2023:

Age	Total Fleet (%)
Less than 21 years	42
21-25 years	0
26-30 years	0
31-35 years	0
More than 35 years	58

See 7.2 Passenger SBU

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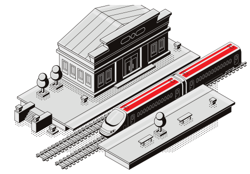
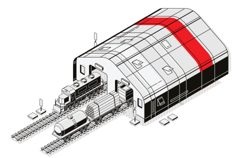
STATIONS AND ADMINISTRATIVE BUILDINGS

As of 31 December 2023, the Group owned and operated 99 freight stations in Georgia, 45 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 2023. Of note, the Group's headquarter building is located in central Tbilisi.

31

PASSENGER STATIONS



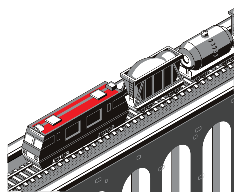


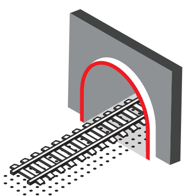
99

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 bridgesvarious 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 brings the following new opportunities and benefits:

- 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;
- Facilitating 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 of 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 corresponding 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 all year round and all across the Company as a whole.

5.2 RAILWAY SAFETY PRACTICES AND INCIDENT ANALYSIS

Safety is paramount in railway transportation and the Group's commitment to ensuring the well-being of passengers, employees and the environment is evident in its adherence to self-regulation and robust safety policies. The Group takes a proactive approach to safety, promptly reporting and addressing minor derailments to prevent potential hazards and ensure smooth operations. Additionally, the Group's efforts to provide compensation and benefits for affected individuals showcase its dedication to accountability and care for its employees and their families.

Moreover, the implementation of comprehensive training programs demonstrates the Group's commitment to promoting a culture of safety among its workforce. The program pairs experienced employees with newer recruits to impart valuable safety knowledge and best practices. This initiative not only enhances safety awareness but also fosters a sense of responsibility and accountability among employees. The Occupational Health, Safety and Environment Policy further highlight the Group's proactive measures, outlining procedures for incident investigation and quarterly trend reports. These policies not only ensure compliance with safety regulations but also serve as a testament to the Group's commitment to continuous improvement in safety standards.

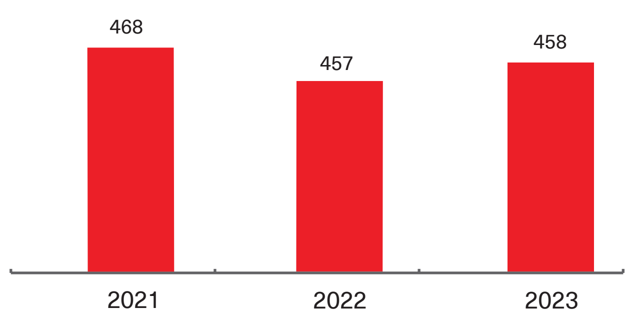
Furthermore, the Modernization Project's emphasis on enhancing operational and overall safety underscores the Group's proactive approach to meeting evolving safety challenges. By investing in modernization, the Group is not only improving safety standards but also ensuring a secure travel experience for all passengers. Overall, the Group's dedication to safety through self-regulation, robust policies and ongoing modernization efforts reflects its unwavering commitment to ensuring the highest levels of safety and security in railway transportation.

GENERAL INDICATORS OF TRAFFIC SAFETY

In 2023, a total of 458 violations occurred among all participants in the transportation process at Group as per the "Instructions on Classification, Registration, Investigation and Review of Traffic Safety Violations". This figure includes 123 violations attributed to other participants, constituting 27% of the total. Compared to 2022, there was a minimal increase of 1 unit, equivalent to 0.2%.

The size of the traffic of trains in terms of safety (the rate of transport work per train-kilometer), may be affected by the anticipated rise in transported volumes. Studies indicate that a 20-30% increase in transportation could lead to a disproportionate 40-80% increase in traffic safety violations. In 2023, train traffic volume saw a slight 0.2% increase from the previous year, accompanied by a 0.2% rise or 1 unit increase in traffic safety violations. Despite these minor increases, the overall traffic safety situation is perceived to have improved.

VIOLATIONS



TRAFFIC SAFETY VIOLATIONS IN 2021-2023 ACCORDING TO CLASSIFIER CATEGORIES

In 2023, Group recorded a total of 458 incidents categorized under different classifications of traffic safety violations, compared to 457 incidents in 2022, marking an increase of 1 unit or 0.2%. Within the classification of categories, two "serious accidents" were noted under the "traffic accident" category. The "traffic incident" category showed a 19% increase, with 135 violations, while the "other incident" category decreased by 6%, with 321 violations. 86% of the recorded violations were on the main railway line, while 14% occurred on the branches.

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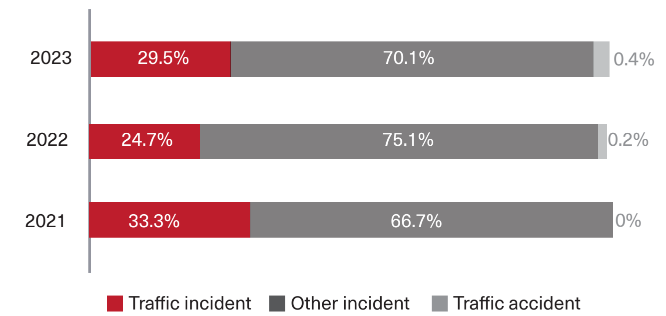
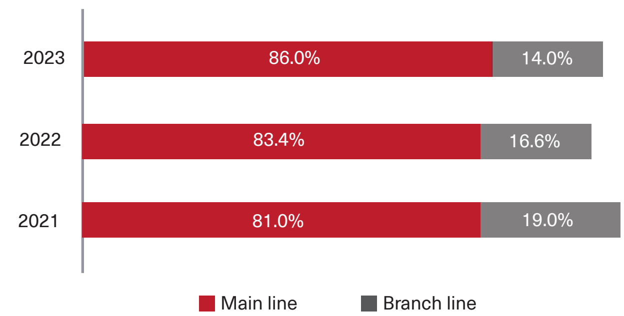
CLASSIFICATION OF TRAFFIC SAFETY VIOLATIONS



TRAFFIC SAFETY VIOLATIONS BY TRACK TYPES



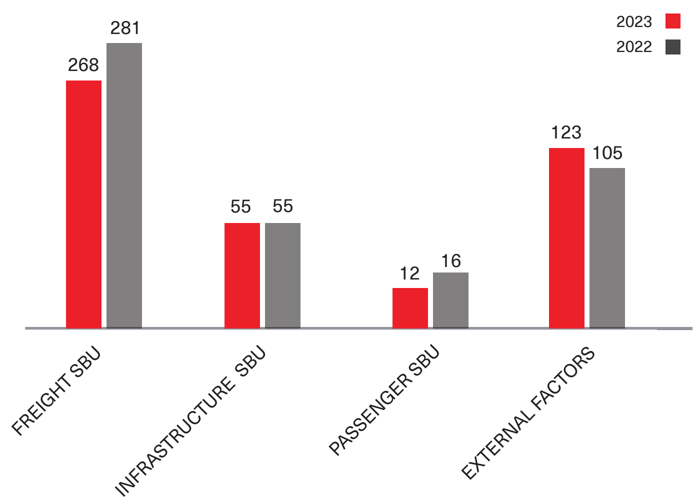
TRAFFIC SAFETY BY SBUs

Freight Transportation SBU - traffic safety violations decreased by 13 units (5%) in 2023, compared to 2022.

Infrastructure SBU - incidents remained at the same level, during the reporting period, compared to the previous year.

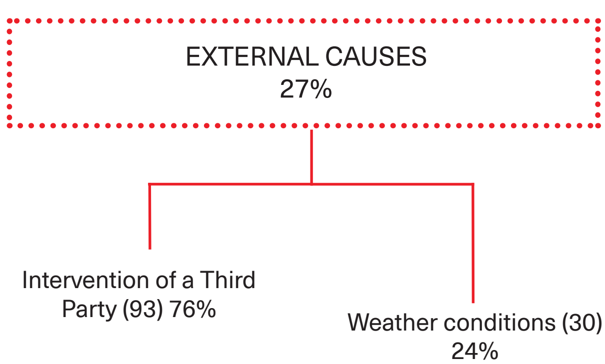
Passenger transportation SBU - incidents decreased by 4 units (25%) in 2023, compared to 2022.

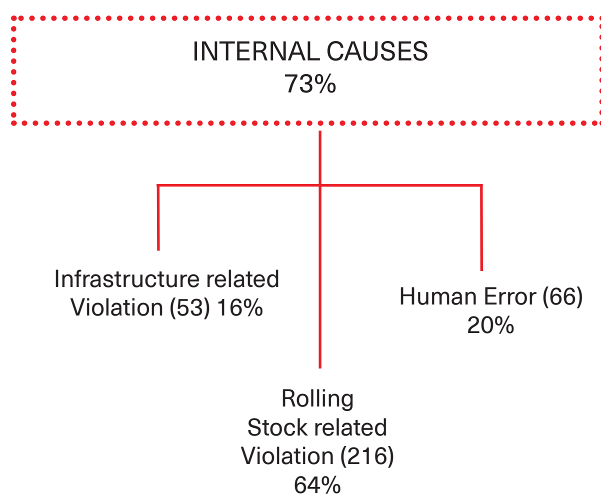
ALL INCIDENTS BY SBUs



INTERNAL AND EXTERNAL FACTORS OF TRAFFIC SAFETY VIOLATIONS

27% of traffic safety violations were attributed to external factors, with 76% of these due to third-party actions and 24% due to weather conditions. Internal causes accounted for 73% of violations, with 80% attributed to technical irregularities and 20% to human error.





INTERNAL CONTROL OF THE STATE OF TRAFFIC SAFETY

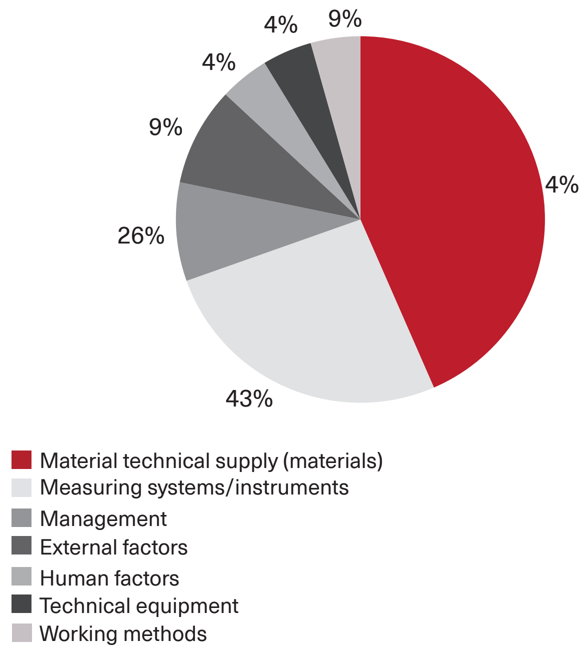
To prevent traffic safety violations, inspectors from the General Inspection of Traffic Safety check various areas, such as adherence to repair processes on railways and at enterprises, compliance with train management rules and the maintenance of infrastructure and rolling stock.

In 2023, inspectors conducted 1,737 inspections across 2,985 sites. This included 139 surprise inspections covering 356 sites and 1,599 planned inspections covering 1,975 sites. Spring and autumn inspections covered 654 sites, while train escorts occurred 256 times. There were 66 responses to incidents and 186 participations in various commissions. Additionally, 128 instances involved technical training, examinations, incident investigations and discussions.

These inspections uncovered a total of 11,281 irregularities, categorized into seven main factors.

The most common issues were related to the improper supply of materials, resources and spare parts, accounting for 46% of the total. Problems due to low personnel qualifications, errors and carelessness made up 16% of the findings. Additionally, wear and tear of equipment and poor-quality repairs accounted for 17% of the detected irregularities.

FACTORS IDENTIFIED AS A REULT OF INSPECTION BY INSPECTORS



Collisions and derailments of rolling stock pose a significant risk, both in organized trains and during shunting operations. It is important to note that in the reporting period, 20% of traffic safety violations (incidents) were influenced by human factors.

For a comprehensive and objective assessment of the risks affecting traffic safety, the reports of field inspectors were considered. These reports provide a high level of diagnosis of traffic safety conditions, as they evaluate not only the indicators of traffic safety conditions but also the compliance of human, material, technical and technological resources with approved rules and regulations. Inconsistencies detected during inspections indicate the risk of traffic safety violations due to the following reasons:

Improper supply of material and technical resources, raw materials, supplies - 46%.

Low qualification of staff, carelessness - 16%.

Low-quality repair of technical equipment - 17%.

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.

To carry out its main tasks, the General Inspectorate uses internal guidelines and an action plan based on the company's experience and best practices from other railways.

In 2020, new rules were introduced for managing maneuvering work at locomotive depots and for protecting rolling stock. These changes reduced the amount of maneuvering work at depots and made it easier to detect and investigate safety violations.

To improve inspections and ensure they are consistent, new rules were created for maintaining train safety on Georgian Railway tracks. Updated instructions now allow for more precise recording and reporting of safety violations.

In line with modern standards, the updated guidelines for registering, investigating and classifying traffic safety violations provide clearer records and more transparent statistics. Inspectors follow new company standards approved in 2021, with weekly updates to management about inspections and violations. Immediate discussions address any issues. New safety norms will be applied to all technical department heads and line enterprise leaders to ensure that safety standards are followed at all sites.

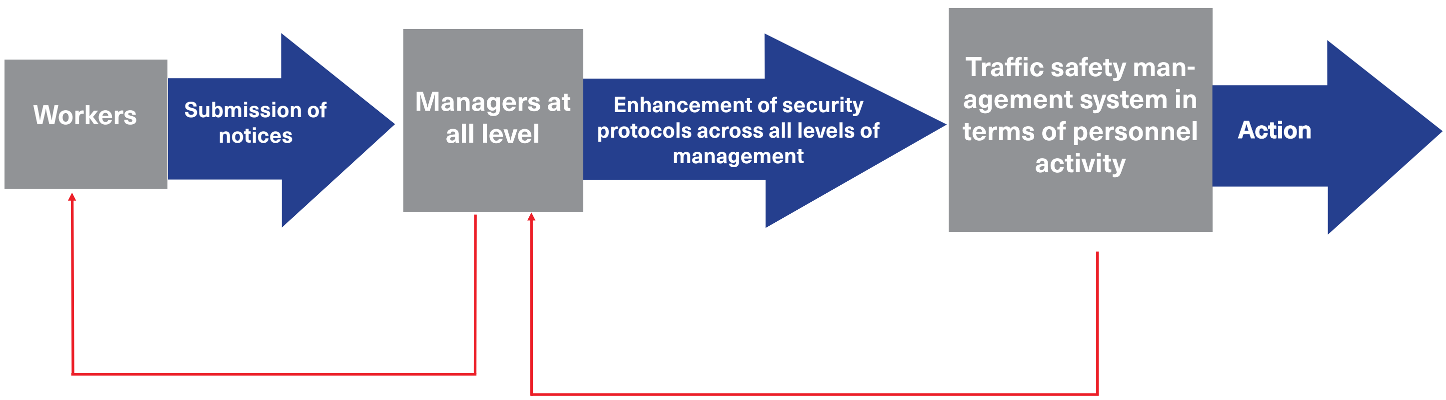
In 2023, another new normative document entered into force entitled “Instructions for Registration, Storage and Issuance of Brake Blocks to be Attached to the Rail of Rolling Stock.”

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 CULTURE

Efforts are being made to establish a safety culture, specifically defining acceptable methods for creating such a culture. The direction for creating and developing a safety culture should be based on initiatives from the heads of departments within GR and other organizations. This involves ensuring that all members of the organization understand the importance and social responsibility of ensuring traffic safety and achieving results, making it their priority goal and personal commitment when performing all tasks that affect traffic safety. Additionally, the traffic safety culture must encompass the entire cycle at all levels of interaction between executives and managers.

TRAFFIC SAFETY CULTURE



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.

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

HARMONIZATION WITH CERTAIN EU LEGISLATION

SUSTAINABLE DEVELOPMENT

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 here 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. In 2023, a new transport route emerged for transporting sulfur from Kazakhstan and Uzbekistan.

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

INFRASTRUCTURE ENHANCEMENT: The Company is focusing on upgrading its infrastructure to facilitate the growth of its freight service business. This includes developing container terminals and essential infrastructure to promote containerization along the Middle Corridor. In 2009, GR Logistics and Terminals was established with the goal of bolstering the Group's footprint in the container transportation market by expanding infrastructure like container terminals. Currently, GR has purchased 100 semi-wagons and plans to acquire an additional 300. Maintenance plans include repairing 31 electric and 26 diesel locomotives.

Additionally, the completion of the Baku-Tbilisi-Kars (BTK) route in 2024 will establish a new single-modal railway corridor from the Caspian Sea to Europe via Türkiye. The Group aims to capitalize on this route's volume growth potential by expanding its presence in this emerging trade route. With a projected capacity of 5.0 million tons annually, the line is expected to reach optimal loading levels upon the completion of construction works *(see 8.3 Infrastructure Developments in Georgia)*.

In addition, a new route from China to and through Georgia and on to Türkiye 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 established partnerships, GR is strategically expanding into new geographical markets. This includes leveraging its expertise and strengthening cross-border collaborations with railway and infrastructure companies. By diversifying the freight mix across different regions, GR aims to mitigate risks and capitalize on growth opportunities.

In 2023, the number of origin countries increased by 10 compared to 2022, reaching a total of 100. Additionally, on October 26, 2023, at the Tbilisi Silk Road Forum, JSC NC Kazakhstan Temir Zholy, JSC Georgian Railway and CJSC Azerbaijan Railways signed an agreement to establish Middle Corridor Multimodal LTD. This joint venture is aimed at enhancing multimodal services along the Trans-Caspian International Transport Route.

MARKET POSITIONING: Recognizing the significance of maintaining competitiveness in the freight service sector, the Company conducts ongoing market demand analyses and adjusts its tariff policy to ensure attractive and flexible fares for customers. The tariff policy was most recently updated on May 22, 2024, with details publicly accessible on the company's website. Emphasizing a customer-centric approach, the Company fosters enduring partnerships, engages in dialogue to grasp transportation needs and delivers innovative solutions across an expanded geographical footprint.

OPERATIONAL EFFICIENCY: The Company is dedicated to enhancing operational efficiency to sustain growth. By continually investing in digitalization and information exchange systems, it seeks to minimize downtime and streamline document processing. These efforts are aimed at optimizing freight traffic capacity, lowering costs and bolstering competitiveness. Currently, the company has invested GEL 6 million in software services with ongoing work and plans for an additional investment of 16 million GEL in this area.

MAINTAIN STRONG CUSTOMER RELATIONS THROUGH A FLEXIBLE TARIFF POLICY

Another strategic goal is to foster enduring customer relationships by implementing a flexible tariff policy. The Company acknowledges the importance of delivering high-quality services and competitive pricing options to meet evolving customer needs. Through continuous analysis of market demand and ongoing dialogue, GR aims to optimize its tariff system to enhance service appeal and bolster competitiveness in the railway industry. The company's tariff policy is transparently available on its website, reflecting its commitment to customer satisfaction and industry leadership.

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

CUSTOMER-CENTRIC TARIFF SYSTEM: The Company is dedicated to maintaining a customer-centric tariff system that responds effectively to market dynamics. Regular analysis of market demand ensures the continued attractiveness of the Caucasus Corridor's tariff structure. Additionally, the Group actively engages in ongoing dialogue with customers to facilitate 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."

TRANSPORTATION SOLUTIONS: As part of its dedication to fostering strong customer relations, the Company actively supports customers in navigating transportation solutions within the railway network. This involves exploring collaboration opportunities with neighboring railway networks to identify synergies that optimize freight transportation efficiency along the Middle Corridor. The emphasis is on delivering comprehensive, streamlined logistics solutions that enhance effectiveness throughout the process.

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 comparison. Through highlighting the (environmental and other) benefits of rail transport, such as lower CO2 emissions, reduced traffic delays and decreased risk of accidents, it seeks to position itself as a sustainable alternative. The Group also emphasizes the cost benefits of railway transportation, including lower maintenance and repair costs compared to road networks.

DEVELOP AND MODERNIZE EXISTING INFRASTRUCTURE

Another strategic objective is the ongoing development and modernization of existing infrastructure to ensure the efficient operation of its railway business. Through strategic investments in infrastructure, the Group aims to improve operational efficiency, expand throughput capacity and maximize asset utilization. GR's dedication to infrastructure development underscores its vision to deliver reliable and advanced railway services that cater to evolving customer demands.

To accomplish this particular strategic goal, the following main approaches are being deployed:

MODERNIZATION PROJECT: In addition to routine maintenance and capital repairs, the Group is undertaking a Modernization Project aimed at enhancing operational efficiencies and increasing throughput capacity across its mainline infrastructure. A central component of this initiative involves reducing track gradients in mountainous sections to minimize wear on wheels and tracks, reduce the need for additional locomotives and eliminate unnecessary stops to cool train brakes. The project also encompasses enhancements to tunnels, bridges, level crossings and the acquisition of new rolling stock. Notably, during the project, six tunnels and six bridges were completed. These strategic upgrades are anticipated to significantly decrease maintenance costs and extend the lifespan of infrastructure assets. Management estimates that upon completion, the Modernization Project will achieve a 10% reduction in operating costs on the affected sections. This capacity expansion effort aligns with the Group's strategic objectives to expand rail network capacity in line with projected volume growth. The Modernization Project is set to increase operational capacity to 48 million tons annually, supporting the Group's long-term infrastructure development and rolling stock investment goals *(see 8.2 Ongoing Projects of 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 *(see 7.5 World Business Solutions)*.

SAFETY AND REGULATORY COMPLIANCE: Safety and regulatory compliance are paramount in the development and modernization of the Group's infrastructure. GR prioritizes meeting or surpassing industry standards and regulations to safeguard the well-being of passengers, employees and the communities it serves.

INCREASE CONTAINERIZATION OF FREIGHT TRANSPORTATION

One of the Company's strategic objectives is to enhance the containerization of freight transportation within its railway operations. Containerization offers numerous benefits, including increased cost-effectiveness, efficiency and compatibility with intermodal transport systems, making it crucial for modern logistics. By expanding containerized freight services, the goal is to seize market opportunities, fulfill customer demands and strengthen GR's competitive position in the industry. Increased containerization rates along the Caucasus and Central Asia corridor will be instrumental in advancing these efforts, as container traffic provides significant value to freight operators with its cost-effectiveness and suitability for intermodal corridors.
To achieve this particular strategic goal, the following steps are being pursued:

INFRASTRUCTURE DEVELOPMENT: GR is actively investing in the development of container infrastructure and facilities along critical routes. This initiative includes establishing container terminals, depots and intermodal transfer points to facilitate smooth container movement within its network. Enhancing infrastructure will enable more efficient handling, storage and transshipment of containers, fostering the expansion of containerized freight transportation.

COLLABORATIVE PARTNERSHIPS: The Company is actively pursuing strategic partnerships with shipping lines, freight forwarders, logistics providers and other industry stakeholders to enhance its containerized freight services. These collaborations aim to improve end-to-end supply chain solutions, streamline processes and expand the range of containerized service offerings. By leveraging the expertise and networks of its partners, GR can create synergies and unlock new business opportunities.

Additionally, on October 26, 2023, JSC NC Kazakhstan Temir Zholy, JSC Georgian Railway and CJSC Azerbaijan Railways signed an agreement at the Tbilisi Silk Road Forum to establish Middle Corridor Multimodal LTD, a joint venture aimed at enhancing multimodal services along the Trans-Caspian International Transport Route.

In support of boosting containerization, the Company established GR Logistics and Terminals in 2009 to develop essential container infrastructure along the Black Sea and Central Asian routes. Over the past 15 years, this subsidiary has set up container terminals in port cities along the Black Sea and in Tbilisi. In 2014, the Group acquired 480 containers designated for transporting cargo through the corridor, addressing the need for expanded container transportation to Central Asia. Management anticipates that enhanced infrastructure will increase containerization rates and potentially attract new types of cargo *(see 7.4 Subsidiaries and Affiliates)*.

EQUIPMENT AND TECHNOLOGY UPGRADES: To support increased containerization, GR is actively investing in specialized equipment and technology. This includes procuring dedicated container wagons, handling equipment and digital systems for efficient tracking, monitoring and data exchange within its containerized freight services. By embracing these technological advancements, GR aims to enhance the reliability, transparency and overall operational efficiency of its container transportation offerings.

CUSTOMER-CENTRIC SOLUTIONS: GR focuses on developing customized solutions to meet the specific needs of customers in containerized freight transportation. This includes providing value-added services like container tracking, real-time information sharing and personalized delivery options. By offering flexible and customer-centric solutions, GR aims to attract and retain clients who seek reliable, efficient and cost-effective container transportation services.

HARMONIZATION WITH CERTAIN EU LEGISLATION

Since signing the Association Agreement with the EU in June 2014, which came into effect on July 1, 2016, Georgian Railway has embarked on a strategic path towards integrating Georgia into the EU. This commitment was reinforced by Georgia's accelerated application for EU membership in 2022. As a result, the Government of Georgia (GoG) is actively harmonizing business and regulatory standards to align with EU directives, particularly in the rail transportation sector.

Under the Association Agreement, Georgian Railway has undertaken significant commitments, particularly in implementing provisions of Directive 2012/34, which sets rules for managing railway infrastructure and operations. The company anticipates a potential restructuring in the future, including the establishment of a new holding company and the separation of strategic business units (SBUs) into wholly owned subsidiaries.

As Georgia progresses in its EU harmonization efforts, Georgian Railway faces increased regulatory scrutiny, impacting areas such as tariff setting, licensing and operational restructuring. The company is proactive in adapting to these changes, exemplified by the initiation of independent financial reporting for each SBU to comply with Directive 2012/34, enhancing transparency and accountability.

Furthermore, Georgian Railway has actively participated in EU-funded initiatives such as the twinning project led by the Polish Ministry of Infrastructure, aimed at modernizing Georgia's railway regulatory framework to meet EU standards. Operating under a strict "Code of Ethics and Conduct," the company ensures ethical business practices and operational integrity.

Looking forward, Georgian Railway remains committed to aligning with evolving EU legislation and standards, ensuring continued integration into the European market and fostering Euro-Atlantic partnerships through cooperation with NATO-led reform efforts and operations.

SUSTAINABLE DEVELOPMENT

GR’s sustainable development strategy is centered around minimizing its environmental footprint, fostering social responsibility and enhancing employee well-being. By employing the IPCC 2006 methodology, GR has successfully avoided significant CO2 emissions through the use of rail transport over alternative methods, achieving total avoided emissions of 172,852 tons in 2023 alone. This demonstrates GR's commitment to environmental sustainability, contributing to the reduction of greenhouse gas emissions and supporting global efforts to combat climate change. Over the past six years, GR’s total avoided emissions amount to 854,415 tons.

In addition to environmental initiatives, GR prioritizes social responsibility by investing in the welfare of its employees and the broader community. The company's efforts include creating safe and healthy working environments, ensuring competitive wages and fostering inclusivity. GR actively engages in social programs, such as offering financial assistance to socially vulnerable individuals and providing vocational education opportunities. This not only enhances the quality of life for employees but also supports the economic development of the community.

GR is also dedicated to continuous improvement and proactive measures to maintain its leadership in the railway sector. The Group’s sustainable development strategy includes regular evaluation and enhancement of its practices to ensure alignment with global sustainability standards. By focusing on environmental, social and governance (ESG) criteria, GR aims to create long-term value for stakeholders, drive innovation in the railway industry and contribute positively to Georgia’s environmental and social landscape.

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).

JSC GEORGIAN RAILWAY

Freight Transportation SBU	Passenger Transportation SBU	Infrastructure SBU	WBS	Freight Forwarding & Handling Subsidiaries	Property Management Subsidiary	Borjomi-Bakuriani Railway

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 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 from foreign railways using GR's railcars in the transportation process.

The Freight SBU is the principal source of the Group's revenue, accounting for 71% of its total revenue in 2023. Meanwhile, 77% of the Freight SBU's revenue in 2023 was generated from freight transportation.

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 under 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	2023	2022	2021	2023	2022	2021
LIQUID CARGOES	4,805	4,771	3,762	*35.5%*	*32.3%*	*31.0%*
OIL PRODUCTS	4,779	4,496	3,690	*35.3%*	*30.4%*	*30.4%*
CRUDE OIL	26	275	72	*0.2%*	*1.9%*	*0.6%*
DRY CARGOES	8,747	10,002	8,369	*64.5%*	*67.7%*	*69.0%*
ORES	1,758	1,925	1,874	*13.0%*	*13.0%*	*15.4%*
GRAIN AND GRAIN PRODUCTS	163	329	189	*1.2%*	*2.2%*	*1.6%*
FERROUS METALS AND SCRAP	506	625	576	*3.7%*	*4.2%*	*4.8%*
SUGAR	517	719	420	*3.8%*	*4.9%*	*3.5%*
CHEMICALS AND FERTILIZERS	1,644	1,859	1,337	*12.1%*	*12.6%*	*11.0%*
CONSTRUCTION FREIGHT	1,129	1,072	933	*8.3%*	*7.3%*	*7.7%*
INDUSTRIAL FREIGHT	683	594	415	*5.0%*	*4.0%*	*3.4%*
CEMENT	80	44	35	*0.6 %*	*0.3%*	*0.3%*
OTHER	2,268	2,834	2,590	*16.7%*	*19.2%*	*21.4%*
TOTAL	13,551	14,773	12,131	*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 both 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, Türkiye 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. Of note, 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 Türkiye); (ii) Black Sea ports-Azerbaijan; (iii) Black Sea ports-Armenia; and (iv) Black Sea ports-Tbilisi.

The following table sets out the primary directions of certain types of cargo transported by the Freight SBU:

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

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

IMPORT	From Russia, Azerbaijan, Bulgaria, Turkmenistan and Armenia;
EXPORT	To Kazakhstan, Armenia, Russia, Azerbaijan and Bulgaria;
DOMESTIC	From Dedoplistskaro to Rustavi, from Chiatura to Zestaponi, from Kaspi to Rustavi, from Dedoplistskaro to Kaspi, inside Chiatura and from Rustavi to Parto Tskali;
TRANSIT	From Azerbaijan, Kazakhstan, Turkmenistan, Brazil and Russia to Türkiye, Azerbaijan, Netherlands, Armenia and Italy.

The following table breaks down the Freight SBU's freight transportation volumes by direction of freight transported for the years indicated:

FREIGHT VOLUME BY DIRECTION

	Mln tons			*% of total*		
For the year ended 31 December	2023	2022	2021	2023	2022	2021
LIQUID CARGOES	4.8	4.8	3.8	*35.5%*	*32.3%*	*31.0%*
TRANSIT	3.2	3.4	2.6	*23.7%*	*22.8%*	*21.4%*
EXPORT	0.0	0.0	0.0	*0.2%*	*0.3%*	*0.2%*
IMPORT	1.4	1.2	1.1	*10.0%*	*8.1%*	*8.7%*
LOCAL	0.2	0.2	0.1	*1.5%*	*1.1%*	*0.7%*
DRY CARGOES	8.7	10.0	8.4	*64.5%*	*67.7%*	*69.0%*
TRANSIT	4.5	5.3	4.1	*33.1%*	*35.7%*	*34.1%*
EXPORT	1.1	1.2	1.1	*8.3%*	*8.3%*	*9.4%*
IMPORT	1.7	1.8	1.3	*12.6%*	*11.9%*	*11.0%*
LOCAL	1.4	1.7	1.8	*10.5%*	*11.7%*	*14.5%*
TOTAL	13.6	14.8	12.1	*100.0%*	*100.0%*	*100.0%*

The following table presents data about the number of railcars and containers operated by the Freight SBU:

NUMBER OF RAILCARS TRANSPORTED AND SHARE OF CONTAINERIZED CARGO IN TOTAL FREIGHT

For the year ended 31 December	2023	2022	2021
NUMBER OF WAGONS	203,552	221,720	180,419
% change	*-8%*	*23%*	*11%*
SHARE OF CONTAINERIZED CARGO IN TOTAL CARGO FLOWS	10.4%	10.2%	9.9%
NUMBER OF CONTAINERS	71,947	68,357	57,111
% change	*5%*	*20%*	*-13%*
NUMBER OF CONTAINERS IN TEU	97,602	88,363	74,196
% change	*10%*	*19%*	*-10%*

The following table sets out data with respect to the volumes of freight transported in containers for the periods indicated:

CONTAINERIZED FREIGHT

'000 tons

For the year ended 31 December	2023	2022	2021
DRY CARGO	8,747	10,002	8,369
of which: container cargoes	*1,392*	*1,498*	*1,198*
TOTAL CARGO	13,551	14,773	12,131
Containers as % of total cargo (%)	*10%*	*10%*	*10%*
Containers as % of dry cargo(%)	*16%*	*15%*	*14%*

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).

A primary strategic goal of the Group is to enhance efficiency in both cost management and core operations. Consequently, the Group is eager to raise containerization rates within the Caucasus Railway Corridor. Container traffic holds considerable importance for freight operators because container transport services offer cost-effectiveness and greater flexibility compared to standard wagon transport.

To boost containerization efforts, the Company established a subsidiary named GR Logistics and Terminals LLC in 2009. The primary objective of this subsidiary was to establish and develop container infrastructure along the route connecting the Black Sea and Central Asia. Subsequently, the subsidiary has established container terminals in the port cities of Georgia along the Black Sea as well as a container terminal in Tbilisi. In 2014, the Group acquired 480 containers with the aim of facilitating cargo transportation through the Georgian segment of the Caucasus Railway Corridor, aiming to enhance the limited movement of containers to Central Asia via sea routes. The Group's management asserts that the availability of adequate infrastructure would elevate containerization rates and potentially introduce entirely new cargo streams 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

Courtesy of having its own freight railcars and locomotive fleet, the Group is able to offer wagons to its clients 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 the country in which they operate. 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 better service to its customers and increase its competitiveness, GR entered the freight forwarding business in 2013. The Group also negotiates with neighboring railways to ensure competitive pricing for the TRACECA.

Its top five liquid cargo customers accounted for 43% of total liquid freight transported in 2023. Meanwhile, in terms of dry cargo, its top five customers accounted for 37% of total dry freight transportation in 2023. Furthermore and crucially, 90% of the cargo volume transported during the last five years were through repeat business from the same companies, which indicates stability with regard to the list of customers.

The Freight SBU generally does not enter into binding long-term contracts with its customers, allowing it to maintain operational flexibility and 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. Thus, 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 the methods and formulas used to determine the various tariffs applicable to its services. The main tariffs and charges for its services are laid out below:

- Transportation tariffs for transportation from one station to another;
- Station charges for the provision of services, railcars, or locomotives to support the loading or unloading of cargo at a 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 fluctuations, 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 2023 (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 64.7%) in USD in 2023, about 2.7% of total revenue was in Swiss Francs (CHF) and 32.5% 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	2023	2022	2021
Oil products	9.8	10.1	12.8
Crude oil	3.7	4.2	4.8
Dry cargo	8.7	9.1	9.7

Average tariffs are calculated as freight traffic revenue (excluding 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 in Tetri per ton-kilometer, unless otherwise indicated.

The Group offers a discount on its freight tariffs to customers who transport cargo using their own railcars and are basically charged only for infrastructure usage and locomotive traction. Looking ahead, the Group is carefully 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 7% of the Group's total revenue for the year ended 31 December 2023.

Among the Group's medium-term strategic objectives are to optimize expenses and boost the revenue of the Passenger SBU by increasing the number of passengers and revenue per passenger. To achieve these objectives, the Group aims to introduce a higher level of service by investing in new railcars (or improving existing railcars) and to provide quicker speed and greater comfort when using the Group's passenger transportation services. The Group aims to do so by taking 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.

Under the Association Agreement with the EU, Georgia must align its laws with certain EU rules, including those on social market economy principles. This means the Georgian government (GoG) must compensate the Group for losses from its passenger transportation business and provide subsidies for some Infrastructure SBU activities. In 2020, Georgia's Parliament amended the Railway Code to recognize passenger rail services as a public service obligation and banned using freight transportation profits to support passenger services, as required by EU regulations.

By 2024, the Company and the GoG need to sign a public service contract to cover losses from passenger services. This agreement is expected to positively impact the Group's revenue, though the exact effect will be clear only after the contract details are settled.
(see 6. The Company's Strategy for a Sustainable Future)

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

GEL '000

For the year ended 31 December	2023	2022	2021
	9,955	15,533	21,307

In line with government regulations to combat the spread of the coronavirus, 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 distancing was required of passengers;
- Thermal screening and disinfection barriers were introduced; and
- Passenger EMUs were sterilized on a regular basis.

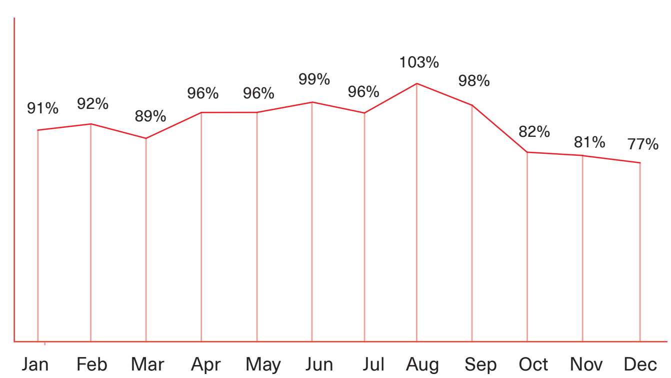
CUSTOMERS

The Passenger SBU provides domestic and international transportation services.

As GR's lines are linked to Azerbaijan and Armenia and international rail transportation is offered to both of these countries. After the completion of the BTK project *(see 8.3 Infrastructure Developments in Georgia)*, it will be possible to transport passengers to Türkiye 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 THE MAINLINE IN 2023



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 meet the needs of PwDs.

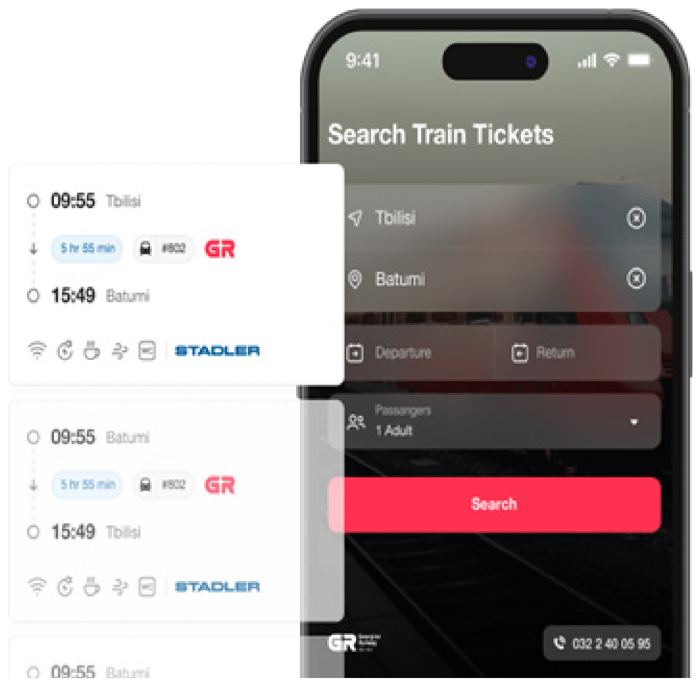
The Passenger SBU adjusts its train schedules to meet customers' needs, so trains are added when the demand is sufficiently high.

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 in that year, followed by about 63,000 in 2023.

OUR APP (TRE.GE – TRAIN TICKETS)

Georgian
Railway Tickets

To enhance and streamline its service, Georgian Railway has developed an app allowing users to conveniently purchase tickets using a user-friendly payment system. As of 15 November 2023, this app can be downloaded from the App Store and Google Play Store. TRE.GE is the only Android app in Georgia dedicated to train ticket bookings.



Download on the App Store

GET IT ON Google Play

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

For the year ended 31 December	2023	2022	2021
REVENUE			*GEL '000*
MAINLINE	39,349	25,854	14,239
REGIONAL	559	319	57
INTERNATIONAL	1,311	1,250	511
TOTAL	41,219	27,423	14,808
NUMBER OF PASSENGERS			*'000*
MAINLINE	1,528	1,161	708
REGIONAL	715	395	92
INTERNATIONAL	41	48	16
TOTAL	2,283	1,605	816
NUMBER OF COURSES*			
MAINLINE	2,762	2,407	1,903
REGIONAL	3,908	2,491	955
INTERNATIONAL	180	233	184
TOTAL	6,850	5,131	3,042

**A course means the train movement from one station to another in the same direction.*

When it comes to customer relations as well as sales and marketing, points of sale for tickets are the primary element for the Passenger SBU. 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 credit cards 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. However, in many cases, passenger transportation tariffs are not determined by market forces and 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 the Tbilisi-Batumi-Tbilisi Stadler trains by 40% on 25 July 2022, but prices for other services have 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 presents data on the Group's passenger tariffs for the years indicated:

AVERAGE TARIFF PER PASSENGER-KILOMETRE

Tetri

For the year ended 31 December	2023	2022	2021
Average revenue per passenger-km	6.0	5.7	5.4

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

Average revenue per passenger-km increased by around Average revenue per passenger-km increased by around 6% in 2023, compared to 2022. This rise was driven largely by an increased share for more profitable routes and services (such as the mainline) and increased demand for business class tickets. The number of passengers on the mainline represented 67% of total passengers transported by the Group in 2023, compared to 72% in 2022. The main reason for the decrease in the share of the main route in 2023 was the share of regional transport, which was 1.8 times higher than in 2022.

AVERAGE REVENUE PER PASSENGER

GEL

For the year ended 31 December	2023	2022	2021
MAINLINE	25.8	22.3	20.1
REGIONAL	0.8	0.8	0.6
INTERNATIONAL	32.2	25.8	32.2
AVERAGE TARIFF	18.1	17.1	18.2

**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, Ukrainian IDPs and Group employees). In 2023, the total discounted amount was GEL 2.3 million, compared to GEL 1.5 million in 2022.

The Group offers three classes of passenger service with tariffs 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 still 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 primary 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 increases 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), 98% of which 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 serving 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 network as well after the BTK railway line became operational in 2017 *(see 8.3 Infrastructure Developments in Georgia).*

The Infrastructure SBU focuses on keeping the Group's infrastructure assets in good working condition. Of note, capacity varies across the Group's different lines. As of 31 December 2023, the estimated annual capacity of the gorge section, which is the main bottleneck on the mainline, was 27 million tons of cargo. In 2023, in connection with the Modernization Project, the Infrastructure SBU made capital repairs (not including minor, non-technical repairs) to, or renovated, approximately 34.1 km of track, as compared to capital repairs or renovations of approximately 17.9 km in 2022. In total, 26.7 km and 36.3 km of railway tracks were repaired in 2022 and 2023, respectively. During the year ended 31 December 2023, the Group paid GEL 139.3 million on the acquisition of property and plant and equipment, including rolling stock and equipment and the rehabilitation of important infrastructure assets, including rail tracks, electric power supply lines, bridges and tunnels compared to GEL 135.0 million in 2022 and GEL 77.2 million in 2021, respectively.

INFRASTRUCTURAL 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 boost 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 of the Company).*

SOCIO-COMMERCIAL PROJECT

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

7.4 SUBSIDIARIES AND AFFILIATES

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

The share of revenue from logistics services (i.e. revenue generated by GR's subsidiaries) in total revenue amounted to 21.4% in 2023, compared to 18.2% in 2022.

LOGISTICS REVENUE

GEL '000

For the year ended 31 December	2023	2022	2021
REVENUE FROM LOGISTICS SERVICES	132,213	123,071	69,371
% share in total revenue	*21%*	*18%*	*13%*

LOGISTICS REVENUE FROM SUBSIDIARIES

GEL '000

For the year ended 31 December	2023	2022	2021
GR LOGISTICS AND TERMINALS LLC	83,038	58,409	25,222
% share in total revenue from logistics services	*63%*	*48%*	*36%*
GR TRANSIT LINE LLC	23,828	23,993	22,703
% share in total revenue from logistics services	*18%*	*19%*	*33%*
GR TRANSIT LLC	25,348	40,668	21,445
% share in total revenue from logistics services	*19%*	*33%*	*31%*
TOTAL REVENUE FROM LOGISTICS SERVICES	**132,213**	**123,071**	**69,371**

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 Caucasus Railway Corridor. Its corporate objectives are 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 Railway Corridor. To foster greater containerization, GR Logistics and Terminals has built and currently operates two terminals, one in Poti and the other in Tbilisi. The share of revenue from GR Logistics and Terminals LLC in the total logistics revenue amounted to 62.8% in 2023, compared to 47.5% in 2022.

For the year ended 31 December	2023	2022	2021
NUMBER OF CONTAINERS TRANSPORTED	44,808	47,391	34,964
NUMBER OF CONTAINERS IN TEUS	64,449	63,531	48,203

GR TRANSIT LLC

In 2013, the Company acquired Georgia Transit LLC (later renamed GR Transit LLC) to integrate liquid cargo logistics services into its business operations. 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 18.8% in 2023, compared to 33.0% in 2022.

'000 tons

For the year ended 31 December	2023	2022	2021
CRUDE OIL	21.8	266.9	70.0
OIL PRODUCTS	2,467	2,466	1,900

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 17.7% in 2023, compared to 19.5% in 2022.

'000 tons

For the year ended 31 December	2023	2022	2021
AZERBAIJANIAN DIRECTION	46.9	49.3	27.8
ARMENIAN DIRECTION	462.8	439.4	384.7

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 Railway 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 scheduled railway operations, the Company is planning to carry out significant works to maintain and improve it.

**Due to the COVID-19 pandemic, the mentioned route stopped running in 2020 and services on it have not been resumed since.*

7.5 WORLD BUSINESS SOLUTIONS

GR has gained a lot of experience in IT solutions and serving clients both locally and internationally. In 2016, the IT division was renamed World Business Solutions (WBS) to become more flexible. Today, WBS is one of the Company's key divisions.

INFORMATION TECHNOLOGY

The Group uses advanced IT systems and custom software to manage logistics, dispatch and tracking for rolling stock and freight. Most of their software is developed in-house to fit their specific needs. This includes:

- A central system for billing and managing freight documents;
- Real-time monitoring and control for rolling stock;
- Software to track container, railcar and train movements at stations;
- An electronic ticketing and accounting system for passenger transport;
- Multi-purpose software for handling initial accounting documents, electronic signatures, financial and tax accounting, budgeting and treasury tasks.

The Group also uses enterprise resource planning software SAP S/4HANA, which incorporates the main business functions comprised of fourteen modules. All such modules are fully deployed and customized in accordance with the specific requirements of the Group.

HARDWARE

The Group uses top hardware providers like Hewlett-Packard Enterprise, Dell Technologies, F5 Inc. and Cisco Systems. Its setup includes two connected data centers: the main one and a backup, located 360 kilometers apart for safety and data recovery. Both centers have Blade servers, data storage and network security equipment.

Servers are managed through a central system, ensuring smooth operation between the main and backup centers. Data transfer from the main center to the backup takes between seven and twenty-seven seconds.

The Group regularly backs up data with Dell EMC Data Domain. If there's a problem, data can be restored from the backup center within two to three hours.

The Group's network, which spans 636 kilometers and uses fiber optic cables alongside railway tracks, is entirely owned by the Group. Security is enhanced with Next-Generation and Web Application Firewalls to keep IT networks and services secure.

INFORMATION SECURITY

The Group uses multiple layers of security to protect its services and IT networks from cyber threats. Here's how it works:

Network Defense: The Group uses a Next-Generation Firewall to block unauthorized access and external threats.

Web Traffic Protection: Web Application Firewalls are in place to filter and monitor incoming web traffic, catching threats that target application vulnerabilities.

Regular Updates: The Group updates its network devices weekly, including threat information, virus signatures and security certificates, to keep defenses current.

Incident Response: If a cyberattack or security breach occurs, the Group follows a strong incident response plan based on ITIL best practices and internal policies to quickly address and contain the issue.

The Group is dedicated to information security, shown by several proactive measures. In 2014, it started implementing policies for managing security, protecting networks and backing up data to keep sensitive information safe.

In 2018, the Group set up an information security council to oversee new policies and improve security. This council also developed an internal framework in line with ISO/IEC 27001 standards, showing the Group's strong commitment to high security standards.

In 2022, the Group launched projects to strengthen its information security and comply with the Law on Information Security, adding processes for regular and ongoing security monitoring and response.

In March 2023, the Group, in collaboration with UGT, implemented a Containerized Data Center. This migration was smooth and the new data center meets international standards for security, temperature control and humidity. This ensures uninterrupted IT services and keeps data secure.

INFORMATION TECHNOLOGY PROJECTS

The Group implemented the following primary information technology projects in 2023:

- **Improvement of the Information Security processes.** This Project aims to analyze the existing InfoSec processes and reorganize them based on industry best practices;
- **Pre-filling of consignment notes.** Is based on information received from neighboring railway administrations;
- **Electronic system for train and station operations.** This Project involves dispatching and controlling completed works;
- **Different IT infrastructure update and upgrade projects.**

8.BUILDING A VALUABLE SUPPLY CHAIN

Another of the Group's key strategic objectives is 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 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 to better fulfill its transit potential and attract new types of cargo.

TRANS-CASPIAN INTERNATIONAL TRANSPORT ROUTE (TITR)

The Middle Corridor, also known as the Trans-Caspian International Transport Route (hereinafter referred to as TITR), starts from Southeast Asia and China, runs through Kazakhstan, the Caspian Sea, Azerbaijan and Georgia and then on to European countries.

Objectives of the TITR Association:

- Attraction of transit and foreign trade cargo;
- Development of integrated logistics products;
- Development of an integrated solution (technology) for the transportation process;
- Promotion of the TITR's competitiveness against alternative routes;
- Operation of an effective tariff policy, optimization of costs and reduction of prices for an integrated service; and
- Reduction of administrative barriers related to the border and customs procedures and as well as to the shipment processing.

- Regular Members - 8 companies;
- Associate Members - 17 companies;
- Partners - 5 companies.

REGULAR MEMBERS OF THE ASSOCIATION

THE RIGHTS OF REGULAR MEMBER

- Participate in the administration of the Association with voting rights;
- Make decisions in scheduled and special Common Meetings;
- Form the Common Meeting agenda;
- Elect the Managing Board;
- Offer suggestions to the Managing Board and join discussions;
- Propose candidates and be elected to the Managing Board;
- Convene of an extraordinary Common Meeting;
- Receive consultations on various matters;
- Appoint representatives for meetings and working groups.

THE RIGHTS OF ASSOCIATE MEMBER

- Attend Common Meetings with an advisory vote;
- Participate in discussions about Association activities;
- Submit proposals to the Managing Board;
- Receive updates on Association activities;
- Follow Association guidelines and decisions in their work;
- Appoint representatives for meetings and working groups.

PARTNERS OF THE ASSOCIATION

**The partners of the TITR consist of logistics companies essential for cargo transportation and facilitating trade along the Corridor connecting Europe and Asia.*

In 2016, GR signed an agreement with Azerbaijan Railways and Kazakhstan Railways to create the Trans-Caspian International Transport Route (TITR). By 2017, the Association Coordination Committee was formed and now eight countries are involved: Kazakhstan, Azerbaijan and Georgia (the founding members), plus China, Türkiye, Ukraine, Poland and Romania. In 2023, Singapore, Bulgaria and Lithuania also joined.

The TITR aims to improve the Middle Corridor, attract more freight to the Caucasus Corridor, reduce administrative barriers and streamline cargo processing across different locations.

Starting in 2016, Georgia, Azerbaijan, Kazakhstan and Ukraine agreed on standardized competitive tariffs for the route. This agreement, signed in Baku, sets competitive rates for transporting goods between China, Central Asia, the Black Sea region, Ukraine and Europe. Regular transport services are provided at these approved rates, which are reviewed and set for the coming freight year and must be followed by all operators.

FREE TRADE AGREEMENTS (FTAs)

The Free Trade Regime entails the liberalization of trade, eliminating customs import taxes among participating nations with specific mutually accepted exceptions.

Georgia has established a Free Trade Regime with several entities, including all the Commonwealth of Independent States (CIS) countries, Türkiye, the European Union (EU), China and the European Free Trade Association (EFTA)[1].

1994 — **COMMONWEALTH OF INDEPENDENT STATES**

The Multilateral Free Trade Agreement on a Free Trade Area among the CIS countries (for Georgia entered into force in 1999 and continues to be used in trade with CIS countries except Russia and Turkmenistan)

1994 — **RUSSIA**

The Bilateral Free Trade Agreement between Georgia and Russia (entered into force in 1994)

1995 — **UKRAINE AND ARMENIA**

The Bilateral Free Trade Agreement between Georgia and Ukraine and Georgia and Armenia (in force from 1996 to 2002)

1996 — **AZERBAIJAN**

The Bilateral Free Trade Agreement between Georgia and Azerbaijan (in force from 1996 to 2002)

1996 — **TURKMENISTAN**

The Bilateral Free Trade Agreement between Georgia and Turkmenistan (entered into force in 2000)

1997 — **KAZAKHSTAN**

The Bilateral Free Trade Agreement between Georgia and Kazakhstan (in force from 1999 to 2002)

2002 — **UKRAINE, AZERBAIJAN AND MOLDOVA**

The GUAM (Georgia, Ukraine, Azerbaijan and Moldova) Free Trade Agreement (entered into force in 2003)

2007 — **TÜRKIYE**

The Free Trade Agreement between Georgia and Türkiye (entered into force in 2008)

2014 — **EUROPEAN UNION**

The agreement establishing a deep and comprehensive free trade area (DCFTA) between Georgia and the EU (entered into force in 2016)

2014 — **CHINA**

The Free Trade Agreement between Georgia and China (entered into force in 2018)

2016 — **EUROPEAN FREE TRADE ASSOCIATION**

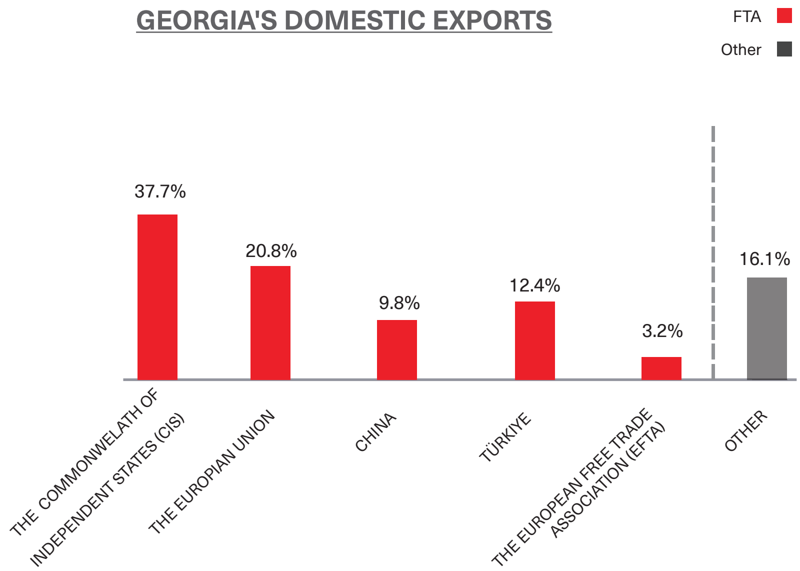
The Free Trade Agreement between Georgia and the EFTA (entered into force in 2017 for Iceland and Norway and in 2018 for Switzerland and Liechtenstein)

2016 — **HONG KONG**

The Free Trade Agreement between Georgia and Hong Kong (entered into force in 2019)

[1] Intergovernmental organization comprising Iceland, Liechtenstein, Norway and Switzerland, established in 1960.

More than 83% of Georgia's domestic exports[1] in 2023 were sent to countries with which it has an FTA. In 2023, significant shares of its domestic exports were distributed as follows:



Source: National Statistics Office of Georgia (Geostat)

JOINT VENTURE (JV)

On 26 October 2023, JSC NC Kazakhstan Temir Zholy, JSC Georgian Railway and CJSC Azerbaijan Railways signed an agreement to establish Middle Corridor Multimodal LTD - Joint Venture (JV). The latter's aim is to advance multimodal services along the TITR. This landmark agreement was signed at the Tbilisi Silk Road Forum and underscores the collaborative efforts of the three countries' railway networks to promote the transportation of goods across the region. Middle Corridor Multimodal LTD, is headquartered in the International Financial Center "Astana".

The following activities are to be carried by this business-oriented JV:

- Organization of freight transportation at domestic and international levels;
- Provision of multimodal and transportation and logistics services on the TITR;
- Transportation and expediting services;
- Implementation of construction, reconstruction and renewal of fixed assets;
- Implementation of intermediary, trade and procurement and supply activities;
- Tariff formation, calculations and sales systems of relevant transportation and logistics services.

[1] Domestic exports include exports of goods produced in the country, as well as imported from abroad, the value of which has significantly changed or increased as a result of domestic processing.

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;
- Elimination of 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 concentrates on improving the Group's mainline, 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 which is 40 km long. The topography of said region complicates rail operations there, 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 thus to decrease the track gradient in the gorge section, which is expected to reduce electricity expenses. In addition, a gentler gradient is expected to decelerate wear and tear on wheels and tracks, which would in turn lower maintenance expenses, decrease the need for extra locomotives in that section and reduce the measures and time needed to cool brakes. Specifically, 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 tons per annum courtesy of 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. 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, as well as power and electric traction lines. Encouragingly, as of 31 December 2023, about 98.5% of the total work on the Modernization Project had been completed. The Project is expected to be completed in 2024.

PROCEEDS ALLOCATED TO THE RAILWAY MODERNIZATION PROJECT

MLN GEL

For the year ended 31 December	2023	2022	2021	2020	2019	2018
	70.5	44.6	38.7	24.8	38.7	98.5

8.3 INFRASTRUCTURE DEVELOPMENTS IN GEORGIA

BAKU-TBILISI-KARS → POTI SEA PORT → BATUMI SEA PORT → ANAKLIA DEEP WATER SEA PORT

These ongoing projects in Georgia are also in line with the strategic goals of the Group.

BAKU-TBILISI-KARS

The Baku-Tbilisi-Kars (hereinafter referred to as BTK) Project was established in 2007 under the directive of the Ministry of Economic Development of Georgia with the State having a 100% share. The Project, which includes the rehabilitation of the Marabda-Kartsakhi railway section and the construction of the railway line from Akhalkalaki to the border with Türkiye, is designed to connect Azerbaijan and Türkiye via Georgia through a railway link. This railway corridor thus reaches Europe courtesy of the Marmaris Project (a railway tunnel under the Bosporus), providing a safe, fast and relatively short route through which to transport goods from Asia to Europe and vice versa. Once completed, this will represent a new rail-only corridor from the Caspian Sea to Europe via Türkiye, potentially replacing sea transportation.

The BTK Project comprises two stages. In the first stage, the cargo capacity on the route will reach 5 million tons per year with a potential increase to 15 million tons upon infrastructure modernization in the second stage. Passenger transportation is also earmarked under the Project, with an initial maximum annual throughput capacity estimated at 1 million passengers.

The Georgian segment of the new Baku-Tbilisi-Kars railway line features 22 bridges, 13 stations, 24 overpasses, 4 snow protection galleries and a border railway tunnel connecting Georgia and Türkiye. The tunnel's total length is 4,400 meters with 1,840 meters situated on the Georgian side. The line comprises two different gauge types: the broad gauge (1,520mm) from Baku to Akhalkalaki; and the standard gauge (1,435mm) from Akhalkalaki to Kars. A lift-off-lift-on service is already operational to facilitate the gauge change.

According to the Project's credit agreement, USD 775.0 million from Azerbaijan was divided into tranches A and B. Tranche A, amounting to USD 200.0 million, was fully utilized by the end of 2011, while Tranche B amounted to USD 575.0 million.

Construction of the BTK line commenced in 2009 and was managed by Marabda-Kartsakhi Railway LLC with two primary contractors: JSC Azerbaijan Railways on the Marabda-Akhalkalaki railway section and Azer Insaat Service LLC on the Akhalkalaki-Kartsakhi section.

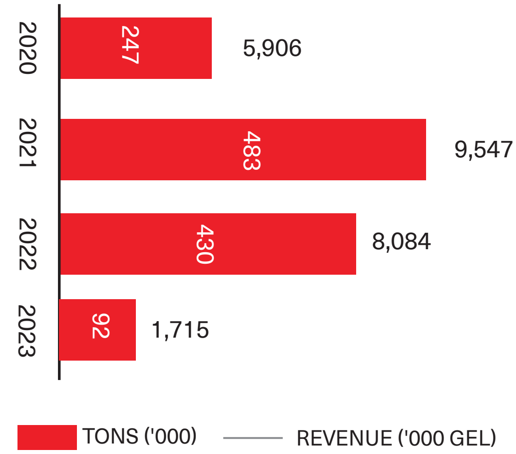
BAKU-TBILISI-KARS LINE

For the year ended 31 December	2023	2022	2021
Revenue *(GEL '000)*	*1,715*	8,084	9,547
% change	*-79%*	*-15%*	*62%*
Volumes *('000 Tons)*	*92*	430	483
% change	*-79%*	*-11%*	*95%*
Number of containers in TEU	*5,264*	19,739	20,492
% change	*-73%*	*-4%*	*96%*
Number of containers transported	*3,540*	13,911	12,756
% change	*-75%*	*9%*	*73%*
Number of railcars transported	*121*	1,982	3,642
% change	-91%	*-46%*	*88%*

The test regime on BTK line 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. The volume of cargo transported decreased however by 53,000 tons (11%) in 2022, compared to 2021.

In 2023, transportation on the line was temporarily stopped due to the acceleration of construction works to secure planned finalization of the BTK Project in 2024. After its finalization, the Project should open up a completely new geographical market to GR through easier rail operations with Türkiye.

BAKU-TBILISI-KARS LINE



BLACK SEA PORTS

Currently, three ports are operational in Georgia: Poti Sea Port, Batumi Sea Port (hereinafter BSP) and Parto Tskali (Kulevi). In addition, there is also a liquid cargo terminal in Supsa. Poti Sea Port is under the ownership of APM Terminals (hereinafter APMT), whereas BSP is managed and was established by Kazakh Kaztransoil. Poti Sea Port is the largest of Georgia's ports and a major hub for container handling, bulk cargo and other cargo. Meanwhile, BSP primarily handles bulk cargo, including oil, oil products and fertilizers, as well as other cargo. Parto Tskali (Kulevi) serves as an oil terminal, handling the storage and transshipment of crude oil and refined petroleum products. Elsewhere, the liquid cargo terminal in Supsa specializes in handling liquid bulk cargo, particularly crude oil.

COMPARATIVE ANALYSIS OF POTI SEA PORT AND BATUMI SEA PORT

	POTI SEA PORT	BATUMI SEA PORT
ANNUAL CAPACITY, TEU	650,000	200,000
PROJECTED CAPACITY, TEU	1,000,000	-
BREAKWATER LENGTH	1,800 m	-
THROUGHPUT CAPACITY	13 mln tons	18-20 mln tons
BERTHS	15	11
TERMINALS	4	5

The Georgian State's pivotal role predominantly centers on policymaking and creating regulatory mechanisms within the maritime sector, encompassing a broad array of vital responsibilities that are crucial for the effective and safe operation of maritime activities within the country. These responsibilities include:

- Vessel traffic management;
- Maritime safety and security;
- Search and rescue at sea;
- Marine pollution response; and
- Control of the national merchant fleet and seafarers.

POTI SEA PORT

Poti Sea Port is a major seaport located on the eastern Black Sea coast in Poti, Georgia. It is one of the largest and busiest ports in the country, serving as a key gateway for international trade between Europe and Georgia, Armenia and Azerbaijan and is connected by railway to the main cities of Georgia. The port's operations have a substantial impact on the local and national economy.

In April 2011, APM Terminals[1] acquired the Port and undertook extensive renovations, investing a total of USD 80.0 million in upgrading infrastructure and service facilities. This included the development of new rail and truck loading facilities, as well as the construction of a new customs center. In May 2013, the Company established a grain processing terminal (Ltd Potis Marcvleulis Terminali) capable of handling 500,000 tons annually. This terminal offers a new export route for wheat from Central Asia to the Mediterranean and the Black Sea region.

The Poti Expansion Project

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

In 2020, APMT Poti presented the Poti Expansion Project to the GoG in two phases. The first phase entails the construction of a 1,700-meter breakwater and a 400-meter multipurpose quay, with a depth of 13.5 meters. It is designed to handle dry bulk cargo and accommodate an additional 150,000 TEUs. The quay will be able to accommodate container vessels of up to 9,000 TEUs. The second phase will involve the establishment of a 300-meter container quay, equipped with three state-of-the-art STS cranes[2]. This development is poised to effectively increase the annual container capacity at Poti Sea Port, surpassing 1 million TEUs.

The Company intends to invest approximately USD 250 million for the first phase, albeit negotiations with the GoG are still ongoing. The Company plans to start construction works in 2024.

[1] A port operating company based in the Netherlands, which serves as a branch of the Transport and Logistics Division of the Danish shipping company Maersk.
[2] Advanced equipment used in container terminals to load and unload ships efficiently, thereby enhancing productivity at ports.

APM Terminals Poti's multi-million-dollar investment plan

In 2021, APMT announced a new strategy - "Safer, Better, Bigger". In line with its strategy, APMT Poti initiated a multi-million-dollar investment plan aimed at modernizing the current infrastructure and equipment at Georgia's largest port. The main objectives of the plan are to increase capacity, improve safety and efficiency and reduce the adverse environmental impact.

As part of the multi-million-dollar investment, APMT Poti accomplished the reconstruction of Poti Port's 150-year-old, 1850-meter-long main breakwater, which is critical to protect the Port from maritime forces and ensure safer conditions for vessels. Commencing in April 2021, APMT Poti undertook the reconstruction efforts and completed the Project within two years. The breakwater was constructed using rubble mound rock and 7,200 concrete blocks produced in Georgia. Overall, the Project cost around USD 25 million.

In 2023, APMT Poti's investment in its "Safer, Better, Bigger" operations was demonstrated through the following:

Enhanced bulk cargo discharge efficiency

Poti Port's most recent purchase of two 40m3 Hydraulic Bulk Discharge Hoppers enables more efficient discharge of bulk cargo while minimizing dust and cargo loss. Additional investments have involved procuring equipment such as an Excavator, a Front-End Wheel Loader and a Skid Steer Loader.

Decreased spillage

The abovementioned hoppers also enhance cargo handling and environmental performance by significantly decreasing spillage onto the quay through controlled cargo release.

Safe and environmentally friendly rotainers

A substantial investment has been made in 80 rotainers, offering one of the most eco-friendly and effective methods for transporting and loading bulk cargo. These rotainers ensure no spillage and a significant decrease in dust emissions during vessel loading processes.

To enhance efficiency throughout APMT Poti's berths, two new 12 m3 Grabs were purchased for use in conjunction with the new hoppers, enabling the simultaneous discharge of bulk cargo at two berths. Furthermore, APMT Poti has procured a material handler for efficient unloading and loading of smaller vessels. This equipment will also be utilized to enhance cargo reception and dispatch operations at the port.

Furthermore, to address increasing volumes of imported cars, two 16 Ton Forklifts have been integrated into the current fleet to expedite operations and ensure their safety.

Poti Türkiye Feeder (PTF) Service

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

In September 2022, APMT Poti welcomed the maiden call of the new Poti Türkiye Feeder (PTF) Service from shipping line ZIM[1]. This new direct service expands its offerings between Türkiye and Georgia.

In particular, the 925 TEU Contship Joy operates between Turkish ports and Poti Port every 12-14 days. Crucially, the new service expands Poti's global connectivity even further via ZIM's worldwide network.

[1] Established in 1945, Israeli cargo shipping company ZIM is one of the world's leading shipping companies, operating all over the globe.

Caucasus Georgia Express (CGX) Service

The Service establishes a direct connection between the Middle Corridor and Georgia

In February 2023, CMA CGM, a French shipping and logistics company, launched the Caucasus Georgia Express (CGX) Service, utilizing APMT Poti as a key hub for cargo aggregation and distribution. The Service establishes direct railway links from the Middle Corridor to Georgia, streamlining maritime transportation to and from Greece and Türkiye, thus presenting an alternative to conventional routes impeded by Russian sanctions.

The CGX Service operates cargo transportation from APMT Poti to Piraeus, Greece and Ambarli Port in Istanbul, Türkiye with transit times of three and seven days, respectively. The service conducts about three roundtrips per month. According to CMA CGM, transit from Poti to Armenia and Azerbaijan takes five to six days, while to Kazakhstan it takes 35 days, Turkmenistan 25 days, Kyrgyzstan and Tajikistan 45 days and approximately 50 days to Uzbekistan, contingent upon Caspian Sea vessel availability.

New Multimodal Terminal at Poti Sea Port

The Terminal could significantly address the transportation demand in the Middle Corridor

In June 2022, a joint venture named "JSC Poti Transterminal" was established by PTC Holding, a transportation and logistics investment firm based in Kazakhstan, in collaboration with Georgian partners. This venture initiated the construction of an 8-hectare terminal.

In August 2023, construction of the mentioned Terminal started with an estimated investment of USD 15.0-20.0 million. The Terminal is projected to achieve an annual capacity of 450,000 TEUS, thereby assisting in meeting the transport demand along the Middle Corridor.

BATUMI SEA PORT

Batumi Sea Port, located on the Black Sea coast of Georgia, plays a crucial role as a gateway for international trade, serving as a link between Europe and Asia. Handling a diverse range of cargo, including containers, ferries and other cargo, the Port facilitates seamless connectivity between regions. Along with the presence of the Batumi Fertilizer Terminal, the Port emphasizes its importance in the efficient processing of fertilizers, which significantly contributes to regional trade and economic development.

Batumi Fertilizer Terminal

In 2017, the Development Project for a logistics corridor facilitating the transportation of dry cargo from Central Asia to Black Sea ports via Azerbaijan and Georgia was initiated. In January 2019, Wondernet Express Investment Group and Trammo Inc. entered into a Shareholders' Agreement on a Joint Venture dedicated to constructing and managing a fertilizers terminal at BSP. The Batumi Fertilizer Terminal is connected by railway to the Baku International Marine Trade Port on the Caspian Sea coast, providing connectivity to Turkmenistan, Uzbekistan and Kazakhstan. This new logistics corridor is the shortest and most convenient route from Central Asia to the Black Sea.

In March 2021, the initial shipment comprising 47 carriages loaded with carbamide originated from Turkmenistan and was transported to the recently established Batumi Fertilizers Terminal, which officially opened in June 2021. The terminal has the capability to handle and transport more than 1.5 million tons of mineral fertilizers annually with storage capacity reaching up to 70,000 tons. The cost of the Project amounted to USD 25.0 million.

EcoPorts Certification Process

In April 2023, Batumi Sea Port LLC and the ECO Sustainable Logistics Chain Foundation (ECOSLC) jointly announced the start of the EcoPorts Certification Process. This initiative aims to implement the renowned environmental management standard EcoPorts within the Batumi Port. The certification process is to be facilitated by the ECOSLC with support from the Organization for Security and Co-operation in Europe (OSCE), as part of the latter's Promoting Green Ports and Connectivity Project. EcoPorts, a Global Environmental Management System is specifically designed to assist ports and terminals in improving the environmental sustainability of the Port, as well as handling and transport operations. The goal here is to enhance sustainability, prevent risks and continuously mitigate environmental impacts throughout the processes. This approach is expected to increase efficiency, thereby further solidifying the Port's position as a key player in the ports, transport and logistics network. Achieving the EcoPorts certification will not only establish a sustainability quality mark for BSP, but will also contribute to fostering stronger relationships with port-city communities and other stakeholders. Moreover, the certification will lead to membership in the Global Network of EcoPorts certified ports, thus facilitating the sharing of good practices and experiences.

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

ANAKLIA DEEP WATER SEA PORT

The depth of the operational ports in Georgia is not sufficient for mid-sized cargo ships or large crude carriers. To overcome this issue, in 2016, the GoG and the Anaklia Development Consortium (hereinafter referred to as ADC) signed an investment agreement on the construction and operation of the Deep Sea Port in Anaklia.

The ADC was jointly established by the 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. The total cost of the construction and development of Anaklia Deep Sea Port is expected to be around USD 2.5 billion.

The new port is 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 has considered the Project a high priority. In 2016, at the 9th annual CG/LA Forum held in Washington, the Project was named "Top Strategic Project of the Year".

An 18-km-long railway line will be constructed to connect Anaklia Deep Sea Port with the existing railway network

In 2017, to oversee the investment agreement signed in 2016 between the GoG and the ADC, the Anaklia Development Agency was established. Its principal function is to supervise the fulfillment of the investor's contractual obligations to the Georgian State.

In the same year, the ADC has finalized a conceptual design for the Anaklia Deep Sea Port and has submitted a comprehensive master plan encompassing all 9 phases. According to its design, the Port is poised to outperform its regional counterparts courtesy of its exceptional connectivity to existing rail and road networks, advanced equipment and cutting-edge communications infrastructure.

In the first phase, a total of 60 hectares of land will be utilized to construct a container terminal capable of handling up to 900,000 TEUs and a dry bulk cargo facility with a capacity of 1.5 million tons. Following this phase, the Port is anticipated to accommodate 600 thousand containers (7.8 million tons) with an estimated cost of USD 600.0 million.

Phase 1 specifications:

- Total Quay Wall Length – 625 meters;
- Depth – 16 meters;
- Berths – 3;
- Ship-to-Shore (STS) Cranes – Initially 4 with a potential increase to 6;
- Rubber-Tired Gantry Cranes (RTGs) – Initially 12 with a potential increase to 18;
- Breakwater – Extending 1,600 meters;
- Intermodal Yard – Comprising 10 Tracks, each spanning 800 meters.

According to the Project's specifications, the total capacity of the Port upon completion of all 9 phases is anticipated to be 100 million tons and it will accommodate container vessels with a capacity of 10,000 TEUs.

Capacity increase according to phases:

phase 1:	7,800,000 tons[1]
phase 2:	14,000,000 tons
phase 3:	21,000,000 tons
phase 4:	30,000,000 tons
phase 5:	40,000,000 tons
phase 6:	55,000,000 tons
phase 7:	70,000,000 tons
phase 8:	85,000,000 tons
phase 9:	100,000,000 tons

Project's final design overview:

- Quay Wall Length - 2,250 meters;
- Breakwater Length - 2,940 meters (divided into North and South);
- Container Berths - 7 (capacity of 59 million tons per year);
- Dry/Break Bulk Berths - 2 (capacity of 5 million tons per year);
- Liquid Bulk Berths - 1 (capacity of 36 million tons per year).

The construction of Anaklia Deep Sea Port began at the end of 2017. However, at the beginning of 2020, the GoG ceased the agreement with TBC Holding due to the latter's failure to meet contractual terms. The primary focus of the Anaklia Development Agency then shifted from monitoring the investment agreement to actively executing the Anaklia Deep Sea Port Development Project and coordinating associated measures. The oversight of the Anaklia Development Agency's operations in accordance with its revised functions is facilitated by the Ministry of Economy and Sustainable Development of Georgia.

Commencing in February 2023, the selection process for a private partner/investor for the development of the Anaklia Deep Sea Port Development Project was initiated. In September of the same year, two companies, a Swiss-Luxembourgish Company and a Chinese-Singaporean Consortium, have expressed their intention to participate in the tender process. The Georgian State and the company selected from the tender process will form the Joint Company that will manage the construction of the Anaklia Deep Sea Port. This joint venture will be structured with 51% State ownership and the other 49% being held by the private investor.

The GoG designated GEL 20.0 million for the development of the Anaklia Deep Sea Port in 2023 and is planning to invest an additional GEL 50.0 million in 2024.

Additionally, at the end of December 2023, a simplified agreement authorizing the purchase of the Anaklia Development Agency under the Ministry of Economy and Sustainable Development of Georgia was disclosed, indicating that in 2024, the Agency will acquire consulting services worth GEL 2.8 million in legal, financial, economic, technical and other fields, according to international standards and best practices.

Construction of the Anaklia Deep Sea Port is scheduled to commence in 2024.

[1] Assuming 13 tons per TEU.

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 is expected cost a total of EUR 12.8 billion through the planned 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.

According to the Program, the EU will invest EUR 3.4 billion in Georgia's transport sector by 2030, distributed as follows:

- 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;

- A logistics center costing EUR 144 million; and

- A single border checkpoint costing EUR 6 million.

As part of the Project, the Ubisa-Shorapani segment of Georgia's East-West Highway opened on 28 October 2023. It is among the seven segments supported by the EU through European Investment Bank (EIB) loans totaling around EUR 1 billion, complemented by over EUR 42 million in EU grants overall. The finalization of this particular section of the highway represents a notable advancement in the Project, improving connectivity within Georgia and with its neighboring countries, which is an integral component of the extended TEN-T. Furthermore, the EIB loans aid in funding various other sections of the East-West Highway, facilitating the construction of more than 150 kilometers of roadway infrastructure in Georgia.

8.4 INFRASTRUCTURE DEVELOPMENTS IN THE CORRIDOR

- **Kazakhstan's Infrastructure Improvements**
- **Azerbaijan's Infrastructure Improvements**
- **China's Infrastructure Improvements**
- **Bulgaria's Infrastructure Improvements**
- **Other projects in the Middle Corridor**

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

The Middle Corridor links container rail freight networks between Asia and Europe, spanning Central Asia, the Caucasus, Türkiye and Eastern Europe. It connects the ferry terminals of the Caspian Sea and Black Sea with the railway systems of China, Kazakhstan, Azerbaijan, Georgia, Türkiye, Ukraine and Poland. The Corridor accelerates cargo flow, fostering trade between China, Türkiye and Europe. In particular, through this route, it takes 20-25 days for goods to be delivered from China to Europe.

KAZAKHSTAN'S INFRASTRUCTURE IMPROVEMENTS

Kazakhstan plays a pivotal role as a Middle Corridor player in regional transportation and logistics networks. Accordingly, it intends to enhance its transit capabilities to handle a larger volume of trade between Europe and China. Therefore, Kazakhstan plays a key part in the formation of the so-called New Silk Road[1].

Projects such as the development of Kuryk Port and Aktau Sea Port, as well as the construction of a second track on the Dostyk-Moiynty railway line will help to assist Kazakhstan to achieve its transit goals.

Development of Kuryk Port

Kuryk Port is located 90 km from the regional center Aktau, covering an area of 67.4 hectares. It features four berths with a total berthing line length of 466 meters and can accommodate vessels with maximum parameters of up to 170 meters in length, 17.5 meters in width and a draft of 4.5 meters. The depth of the water area at the Port extends up to 7 meters. Moreover, Kuryk Port is situated in a natural bay, offering favorable weather conditions for loading and unloading operations, especially for wagon roll-on and roll-off activities. It demonstrates consistent proficiency in handling car and rail ferries throughout the year.

The Kuryk Port Development Project, initiated in 2011, aims to improve transport and logistics capabilities along the Silk Road route between Europe and China via the Caspian Sea, utilizing its strategic location to reduce cargo transportation time and increase transportation volumes to neighboring and distant countries. The Project encompasses the following five key facilities:

FERRY COMPLEX	The Ferry Complex, developed jointly with Kazakhstan Temir Zholy National Company, comprises railway and car ferry berths with an overall transshipment capacity of 6 million tons annually (railway berth - 4 million tons per year and car berth - 2 million tons per year). The vertical planning and construction of facilities for the Complex commenced in 2015, after which it was put into service in 2016 and has been operating since March 2017.
UNIVERSAL RE-LOAFING TERMINAL	The Universal Reloading Terminal is designed for handling general, bulk and container cargo. Located on a territory of 32 hectares, the Terminal features three berths, each with a depth of 7 meters. The capacity of general and bulk cargoes is projected to be 1,650,000 tons per year and the capacity of containers is earmarked to be 150,000 TEUs per year.
LIQUID CARGO TERMINAL	The Liquid Cargo Terminal, intended for the transshipment of oil, bulk oil cargo and LPG (Liquefied Petroleum Gas) covers an area of 26 hectares and will be fitted out with two berths. The depth at the berths will be 7 meters and the anticipated capacity for oil and oil products is 2,600,000 tons per year, while for LPG it is 300,000 tons per year.
TRANSPORT AND LOGISTICS CENTER (TLC)	The Transport and Logistics Center (TLC) concentrates on managing cargo flows at Kuryk Port and delivering logistics services to the following port users: TLC Sarzha LLP, Khazar Petroleum Logistics LLP and Semurg Express FZC. Construction of the TLC commenced in 2017 with the completion of the first phase realized in 2018.
PRODUCTION COMPLEX	• Ship repairing yard - The first phase entails establishing a ship repairing yard to address the shortage in production capacity for repairing medium-sized and large vessels. Thereafter the second phase will establish the first shipbuilding yard in Kazakhstan. • Production of metal structures and caissons – Planned within the Kuryk Port Production Complex and will be dedicated to oil and gas projects in the Caspian Sea region.

[1] Also known as the Belt and Road Initiative (BRI), this is a vast infrastructure and economic development project initiated by China, which aims to enhance connectivity, promote trade and foster economic cooperation among participating countries through the construction of roads, railways, ports and other infrastructure projects.

Besides the abovementioned developments, in 2023, as part of the Kuryk Port Development Project, Semurg Invest[1] announced the construction of a new oil terminal. The Project aims to increase the amount of oil shipped through the Middle Corridor, which involves sending tankers across the Caspian Sea and feeding the oil into the Baku-Tbilisi-Ceyhan (BTC) pipeline for delivery to Europe. The Project will increase the Port's export transport capacity to 15-20 million tons per year. At the same year, Semurg Invest also signed an agreement with AD Ports Group, a leading facilitator of global trade, logistics and industry, to develop the Kuryk Port's grain terminal. Under the terms of the agreement, the two companies pledged to form a joint venture to invest in, operate and develop the Sarzha Multifunctional Marine Terminal to make it a multipurpose terminal. The completion of the Project is scheduled for 2025 with capacity anticipated to increase from 12 to 60 pairs of trains.

Development of Aktau Sea Port

The Aktau Sea Port, located on the eastern coast of the Caspian Sea, is a pivotal hub for numerous international transport routes, enabling continuous transportation of dry cargo, crude oil and oil products between diverse destinations such as Iran, Türkiye, Russia, Azerbaijan and Turkmenistan in both east-west and north-south directions throughout the year, 24 hours a day. Aktau Sea Port comprises 11 terminals, encompassing an expansive 79,700 m2 of open space, along with a roofed transit warehouse spanning 2,000 m2. Notably, the Port currently possesses a cargo transshipment capacity of 11.8 million tons.

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 there. In 2017, works on its northern expansion started which eventually doubled the Port's cargo capacity from 10 million tons to about 20 million tons per year.

Meanwhile, plans are underway to create a USD 28.9 million container hub by 2025 in Aktau Sea Port to increase cargo traffic and container shipment. This Project, under the name of Sarzha, will boost the Port's capacity by more than 500%, rising from 40,000 TEUs to 215,000 TEUs per year. The Project also involves the construction of a transport and logistics center, as well as grain, liquid and general cargo terminals. Such developments will enable the country's ports capacity to rise from 20 million tons to 30 million.

Construction of a second track for the Dostyk-Moiynty Railway Section

The Dostyk-Moyinty Railway Section, spanning from the China-Kazakhstan border to the Kazakhstan-Russia border, is a vital link in Eurasian trade, facilitating the efficient transportation of goods between Asia and Europe. As part of the New Silk Road Initiative, it drives economic growth and regional integration and elevates Kazakhstan's role in global trade.

The construction of a second track on the Dostyk-Moiynty Railway Section, spanning 836 kilometers, was initiated in 2022. This Project also includes plans to erect 419 artificial structures, comprising five large bridges, 87 small and medium-sized bridges, 288 culverts and 14 road overpasses, alongside energy and communications facilities.

The Project's completion is scheduled for 2025.

AZERBAIJAN'S INFRASTRUCTURE IMPROVEMENTS

Azerbaijan is one of the key players in the Middle Corridor, linking Europe and Asia. Its strategic location and investment in infrastructure facilitate trade, enhancing regional connectivity and cooperation.

Moreover, Azerbaijan's investments in infrastructure, such as the development of the Port of Baku, construction of Astara Cargo Terminal, Rash-Astara railway link and Kars-Nakhchivan railroad, are addressing the needs associated with increased trade and traffic along the Middle Corridor.

[1] The owner and developer of Sarzha Multifunctional Marine Terminal in Kuryk Port, was established in 2008 with the purpose of advancing and managing infrastructure projects in Western Kazakhstan.

New Baku International Sea Port at Alyat

In 2009, the Ministry of Transport of Azerbaijan awarded Royal HaskoningDHV[1] a contract to provide complete design and engineering services for the relocation of the International Sea Port to Alyat. This included initial site investigations, port master planning, tendering and construction support.

A masterplan was developed accordingly, which envisaged a three-phase development as follows:

- **Phase 1**
  10 million tons of cargo and 40 thousand TEUs;
- **Phase 2**
  17 million tons of cargo and 150 thousand TEUs;
- **Phase 3**
  21-25 million tons of cargo and 1 million TEUs.

The port design for phase one has been carried out, including site investigation works involving:

- Bathymetry, topography and geotechnical soil investigations;
- Dredging and reclamation works;
- Marine structures; and
- Onshore facilities.

By 2019, the development of the first phase had been completed and the total handling capacity of the Port of Baku increased to 15.0 million tons of general cargo and up to 100,000 TEU containers.

After concluding the first phase, in 2019, the Ministry of Economy of Azerbaijan appointed Royal HaskoningDHV to conduct a market study and develop a masterplan for the port's expansion (phase two). Following the Russian invasion of Ukraine, the market study was updated to reflect the changes in circumstances and the increased demand for transit cargo through Baku.

The revised masterplan for phase two subsequently included the following:

BRIDGE TYPE	NUMBER OF BRIDGES	TOTAL LOAD CAPACITY
FERRY TERMINAL	2	6.2 million tons
CONTAINE BRIDGE	2	10 million tons
RO-RO BRIDGE	2	1.8 million tons
TOTAL CARGO BRIDGE	7	7 million tons
SERVICE BRIDGE	1	

Upon the completion of the second phase of the construction of the port complex, the total handling capacity of the Port of Baku will increase to 25 million tons of total cargo and up to 500,000 TEU containers. Phase two has however not yet commenced.

[1] Royal HaskoningDHV is an independent company dating from 1881 integrating engineering, design, consultancy, software and technology.

CHINA'S INFRASTRUCTURE IMPROVEMENTS

China plays a pivotal role in the Middle Corridor, which is recognized as the shortest route between China and the European Union. Indeed, Chinese investments have significantly contributed to the fortification of trade connectivity along this corridor enhancing infrastructure and facilitating smoother transportation of goods. China's involvement underscores its commitment to fostering economic ties and promoting efficient trade routes with the EU.

The Belt and Road Initiative (BRI)

The Belt and Road Initiative (hereinafter BRI), unveiled by China in 2013, aims to enhance connectivity and cooperation across continents. It consists of two main components: the Silk Road Economic Belt (the "Belt") and the New Maritime Silk Road (the "Road"). The Belt focuses on overland routes linking China to Central and South Asia, then extending into Europe. Meanwhile, the Road emphasizes maritime routes connecting China to Southeast Asia, the Gulf states, East and North Africa and eventually Europe.

The following six overland economic corridors have been identified within the BRI framework:

- China-Mongolia-Russia Economic Corridor;
- New Eurasian Land Bridge;
- China-Central Asia-West Asia Economic Corridor;
- China-Indochina Peninsula Economic Corridor;
- China-Pakistan Economic Corridor;
- Bangladesh-China-India-Myanmar Economic Corridor.

BRI projects and investments have indeed been widespread, covering various regions across Asia, Africa, Europe and even reaching South America. The initiative has seen significant international engagement with over 200 cooperation agreements signed involving more than 150 countries and 30 international organizations. Notably, cumulative BRI engagement since its announcement in 2013 has surpassed the USD 1.0 trillion mark. This includes approximately USD 634.0 billion in construction contracts and USD 419.0 billion in non-financial investments.

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."

A new route (BTK) from China to Georgia and onward to Türkiye, 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 some types of cargo from new markets. In recent years, China's trade with Türkiye 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 Infrastructure Developments in Georgia).*

The delivery time for goods from China to ports on the Black Sea through the TITR has been reduced from 38-53 days to 19-23 days and by the end of 2023 it was expected to reach 14-18 days. This was reported at a recent meeting of the Government of Kazakhstan, which was dedicated to measures for the development of the Middle Corridor.

BULGARIA'S INFRASTRUCTURE IMPROVEMENTS

Bulgaria's efforts to modernize its railways and participate in the projects related to the Silk Road will likely have significant impacts on its transportation infrastructure and economic connectivity. The EU's support for such modernization is crucial to Bulgaria's integration into regional and international trade networks. Joining the TITR in 2023 further underlined Bulgaria's commitment to enhancing its rail connectivity and promoting regional cooperation.

Plovdiv-Burgas Railway Line Second Stage Rehabilitation Project

The Plovdiv-Burgas Railway Line is a crucial element of Bulgaria's part of the TEN-T and the Eastern Mediterranean Corridor, spanning 292 kilometers of which 139 kilometers is single track and 153 kilometers is double track. The TEN-T encompasses various infrastructure projects across the EU, including airports, roads, railways and waterways, with the Eastern Mediterranean Corrido being a key component of the network.

The renovation of the Plovdiv-Burgas railway line is being executed in two phases. The first phase, conducted between April 2011 and December 2016, focused on upgrading the Mykhailovo-Kaloyanovec, Stara Zagora-Zavoi and Tserkovski-Karnobat sections, extending the track length by 263 kilometers.

The second phase aims to enhance operational speed and safety along the renovated sections. By increasing maximum speeds to 130 km/h in the Ortozovo, Stralzha and Tserkovsky districts and to 160 km/h on the Oryovo-Mikhailov and Yambol-Zymnica sections, the Project sets out to achieve a 42% decrease in incidents and a reduction in travel time of up to 70 minutes. Furthermore, the Project is expected to reduce emissions by 35,000 tons of CO2 annually and to improve accessibility for people with reduced mobility.

Currently, the Project is being evaluated for financing by the European Investment Bank, which would support the upgrading of rail infrastructure to ensure compliance with relevant EU regulations and standards.

European Commission approves EUR 32.0 million Bulgarian scheme under Recovery and Resilience Facility to support rail transport

In 2023, the European Commission has approved a EUR 32.0 million (BGN 63.0 million) Bulgarian scheme to encourage the shifting of freight and passenger transport from road to rail. The scheme, funded through the EU's Recovery and Resilience Facility (RRF)[1], aims to remove technical barriers to rail interoperability and promote the use of rail transport, which is greener and reduces road congestion. The support here will be in the form of direct grants to rail companies to integrate the European Train Control System (ETCS) Level 2[2] into their rolling stock, thereby supporting the implementation of the European Rail Traffic Management System (ERTMS). The scheme will run until 30 April 2026 and is deemed a necessary and proportionate step toward supporting interoperability and promoting rail transport. The Commission concluded that the scheme aligns with the EU objectives of sustainable and smart mobility and the European Green Deal without unduly distorting competition in the Single Market.

Project linking North Macedonia to Bulgaria by rail

Under the Global Gateway Initiative[3], the European Union (EU), European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD) announced a EUR 560.0 million financial and technical support package for the construction and electrification of key railway infrastructure in North Macedonia with significant implications for Bulgaria. The funding here will support the construction of 24 km of track and the electrification of 88 km of track along Corridor VIII, improving connectivity within the region and the EU. The Project aims to enhance economic development, climate resilience and transport capacity, benefiting both freight and passenger transportation. The financing package includes loans from the EIB and the EBRD, an EU grant and technical support from EU and EIB programs. Once completed, the Project will improve connectivity between Bulgaria and North Macedonia, facilitating greater trade and economic development in both countries.

Vidin-Sofia Rail Modernization Plan

In 2023, Bulgaria's National Railway Infrastructure Company (NKRI) has unveiled its plans to modernize the Vidin-Sofia Railway Line with a focus on the Vidin-Medkovets section near the border with Romania. This Project, marking the centenary of the original line's construction, involves the modernization and rebuilding of 45 kilometers of track, making it one of Bulgaria's largest rail projects with a budget of EUR 2.3 billion.

The Modernization Project includes the construction of a more direct route, requiring significant civil engineering work such as two tunnels (325m and 2,975m long), six bridges (564m total length) and 11 viaducts and flyovers (4,680m total length). This new alignment will shorten the Vidin-Sofia route by 14km and the electrified track will

[1] The Recovery and Resilience Facility (RRF) is a temporary instrument that is the centerpiece of NextGenerationEU -the EU's plan to emerge stronger and more resilient from the current crisis.
[2] ETCS Level 2 is a radio-based system which displays signaling and movement authorities in the cab.
[3] The Global Gateway Strategy is a template for how Europe can build more resilient connections with the rest of the world.

be upgraded to allow passenger trains to reach speeds of 160km/h and freight trains to travel at up to 120km/h, meeting EU safety and interoperability standards. The route will also become part of the TEN-T network.

As part of the Project, existing stations will be partially rebuilt and new stations will be constructed. Noise reduction measures will also be implemented where needed, using software modeling to minimize noise pollution from train operations.

The Vidin-Medkovets Project is divided into three sections with the tendering process for the first two sections expected to be completed soon and the third section to follow in due course. The EU's Connecting Europe Facility (CEF) will provide 85% of the EUR 613.5 million construction cost for the entire Vidin-Medkovets section.

In July 2022, the EU announced EUR 224.6 million in funding for the modernization of the Medkovits-Sratsimir section, the largest EU co-financing ever provided for a Bulgarian rail project. Additionally, Bulgaria received EUT 4.9 million in EU funding for technical assistance in the upgrading of the Mezdra-Medkovets section.

OTHER PROJECTS IN THE MIDDLE CORRIDOR

Viking Container Train Project

The Viking Container Train Project is a joint initiative involving Lithuania, Ukraine, Belarus, Bulgaria and Romania. The route 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, bolstering its competitiveness even further.

The Viking Intermodal Train Service, operating on the Viking Container Train Route, can carry 20 and 40 feet of standard and specialized containers and can complete the full route (1,734 km) in 52 hours. The train is also an environmentally friendly form of transport.

Due to the ongoing conflict between Russia and Ukraine, the Intermodal Train Service has been suspended and efforts are underway to redirect cargo flows from Ukraine through Poland.

New intermodal connection in Poland

Following the suspension of the Viking Intermodal Train Service, a new project was commenced to restore cargo transportation between Ukraine and Poland. LTG Cargo, the freight transport division of the Lietuvos Geležinkeliai Group (Lithuanian Railways Group), anticipates introducing an intermodal freight train service to transport containers between the Kaunas Intermodal Terminal and Sławków in Poland, covering a 740 km route with a freight capacity of up to 93 TEUs per journey. The terminal, situated near Katowice, links railway lines between Lithuania and Poland, as well as Ukraine and Poland, facilitating regular freight train routes to Schwarze in Germany, Maddaloni in Italy, Koper in Slovenia and Gdansk in Poland.

Middle Corridor update: another vessel added to the Caspian Sea fleet

In 2023, the number of vessels on the Caspian Sea serving Central Asia doubled from three to six with a seventh service subsequently added as well. This increase in capacity is significant for the Middle Corridor, as additional space is needed due to limited capacity. The Caspian Sea crossing, whether between Baku and Aktau/Kuryk in Kazakhstan or Turkmenbashi in Turkmenistan, is a lengthy procedure with the Baku-Aktau journey taking seven days to complete.

The six vessels in September 2023 had a collective capacity of 1,200 TEUs, providing ten departures per week and handling around 6,000 TEUs per week, with a transit time of 3-4 days per vessel. The addition of a seventh service has further increased the fleet's capacity, potentially accommodating 1,550 TEUs. With one additional departure per week, the fleet could handle 6,600 TEUs weekly, supporting 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 2023, about 35% 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, Türkiye (on the coast of the Mediterranean Sea) *(see 2.2. Transport Sector in Georgia);*
- 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 in Georgia);*
- The North-South Main Gas Pipeline (NSMP), which transports natural gas from Russia to Armenia *(see 2.2. Transport Sector in Georgia);* and
- The South Caucasus Pipeline (SCP), which transports natural gas from the Shah Deniz field, Azerbaijan (on the coast of the Caspian Sea) to Türkiye *(see 2.2. Transport Sector in Georgia).*

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 Türkiye 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 of 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 Türkiye 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.

NEW PROJECTS INCLUDING RUSSIAN AND IRANIAN ROUTES

ASTARA CARGO TERMINAL

In 2023, Iran and Azerbaijan initiated the construction of a cargo terminal in Astara , a pivotal connection point between the two countries along the shores of the Caspian Sea. The terminal's objective is to streamline the handling of 5.0 million tons of cargo annually and act as a crucial hub for cross-border traffic within the International North-South Transport Corridor (here in after INSTC). Therefore, this Project encompasses both Russian and Iranian routes. The completion of the Astara cargo terminal construction is scheduled by the end of 2024.

RASHT-ASTARA RAILWAY LINK

Concerns have emerged regarding the construction of Astara Cargo Terminal due to the absence of a functional rail line extending from the border to Iran. To address this issue, Iran and Russia reached an agreement in May 2023 to partially finance the Rasht-Astara railway line, which is critical for the INSTC. Spanning 162 kilometers, the Rasht-Astara Railway will seamlessly connect Rasht, a coastal city in Iran near the Caspian Sea, with Astara. By integrating into this strategic Corridor, the railway will unlock considerable competitive advantages, leading to notable reductions in travel duration and costs. This railway link is expected to decrease travel time by four days and plays a significant role in the North-South transport artery, a specialized transportation network aimed at diversifying global traffic flows.

DEVELOPMENT OF INSTC

Russia and Iran, in collaboration with Kazakhstan and Turkmenistan, have crafted a comprehensive roadmap to enhance the INSTC. The collective objective is to bolster the Corridor's capacity to 15.0 million tons by 2027. This proposed strategy entails a departure from the conventional circular route through the Suez Canal, favoring instead a direct route via the Caspian region, utilizing rail, water and road transportation. The incorporation of mixed transportation methods is also part of this initiative. The Project is expected to involve not only Russia, Iran, Kazakhstan and Turkmenistan but also nations in South Asia, particularly India and those in the Persian Gulf.

KARS-NAKHCHIVAN RAILWAY

STRENGTHS

Direct Connection - The Kars-Nakhchivan railway would provide a direct rail link between Türkiye and the Nakhchivan Autonomous Republic, potentially improving trade and transportation efficiency.

Regional Connectivity - This railway could enhance connectivity between Türkiye, Azerbaijan and other countries in the region, facilitating regional trade and economic development.

WEAKNESSES

Political sensitivities - The construction and operation of the railway could be affected by political tensions in the region, potentially leading to delays or disruptions.

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

COMPETITIVE DEVELOPMENTS

The opening of the Kars-Nakhchivan railway route would lead to improved connectivity and economic growth in the region, facilitating trade and transportation between Türkiye and the Nakhchivan Autonomous Republic. It would also enhance regional integration, potentially leading to increased cooperation and development opportunities. The direct rail link could boost tourism and provide a strategic alternative route that bypasses Armenia, impacting regional geopolitics.

CONSTRUCTION OF KARS- NAKHCHIVAN RAILROAD

In September 2023, an agreement of intent was signed for the Kars-Nakhchivan Railway Project. The planned construction encompasses a 224 km railway linking the Turkish city of Kars with Nakhchivan, Azerbaijan with a targeted completion timeline of the next five years. This endeavor is significant as the railway, facilitating trains operating at speeds of 160 km per hour, will establish a crucial link between Central and South Asia and Europe. It will operate as a branch of the Middle Corridor, aligning with the interests of Azerbaijan, Türkiye and other participating countries.

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)*.

COMPETITION FROM BUS, MINIBUS AND AUTOMOBILE TRANSPORTATION

Passenger rail services compete directly with bus, minibus and automobile transportation for domestic travelers. Buses and minibuses, in particular, offer competitive fares and more direct routes for short to medium-distance travel, appealing to passengers looking for efficient and cost-effective options.

FACTORS INFLUENCING PASSENGER CHOICE

The choice between rail and road transportation is often influenced by factors such as travel time, cost, comfort and convenience. While rail travel may offer scenic routes and a more relaxed travel experience, road transportation can be faster and more flexible, especially for passengers with specific travel needs *(see 7.2 Passenger SBU).*

9.4 COMPETITION FROM SEA TRANSPORTATION

STRENGTHS

Cost-effective for bulk shipments - Sea transportation is often more cost-effective than other modes of transportation, especially for bulk or large-volume shipments.

Global reach - Sea routes connect major ports worldwide, offering extensive global coverage for shipping goods.

WEAKNESSES

Speed and timeliness - Sea transportation is generally slower than air or rail transportation, which can be a disadvantage for time-sensitive shipments.

Infrastructure and accessibility - Sea transportation requires access to ports and maritime infrastructure, which may limit its accessibility for certain locations.

COMPETITIVE DEVELOPMENTS

To address competition from sea transportation, GR could focus on providing efficient and reliable inland transportation services to and from ports, offering competitive pricing for combined sea and rail transportation services and leveraging its existing infrastructure and expertise to streamline the logistics process for customers.

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

A STRATEGIC ASSET OF THE GEORGIAN ECONOMY WITH STRONG STATE SUPPORT

UNIQUE STRATEGIC LOCATION

STRONG CUSTOMER RELATIONS

INTEGRATED FREIGHT AND TRANSPORTATION COMPANY

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

A CONTINUOUS FOCUS ON SUSTAINABLE DEVELOPMENT

DIVERSIFIED CARGO PORTFOLIO

A STRATEGIC ASSET OF THE GEORGIAN ECONOMY WITH STRONG STATE SUPPORT

The Group is considered a major strategic force in Georgia's economic development, acting as a systemically important infrastructure operator, facilitating development in other industrial activities (i.e., locomotive construction, railcar repair and concrete sleeper production) and playing a key role in maintaining strong economic relations between Georgia and its partner countries. In particular, the GoG has indicated that the development of the country's infrastructure is one of its highest priorities, with the aim of making 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 GoG to promote regional development. In addition, the Group is a major taxpayer and a significant contributor to Georgia's GDP. According to figures published by Geostat, the Group's consolidated revenue represented 1.0 0.9% of GDP in 2023, compared to 1.0% in 2022 and 0.9% in 2021, respectively. The Group is also one of the largest corporate employers in Georgia, while its business also supports other employment opportunities in Georgia *(see 4.3 Social Focus).*

> "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 government regulation and the Group sets its own freight tariff policy independently without government approval, despite having a statutory monopoly. In addition, the Group benefits from the strong support of the GoG, which is its ultimate shareholder (through the state-owned Partnership Fund). The Group understands that the GoG considers it to be an asset of national strategic importance.

The GoG 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 Railway Modernization Project and the the Tbilisi Bypass Project (as defined below)), the exemption of linear infrastructure (such as railroads and transmission lines) from property tax in Georgia and the agreement 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 GoG will continue to support its operations *(see 3.2 The 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 line 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 GoG are expected to enter into a public service contract to compensate Passenger SBU losses starting from 2024 or earlier *(see 7.2 Passenger SBU).*

In June 2024, an initial Public Service Contract (PSC) was established between Railway Transport Agency and "Georgia's Railway" to ensure compliance with EU regulations on railway transport safety association. This agreement is part of the railway transport sector reform and advances Georgia's European integration. It aims to enhance the quality, transparency and accountability of railway passenger services. The contract is valid until 2028. The total amount of compensation to be given in 2024 is 8 million GEL. It outlines service commitments and key performance indicators (KPIs). In addition, according to the agreement, passenger satisfaction level research will be carried out periodically through a passenger survey. The administration and implementation of the contract will be supervised by the Railway Transport Agency.

STRONG CUSTOMER RELATIONS

The Group's management believes that it has developed durable relationships with its key customers. Notably, the majority of its revenue comes 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, thus broadening the diversity of the Group's indirect freight-owner customer base. The Group's management is of the view that its well-established relationships with freight forwarders can help to foster long-term relationships between the Group and the cargo owners. Relatedly, 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 regarding the future need for the Group's freight transportation services. The Group believes that its sturdy relationships with key customers, nurtured largely by its flexible pricing policy, is one of its key competitive advantages.

> "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

Georgia is strategically located at the crossroads of Europe and Asia. It serves as a vital bridge connecting Europe's markets with Central Asia, the Middle East and beyond. 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 can be a key beneficiary of the growing trade between the two *(see 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 the transportation of oil and oil products from Central Asia. For example, in 2022, the volumes of products from Turkmenistan transported by the Group increased by 9 times, compared to 2021, 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 4.7% in 2024. The Group's management believes that the forecasted 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 built on its current and planned infrastructure and asset base. As of 31 December 2022, the Group's railway network comprised 1,408 km of track, of which 98% is electrified, including a 527-km-long electrified mainline. During the three years ended 31 December 2023, the Group paid GEL 351.5 million to tacquire 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 Railway 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 1.0 billion 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 of the Company)*.

As of 31 December 2023, the Group had 4,392 active (3,113 working and 6,883 serviceable) freight railcars, compared to 4,504 active (3,614 working and 7,417 serviceable) freight railcars as of 31 December 2022t. 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 courtesy of 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 its principal investments to be aimed toward increasing its supply of rolling stock, given the expected increases in transported volumes. Meanwhile, 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.

ROBUST 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.

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 Railway Corridor and increase the revenue derived from its logistical services. As a result, revenue from logistical services (which, for accounting purposes, is classified as part of the freight transportation revenues) have become a significant contributor to the Group's total revenue, accounting for 21.0% of the Group's total 2023 revenue.

A 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 environmental performance overall. In this regard, 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 adheres to the slogan "green is our choice" and contributes to national environmental policy as well. 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 12,119 employees as of 31 December 2023 and offers its employees a range of employee benefits and support systems *(see 4.3 Social Focus).*

The establishment of the Railway Transport College (RTC) in 2015 was a clear indication of 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 4.3 Social Focus).*

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 the RTC. Furthermore, the RTC and GR will together 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 strengthen its competitive advantage further still.

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. Generally, dry cargo is more diversified than liquid cargo among domestic, export, import and transit shipments. The Group's ownership of a range of wagon types also enables even greater diversification. Specifically, the increased containerization of the Middle 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 seeks 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 offered 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

The Group's operations are primarily conducted within Georgia. Accordingly, the Group is affected by political, economic and other events in the 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 GR's products and services.

POLITICAL INSTABILITY IN GEORGIA

Likelihood: Medium
Severity: High
Risk Category: Medium

Political instability in Georgia poses significant risks to the country's economy overall. For Georgia, political turmoil can lead to market uncertainty, economic deterioration and a decline in consumer spending. This can have adverse effects on the country's growth prospects, potentially impacting industries reliant on stable economic conditions, including the transportation and infrastructure sectors.

Specifically for Georgian Railway, political instability could directly impact its operations and business environment. Changes in government policies or regulations may affect the Company's investment plans, pricing structures and access to funding. In addition, political unrest can lead to disruptions in supply chains, affecting the timely delivery of goods and materials essential for railway operations. Fluctuations in demand for transportation services due to economic uncertainties can also impact upon GR's revenue and profitability.

The principle to major economic and fiscal policies are designed to liberalize and improve the national economy.

ECONOMIC INSTABILITY IN GEORGIA

Likelihood: Medium
Severity: High
Risk Category: Medium

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).*

In 2023, Georgia's economy nevertheless exhibited resilience and stability, with GDP growth reaching 7.5% and inflation easing to 2.5%. Despite challenges like disruptions in trade routes and supply chains, the country has maintained macroeconomic and fiscal stability. At the same time, FDI decreased by 24%, amounting to USD 1.6 billion, affecting sectors such as real estate and water management. Remittance inflows also decreased by 6%, largely influenced by an outflow of migrants and RUB depreciation.
The railway sector experienced significant growth in 2023, with a 50% increase in the number of passengers. However, risks such as currency depreciation and reduced FDI persist. Meanwhile, inflation in Georgia dropped to 2.5% in 2023, well below the 3% target, driven by lowered demand and falling prices in sectors like food, beverages and housing. The NBG has gradually reduced the interest rate since May 2023. In February 2024, the interest rate was again lowered by 0.5 percentage points to 9.00% and in March 2024 it was further reduced by 0.75 percentage points to 8.25%. The GEL has generally strengthened against foreign currencies, positively impacting the economy.

Despite global inflation dropping to 6.9%, Georgia's inflation stood at 2.5% in 2023. The GEL appreciated against the USD by 9.9% on average and by 4.4% against the CHF in 2023. As a result, GR's revenue from freight transportation at constant currency in 2023 would have been 1% lower than in actual currency.

These factors increase the vulnerability of GR to economic downturns and currency devaluation, potentially impacting its operations and revenue.

GLOBAL ECONOMIC VOLATILITY

Likelihood: Medium
Severity: High
Risk Category: Medium

Global economic volatility, including factors such as changes in global economic conditions, trade policies and geopolitical events, poses a significant risk to Georgia's economy. This risk is amplified by the ongoing Russia-Ukraine War, which has led to uncertainties and disruptions in the wider region. Despite Georgia's currently relatively low inflation and the appreciation of the GEL, global challenges and the aforesaid regional conflict could further impact the country's economy through impeding trade and investment channels.

The possibility of changes in global economic conditions affecting Georgia's economy is high. Indeed, the combined impact of global economic volatility and the Russia-Ukraine War could lead to shifts in trade patterns, investment flows and economic stability in Georgia overall. This could in turn have an impact on businesses operating in the country, including GR and their access to global markets.

Despite the outbreak of the Russia-Ukraine War, Georgia's economy experienced a boost in 2022, followed by stabilization in 2023. The country's economy has demonstrated resilience and stability, with robust economic activity and effective maintenance of macroeconomic and fiscal stability. Irrespective of ongoing geopolitical disputes and disruptions in trade routes, Georgia's key macroeconomic trends normalized, leading to sustainable growth and price stability. Furthermore, in December 2023, Georgia attained candidacy for EU membership, indicating positive prospects in its future.

ADVERSE IMPACT OF THE COVID-19 PANDEMIC

Likelihood: Low
Severity: High
Risk Category: Low

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

The temporary restrictions imposed by the GoG in 2020 and in 2021 on air and land transportation however 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, in the event of another pandemic, 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.

After the complete lifting of COVID-19 regulations, the freight transportation segment accounted for 91.1% of total revenue in 2022, while the share of the passenger transportation segment in the total revenue increased at the same time. In 2023, the pandemic had no effect.

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. Such steps may also push up its operating expenses such as staff costs and exacerbate its foreign exchange losses due to depreciation of the GEL against the USD, which, in turn, would impair the Group's ability to both comply with the terms of its financing arrangements and service its debts in general.

Furthermore, some of the Group's customers may be particularly vulnerable to the macroeconomic slowdown 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

DETERIORATION OF ECONOMIC CONDITIONS IN THE CAUCASUS REGION AND GEORGIA

Likelihood: Medium
Severity: High
Risk Category: Medium

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 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 exclusively 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 even war. Such unrest could reduce transportation volumes along the TRACECA, in turn potentially diminishing demand for the Group's services. Lower demand for the Group's services could also have an adverse material effect on the Group's business activities, financial condition, 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 diversify further as well. 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. Notably, this format includes both container and wagon transportation *(see 10. Strengths).* *On 26 October 2023, JSC NC Kazakhstan Temir Zholy, JSC Georgian Railway and CJSC Azerbaijan Railways signed an agreement to establish Middle Corridor Multimodal Ltd., a joint venture designed to enhance multimodal services along the TRACECA and promoting goods transportation across the region* *(see 8.1 International Agreements).*

COMPETITION FROM ALTERNATIVE RAIL TRANSIT ROUTES

Likelihood: Medium
Severity: Significant
Risk Category: Medium

The Group has significant competition from alternative rail transit routes and other transportation modes, a trend that has intensified recently and may continue. Competitors often possess greater resources and better customer access. The Freight SBU faces competition from oil pipelines and trucks, especially for smaller domestic cargo loads where transportation by truck can be more efficient. In recent years, trucking companies have posed a growing competitive threat to the Freight SBU. Meanwhile, the Passenger SBU competes with buses, minibuses, automobiles and airplanes for passenger transportation services.

The Kars-Nakhchivan Railway Project, aimed at enhancing regional connectivity and trade, is currently impeded by the conflict between Azerbaijan and Armenia over Nagorno-Karabakh. This deep-rooted historical conflict presents significant challenges to the project and regional stability in general. The railway, which would link Türkiye with the Nakhchivan Autonomous Republic could potentially bypass Armenia, thus having an impact on regional geopolitics. However, the conflict's unresolved nature and sporadic violence in the area make the prospect of the railway opening soon uncertain. If realized, the project could compromise GR's position.

The Russian routes offer higher transportation capacity, unimodal transportation and lower tariffs, but they are hampered by the conflict between Russia and Ukraine. In addition, economic sanctions on Russia have weakened its transportation network, leading many companies to avoid Russian railways and increasing demand for the Georgian route.

To mitigate the risks outlined here, the Group has fostered strong relationships with key customers and freight forwarding companies. Furthermore, modern technologies and a flexible tariff policy enable the Company to compete effectively against alternative rail transit routes. The Railway Modernization Project *(see 8.2 Ongoing Projects of the Company)**, initiated in 2010, is poised to significantly enhance GR's competitive advantage by modernizing infrastructure and increasing mainline capacity from 27 million to 48 million tons. The Project aims to boost operational efficiency, improve customer service, reduce operational expenses and enhance safety. Moreover, by addressing bottlenecks, particularly in the challenging gorge section, the Project will enable faster transportation speed, lower maintenance costs and higher throughput capacity, making GR a more attractive option for freight and passenger transportation in the region.*

The Baku-Tbilisi-Kars (BTK) railway line *(see 8.3 Infrastructure Developments in Georgia)* *offers a fast and short route for the transportation of goods between Asia and Europe, primarily focusing on increasing container transportation. This project could open up a new geographical market for GR through simplified rail operations with Türkiye, enhancing trade and connectivity between the regions. In addition, ongoing and planned projects at Georgia's Black Sea ports, including Poti, Batumi and the forthcoming Anaklia Deep Sea Port* *(see 8.3 Infrastructure Developments in Georgia),* *are expected to significantly benefit GR. These projects, largely characterized by expanded and modernized facilities, new terminals and advanced technologies, will enhance the ports' capacities and operational efficiency.*

In turn, these developments will help to improve GR's connectivity to regional and global trade routes, augmenting its role as a vital player in Georgia's transportation sector and enhancing its competitiveness in the region. The ongoing infrastructure projects in Azerbaijan *(see 8.4 Infrastructure Developments in the Corridor),* *including the development of the new Baku International Sea Port at Alyat and the Astara Cargo Terminal, are set to enhance the competitiveness of the TRACECA. In particular, these projects will improve connectivity and efficiency, making the TRACECA, which of course includes GR's network, a more efficient and cost-effective option for freight transportation between Europe and Asia.*

DECREASED NUMBER OF CUSTOMERS

Likelihood: Medium
Severity: Significant
Risk Category: Medium

The Group relies heavily on a small group of large customers for a significant portion of its revenues. Concerningly, factors such as pricing and market demand could lead to the loss of these customers and this risk could be exacerbated by unforeseeable circumstances. Furthermore, in its liquid cargo transportation services, the Group works with freight forwarders who aggregate volumes, but it has no long-term contracts in place with the actual cargo owners. Therefore, uncertainty exists regarding the Group's services continuing to be used through these relationships. Further challenges could arise from digitalization, including due to weaknesses in data flows and operational inefficiencies. Stakeholders ultimately see digitalization as a solution, but effective inter-country coordination, data autonomy, standardization and political will are also crucial to success.

Furthermore, the Passenger SBU's reliance on seasonal domestic travel and the limited availability of credit card facilities for internet purchases in Georgia pose risks with regard to customer numbers. While the Group has various sales channels, including ticket machines and a customer call center, these may not fully mitigate the risk of losing customers due to other factors beyond its control. Any significant loss in the number of customers could have a detrimental impact on the Group's revenue and financial performance *(see 7.1 Freight SBU).*

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

DECISIONS AND LIMITATIONS AFFECTING THE CAPACITY OF OTHER REGIONAL RAIL OPERATORS

Likelihood: High
Severity: High
Risk Category: High

The Group's mainline rail network comprises a key segment of the TRACECA and, together with Azerbaijan Railways, forms the Caucasus Railway Corridor. As the rail networks of TRACECA members are interlinked, the capacity or other limitations of certain rail networks, particularly Azerbaijan Railways, can constrain the Group's operations. Transit represents a significant portion of the Group's transportation volumes, accounting for 56.9% and 58.6% of its total transportation volumes in the years ended 31 December 2023 and 2022, 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 risks, the Group permanently monitors the condition and utilization level of its railcars *(see 5. The Group's Infrastructure)**. 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.*

INTERRUPTION AT SEA PORTS AND TERMINALS

Likelihood: HIgh
Severity: High
Risk Category: High

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, Poti and the forthcoming Anaklia, which are all served by the Group's rail lines *(see 8.3 Infrastructure Developments in Georgia).*

Three of the Group's railway lines terminate at cargo or oil terminals at one of the Black Sea ports, through or at which the majority of the freight transported by the Group 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 ports or stored at terminals.

Poti Sea Port has undergone extensive renovations and expansions, including the Poti Expansion Project, which is designed to increase its capacity and efficiency, as well as APMT Poti's multi-million dollar investment plan to modernize infrastructure and equipment. Meanwhile, Batumi Sea Port (BSP) places an emphasis on environmental sustainability and efficiency, exemplified by its EcoPorts certification process. Elsewhere, Anaklia Deep Sea Port, which is under construction, is hoped to become a major logistics center in the South Caucasus, with an expected total capacity of 100 million tons upon completion *(see 8.3 Infrastructure Developments in Georgia).*

REGULATORY RISKS

HARMONIZATION WITH CERTAIN EU LEGISLATION

Likelihood: Medium
Severity: High
Risk Category: Medium

In June 2014, the GoG 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 (later brought forward to 2022 in the wake of the outbreak of the Russia-Ukraine War). As a result, the GoG 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 in pursuit of 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 a 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 may be 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.

This risk is influenced by factors such as the degree to which Georgia makes progress in its EU harmonization, changes in EU legislation and the Group's ability to adapt to new regulatory requirements.

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.

The EU-funded twinning project "Support to approximation of Georgian legal and institutional framework to the Union Acquis in the field of railway transport" (ENI/2020/421-013, GE18 ENI TR 04 19) was implemented from 1 March 2021 to 15 July 2023, under the leadership of the Polish Ministry of Infrastructure. The project aimed to revise and upgrade the national regulatory framework on railway transport in Georgia to align it with the EU acquis.

Operations at GR are regulated by the "Code of Ethics and Conduct for JSC "Georgian Railway" Employees." This document is published on the Company's website.

INCREASED ENGAGEMENT FROM STATE IN GR'S OPEARTIONS

Likelihood: Medium
Severity: Medium
Risk Category: Medium

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 to control the outcome of all matters 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 GMS for certain 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).*

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 transport sector, when important actions are to be undertaken by the Group, it coordinates closely with the GoG, even in the areas of its business that do not formally require government approval. The most important such actions are discussed and vetted by senior government officials. Even in circumstances where the Company may consider that its actions do not warrant prior discussion with the GoG, 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.

This risk is influenced by the Company's ownership structure and its legal obligations as a state-owned entity.

In the mitigation of the risks associated with the state's control over the Company as a state-owned entity, the Law of Georgia on Control of Entrepreneurial Activity plays a crucial role. This law establishes a framework for regulating and overseeing entrepreneurial activities, including those of state-owned entities, to ensure compliance with legal requirements and prevent undue interference by the state.

ENVIRONMENTAL AND HEALTH AND SAFETY LAWS AND REGULATIONS

Likelihood: Medium
Severity: High
Risk Category: Medium

The Group is subject to various environmental protection and occupational health and safety laws and regulations in Georgia. These set various standards concerning certain aspects of health, safety, security and environmental quality and they provide for civil and criminal penalties and other liabilities in the event of violations.

The Group may need to address environmental or safety issues at current or former sites, which could lead to significant costs. Compliance with regulations and liability for any damage or violations could negatively impact its operations.

This risk is influenced by the effectiveness of the Group's compliance measures and the stringency of environmental and health regulations in Georgia.

In Georgia, risk assessment is regulated by the following government-approved workplace risk assessment rule: "Ministry of Internally Displaced Persons from the Occupied Territories, Health, Labour and Social Affairs of Georgia, Order No. 01-15/N, January 30, 2020." Meanwhile, 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 in the workplace, the main purpose of which is to identify the potential dangers and risks associated with the working environment and to develop ways of mitigating them. Moreover, the risk assessment process is based on the recognized methodology of the International Labor Organization (ILO) and includes the identification of hazards, as well as the analysis of potential solutions and an evaluation of the efficacy thereof.

Mitigation actions performed by the Group here include the following:

- *Employee awareness trainings;*
- *Monitoring of various components of the environment;*
- *24/7 geological monitoring;*
- *Biodiversity monitoring;*
- *Technical inspection of heavy equipment and provision of periodic certification of lifting mechanisms;*
- *Checking for drugs and alcohol consumption in employees.*

LEGISLATIVE, REGULATORY, TAX AND JUDICIAL CONSIDERATIONS

Likelihood: Medium
Severity: High
Risk Category: Medium

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 come into effect. In addition, since 27 June 2014 and the signing of the Association Agreement as well as the establishment of the Deep and Comprehensive Free Trade Area (DCFTA) with the EU, Georgia has been required to update its legislation 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 at which changes have been made to the Georgian legal system has put the quality and enforceability of some laws in doubt, with ambiguities and inconsistencies detected already in their application.

Tax laws have been in force in Georgia for a significant shorter period of time compared to those of more developed market economies. This relatively limited experience creates challenges when it comes to compliance, as 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 thereafter emerged regarding the interpretation of many of its provisions, 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 GoG (except in certain limited circumstances). In January 2011, the Parliament passed the Organic Law on Economic Liberty enshrining the same constitutional guarantee. The Organic Law came into effect on 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, it is not certain 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

Likelihood: Medium
Severity: High
Risk Category: Medium

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 compensate for 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, may 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 its 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 in turn have an adverse material effect on the Group's business.

THE GROUP'S ACCOUNTING SYSTEMS AND INTERNAL CONTROLS

Likelihood: Medium
Severity: High
Risk Category: Medium

The Group's management information system, financial reporting function and system of internal controls relating to the preparation of IFRS-compliant 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. Meanwhile, crucially, there is a shortage of qualified personnel with IFRS accounting experience in Georgia. Nevertheless, the Group's management believes that its staff are sufficiently equipped for the Company to comply with its obligations as a listed company.

This risk is influenced by the Group's ability to address staffing shortages, enhance its accounting systems and improve internal controls to meet IFRS requirements effectively.

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 focuses on validating debit and credit card 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 the signing of a contract, 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 of its conclusion, encompassing both consolidated and individual aspects. Furthermore, a presentation is made to the Company's Supervisory Board, summarizing the audit's outcomes.

HUMAN RESOURCES

LEGISLATIVE, REGULATORY, TAX AND JUDICIAL CONSIDERATIONS

Likelihood: Medium
Severity: High
Risk Category: Medium

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 long term. The Group's ability to achieve its business objectives hinges, to a large degree, on the services of its senior management team. Accordingly, 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 "keyman" insurance in place with respect to its senior managers.

Competition for qualified and experienced executives and other staff in Georgia is tough. This means the Group might struggle to keep its current senior management and engineers or hire new skilled workers in the future. The Group's ability to do so largely depends on offering competitive wages, good incentives and effective strategies to keep key employees.

To mitigate HR risks, JSC Georgian Railway focuses on fostering a common understanding of the Company's strategic objectives and business principles across all levels of the organization. This is achieved through promoting business education among mid-level technical staff and involving lower-level managers in decision-making processes. The Company provides medical insurance for employees and their families, covering some healthcare costs not included in the standard insurance. In 2023, they spent GEL 323,000 on employee healthcare. The average pay and benefits are similar to the national average. Despite strong competition for skilled workers in Georgia, the Company's good work environment, competitive pay and career opportunities help keep employee turnover low. About 60% of employees are in labor unions, which allows them to discuss and resolve issues together in line with Georgian law. *(see 4.3 Social Focus).*

Elsewhere, establishing the Railway Transport College (RTC) in 2015 marked a strategic move by JSC Georgian Railway to mitigate HR risks and address the need for skilled labor in the railway sector. The RTC offers a total of 17 professional educational programs and it contributes significantly to skills development and gender equality in the railway sector. In addition, initiatives like the machine operator vocational training program and short-term training for PwDs enhance workforce competitiveness and inclusivity.

SPECIFIC RISKS

AGING INFRASTRUCTURE AND ROLLING STOCK

Likelihood: High
Severity: High
Risk Category: HIgh

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 having to carry 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 already been extended thanks to capital repairs), they will soon require replacement *(see 7.2 Passenger SBU).*

The Group has already made and intends to continue making, substantial investments to modernize its infrastructure, including through the Railway Modernization Project. Its cashflow was used in the acquisition of property, plant and equipment (capital expenditures) amounting to GEL 139.3 million and GEL 135.0 million in the years ended 31 December 2023 and 2022, respectively *(see 5.1 Railway Property and 7.3 Infrastructure SBU).*

HISTORICALLY GENERATED NET LOSSES FROM THE GROUP'S PASSENGER SERVICE

Likelihood: High
Severity: High
Risk Category: High

One of the Group's medium-term strategic objectives is to reduce 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 10.0 million in 2023, compared to losses of GEL 15.5 million and GEL 21.3 million in 2022 and 2021, 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 definitely 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 GoG to the Group's provision of affordable passenger transportation services. With that in mind, the Group may be constrained from 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 GoG are expected to enter into a public service contract for the compensation of losses incurred by the Passenger SBU by at least 2024. This contract is expected to set out the conditions of an agreement on sharing costs between the Company and the GoG or relevant competent authority, as well as the level of compensation to be granted to the Company for operating non-profitable passenger routes.

Notably, the 2024 state budget provides GEL 8.0 million for the compensation of passenger transportation.

INSUFFICIENT SUPPLY OR INCREASES IN THE PRICE OF ROLLING STOCK

Likelihood: High
Severity: High
Risk Category: High

The number of high-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 railcars 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 still experienced occasional rolling stock shortages. The Group currently uses private rolling stock for about 50% of its transportation services and 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 indeed 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.

MAJOR ACCIDENTS, DERAILMENT, OR OTHER INCIDENTS

Likelihood: Medium
Severity: High
Risk Category: Medium

The Group is largely "self-insured," meaning that it does not carry external liability insurance or business interruption insurance. The occurrence of significant event for which it is not insured would burden the Group with possibly substantial additional expenses *(see 5.2 Railway Safety Practices and Incident Analysis).*

The Group did not experience any freight train derailments or employee fatalities in 2023.

The Group owns and operates rolling stock, tracks, stations and other infrastructure that together make up Georgia's entire national rail network. Its infrastructure and transportation operations may thus 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/or 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. Meanwhile, a major rail accident or derailment involving oil or oil products cargo could also carry substantial environmental remediation costs. In addition, 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.

JSC Georgian Railway has undertaken several initiatives to mitigate traffic safety risks. The Company conducts regular inspections and investigations, focusing on various aspects such as adherence to technological processes during repair work, compliance with train management rules and maintenance of infrastructure devices and rolling stock. These efforts have led to the detection of thousands of irregularities, allowing the Company to address issues promptly and prevent potential safety hazards.

Moreover, the Company has developed a comprehensive safety management system (SMS) as part of the aforementioned twinning project with Polish colleagues. This SMS helps to ensure that the organization safely controls risks arising from business objectives and fulfills all security obligations. By following the plan-do-check-act (PDCA) cycle, the Company can continuously enhance its safety practices and minimize the likelihood of safety incidents.

Furthermore, JSC Georgian Railway promotes a safety culture within the organization, emphasizing the importance of ensuring traffic safety as a priority goal for all employees. This involves running initiatives on the part of department heads and other leaders to ensure that all members of the organization understand the importance and social responsibility of traffic safety. By instilling this sort of safety culture at all levels of the organization, the Company aims to create a work environment where safety is paramount and where employees are committed to upholding corresponding standards in all aspects of their work (see 5.2 Railway Safety Practices and Incident Analysis).

POTENTIAL IMPACT OF A DECLINE IN FREIGHT VOLUMES

Likelihood: Medium
Severity: High
Risk Category: Medium

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 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 vis-a-vis 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 drops. Moreover, any resulting declines in revenue could have an adverse material effect on the Group's business, financial condition, operations and prospects.

To mitigate this risk, GR 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). Moreover, on 26 October 2023, JSC NC Kazakhstan Temir Zholy, JSC Georgian Railway and CJSC Azerbaijan Railways signed an agreement to establish Middle Corridor Multimodal Ltd. - a joint venture designed to enhance multimodal services along the TRACECA and promoting goods transportation across the region (see 8.1 International Agreements).

POTENTIAL DISRUPTION ON THE GROUP'S MAINLINE

Likelihood: Medium
Severity: High
Risk Category: Medium

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 mainline 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 mitigate the risk of potential disruptions on the Group's mainline, the Railway Modernization Project has entailed a multifaceted approach aimed at significantly enhancing the infrastructure and operational resilience of the railway network. This comprehensive initiative, launched in 2010 and set to conclude by the end of 2024, has encompassed various strategic measures designed to improve mainline capacity and functionality.

One of the key focal points of the Railway Modernization Project has been the reduction of the track gradient in the challenging 40-km-long gorge section in central Georgia. The aim of this reduction is not only to enhance operational efficiency, but also to alleviate the impact of natural disasters on the railway infrastructure, thus mitigating potential disruptions. Moreover, the construction of a tunnel in this section is expected to streamline operations, increase throughput capacity and pave the way for future expansion with minimal additional capital expenditure.

By modernizing its infrastructure and implementing these strategic improvements, the Group aims to achieve several critical objectives. These include increasing the capacity of its infrastructure, eliminating the need for extensive capital expenditure on maintenance, enhancing transportation speed along the line, improving services for both freight and passenger customers and ensuring the safety of transportation operations.

ABSENCE OF INSURANCE

Likelihood: High
Severity: High
Risk Category: High

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, GR 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 exposures thereto. The Group's failure to acquire business interruption insurance also means that if it suffers such an interruption hindering, 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 in the country. Moreover, based on statistics relating to past incident 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, after completing a cost-benefit analysis, the Group may decide to purchase insurance coverage in the future.

STRIKES, LOCKOUTS AND LABOR LEGISLATION

Likelihood: Medium
Severity: Medium
Risk Category: Medium

The Company's business interests may be adversely affected by strikes, lockouts and/or other labor disputes.

As the Company is considered one of the largest corporate employers in Georgia, (12,378 employees), the above-mentioned activities would bring commercial risks and may trigger paralysis of GR's business activities.

For instance, in 2017, members of the NNLE New Railway Trade Union ("NNLE Union") participated in a strike in response to the relocation of members of staff to a workplace in southeastern Georgia. The strike related to two employees who refused to give consent to their relocation and took place even though the NNLE Union had not been granted permission to hold a large-scale rally. The strike continued for several days and did not have any material impact on the Company's operations. However, had the strike continued or escalated, it was possible that the Company would have suffered irreparable damages.

To reduce this business risk, the Company takes effective actions to impede strikes, lockouts and other labor disputes.

In 2019, a collective labor dispute initiated against the Company by the NNLE Union was resolved by a mediation agreement struck on 30 August 2019. Under the agreement, the NNLE Union agreed to suspend the strike until June 2021 and the Group undertook an obligation to hold annual negotiations with the NNLE Union to reconsider employee remuneration.

Since 2019, the Company has also enhanced the labor conditions, providing staff with higher remuneration, while it is also preparing a package of incentives.

In terms of reducing the threat of strikes, lockouts and other labor disputes, the Company developed a mechanism for submitting claims related to the working conditions of employees – "Rules for receiving and considering complaints on Georgian Railway." In addition, the Company is currently working on a draft collective agreement with the NNLE Union, providing certain guarantees to diminish the risk of strikes, lockouts and other labor disputes.

To sum up, the risk reduction measures have substantially reduced the prevalence of labor disputes affecting the Company, which have been reduced to a minimum.

FINANCIAL RISKS

CREDIT RISK

Likelihood: Medium
Severity: Medium
Risk Category: Medium

The Group's exposure to credit risk is heavily influenced by the individual characteristics of each of its customers. However, the Group's management also takes into consideration the factors that may influence the credit risk presented by 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. In addition, 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 or otherwise of previous financial difficulties.

LIQUIDITY RISK

Likelihood: Medium
Severity: Medium
Risk Category: Medium

Liquidity risk refers to a situation where the Group encounters difficulty in meeting the obligations associated with its financial liabilities settled by 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 its 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

Likelihood: High
Severity: High
Risk Category: Medium

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

The Group quotes its freight tariffs in USD and a significant proportion of its capital expenditures are also denominated in USD. Meanwhile, some operating expenses, including rental charges for railcars of other national railway operators, continue to be denominated in CHF. As of 31 December 2023, the Group's outstanding current and non-current loans and borrowings, which stood at GEL 1,376.1 million, were denominated in USD. Meanwhile, a portion of the Group's trade payables incurred are denominated in USD.

To mitigate the impact of foreign currency fluctuations, the Group has a natural hedging system in place. This system leverages the fact that if liabilities increase due to depreciation of the GEL against the USD, revenues in USD also increase, thereby providing a natural hedge against currency risk. This strategy helps to reduce the Group's vulnerability to exchange rate fluctuations and minimizes the impact thereof on its financial performance.

INCREASE OF ENERGY COST

Likelihood: High
Severity: Medium
Risk Category: Medium

The Group faces a significant risk related to energy costs, especially electricity, which constitutes a substantial portion of its operating expenses. With approximately 98% of its railway network electrified, the Group heavily relies on electricity for the functioning of its locomotives, vehicles and buildings.

Changes in energy prices, particularly when significant, could adversely affect the Group's operating expenses and results. Factors such as tightened regulation or higher taxation on GHG emissions could contribute to cost escalation here.

Historically, the Group previously had a fixed tariff agreement for electricity with JSC EnergoPro Georgia, securing prices for more than 90% of its electricity needs. However, this agreement expired in September 2021 and the Group now purchases electricity on the open market. This shift was influenced by structural changes in the Georgian electricity market, leading to uncertainties as market participants have had to adapt to the new rules.

Further increases in energy prices, especially electricity, could significantly impact the Group's financial performance, affecting profitability and competitiveness. Higher energy costs could also hinder the Group's ability to maintain and expand its infrastructure and rolling stock, which is crucial for its operations.

Moreover, the Group's repair and maintenance expenses have been significantly affected by inflation, resulting in substantial increases. These costs are closely tied to the Group's rolling stock equipment balance, its utilization rate and transportation volume. Higher repair and maintenance costs could strain the Group's financial resources, potentially leading to increased downtime for both equipment and infrastructure, thereby impacting service reliability and potentially compromising customer satisfaction.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FY 2023 AND Q4 2023

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

REVENUE
('000 GEL)

Q4 2023	FY 2023
145,970	627,173
+20.5% from Q4 2022 -16.8% from Q3 2023	-7.1% from FY 2022

RESULTS FROM OPERATING ACTIVITIES
('000 GEL)

Q4 2023	FY 2023
-9,097	97,561
-123.4% from Q4 2022 -117.4% from Q3 2023	-55.3% from FY 2022

ADJUSTED EBITDA
('000 GEL)

Q4 2023	FY 2023
6,126	168,440
-90.7% from Q4 2022 -91.4% from Q3 2023	-40.7% from FY 2022

ADJUSTED EBITDA MARGIN

Q4 2023	FY 2023
4.20%	26.86%
-31.6 points from Q4 2022 -36.6 points from Q3 2023	-15.3 points from FY 2022

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

Q4 2023	FY 2023
31,010	139,342
-8.5% from Q4 2022 -11.4% from Q3 2023	+3.2% from FY 2022

NET DEBT TO ADJUSTED EBITDA

31 Dec 2023	31 Dec 2022
6.49	3.93
5.19 as at 30 September 2023	

TONS
('000)

Q4 2023	FY 2023
3,295	13,551
-14.9% from Q4 2022 -8.6% from Q3 2023	-8.3% from FY 2022

TKM
('million)

Q4 2023	FY 2023
916	3,804
-13.5% from Q4 2022 -9.4% from Q3 2023	-8.6% from FY 2022

NUMBER OF PASSENGERS
('000)

Q4 2023	FY 2023
427	2,283
+312.3% from Q4 2022 -42.1% from Q3 2023	+42.3% from FY 2022

PASSENGER-KILOMETERS
('million)

Q4 2023	FY 2023
150	687
+19.2% from Q4 2022 -33.0% from Q3 2023	+42.3% from FY 2022

MAIN DEVELOPMENTS IN 2023

- Passenger transportation increased by 50.3%; and
- In July 2024, Fitch upgraded the Company's long-term outlook to “positive” from “stable” and verified its “BB-” rating, while in December 2022, S&P affirmed the Company’s “BB-” rating and set the Group’s long-term outlook to “stable.”

I. PROFIT OR LOSS STATEMENT

PROFIT AND LOSS STATEMENT

For the year ended 31 December	TOTAL		CHANGE		
GEL '000	2023	2022	%	% constant currency	Absolute
Revenue	627,173	674,773	*(7.1)*	*3.1*	*(47,600)*
Other income	8,993	15,825	*(43.2)*	*(37.0)*	*(6,832)*
Employee benefits expense	(239,056)	(197,708)	*20.9*	*34.2*	*(41,348)*
Electricity, consumables and maintenance costs	(74,722)	(80,207)	*(6.8)*	*3.4*	*5,485*
Other expenses	(153,948)	(128,521)	*19.8*	*32.9*	*(25,427)*
Adjusted EBITDA	168,440	284,162	*(40.7)*	*(34.2)*	*(115,722)*
Adjusted EBITDA margin	*26.86%*	*42.11%*	*NA*	*NA*	*(15.3)*
Depreciation and amortization expense	(76,895)	(66,585)	*15.5*	*28.1*	*(10,310)*
Impairment gain/(loss) on trade receivables	6,016	840	*616.2*	*694.6*	*5,176*
EBIT	97,561	218,417	*(55.3)*	*(50.4)*	*(120,856)*
Finance income and cost	(10,166)	178,908	*(105.7)*	*(106.3)*	*(189,074)*
Profit before income tax	87,395	397,325	*(78.0)*	*(75.6)*	*(309,930)*
Income tax expense	(619)	(644)	*(3.9)*	*6.6*	*25*
Profit and total comprehensive income	86,776	396,681	*(78.1)*	*(75.7)*	*(309,905)*

PROFIT AND LOSS STATEMENT (QUARTERLY)

For the period ended

GEL '000	Q4 2023	Q4 2022	y-o-y %	Q3 2023	q-o-q %
Revenue	145,970	183,619	*(20.5)*	*175,484*	*(16.8)*
Other income	2,419	(2,664)	*(190.8)*	*3,059*	*(20.9)*
Employee benefits expense	(63,312)	(53,505)	*18.3*	*(55,882)*	*13.3*
Electricity, consumables and maintenance costs	(18,256)	(22,122)	*(17.5)*	*(17,783)*	*2.7*
Other expenses	(60,694)	(39,530)	*53.5*	*(33,231)*	*82.6*
Adjusted EBITDA	6,126 *4.20%*	65,798 *35.83%*	*(90.7)* *NA*	*71,648* *40.83%*	*(91.4)* *NA*
Depreciation and amortization expense	(22,112)	(25,137)	*(12.0)*	*(19,124)*	*15.6*
Impairment gain/(loss) on trade receivables	6,889	(1,796)	*(483.6)*	*(281)*	*(2,551.6)*
EBIT	(9,097)	38,865	*(123.4)*	*52,243*	*(117.4)*
Finance income and cost	(6,626)	79,563	*(108.3)*	*(36,072)*	*(81.6)*
Profit before income tax	(15,722)	118,429	*(113.3)*	*16,170*	*(197.2)*
Income tax expense	(54)	(184)	*(70.7)*	*(66)*	*(18.2)*
Profit and total comprehensive income	(15,776)	118,244	*(113.3)*	*16,104*	*(198.0)*

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

1.1 REVENUE

Most of the Group's revenue (about 55% in 2023) 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 2023. Of note, a substantial proportion of GR's transit transportation comes from trade between Europe and Central Asia.

REVENUE BREAKDOWN

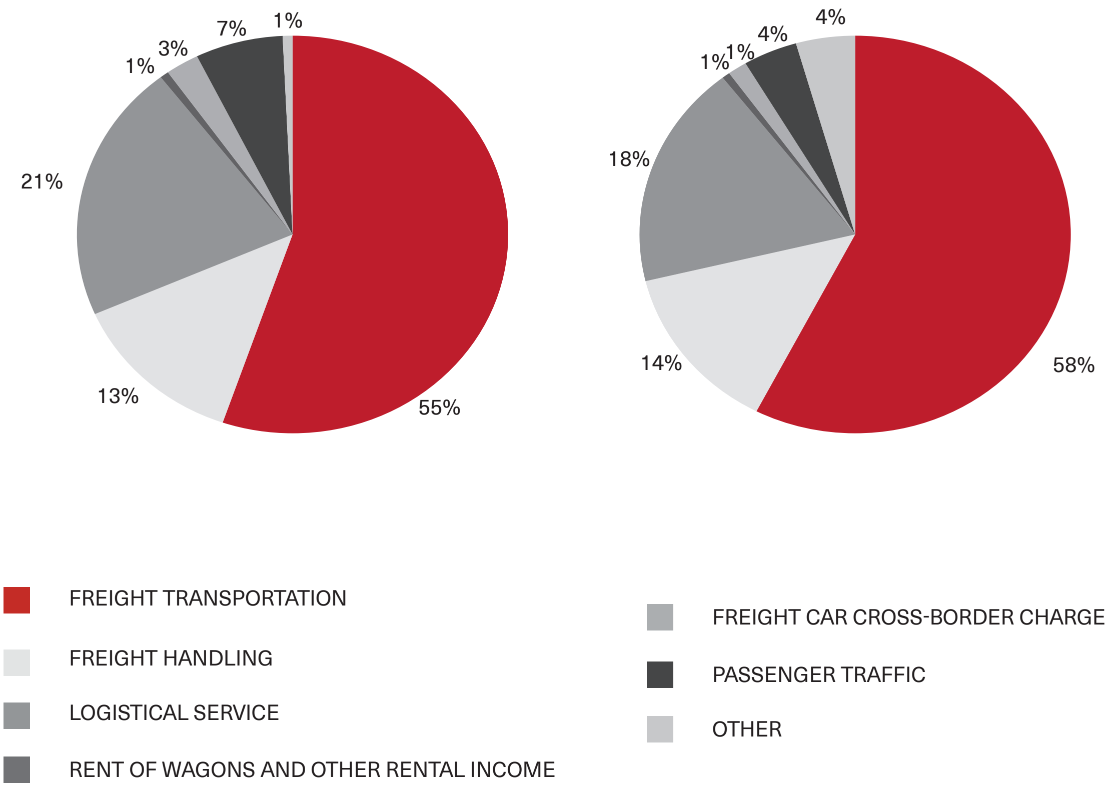
For the year ended 31 December	TOTAL		CHANGE		
GEL '000	2023	2022	*%*	*% constant currency*	*Absolute*
Freight transportation	346,537	388,446	*(10.8)*	*(1.0)*	*(41,909)*
Freight handling	82,729	92,180	*(10.3)*	*(0.4)*	*(9,451)*
Logistical service	132,213	123,071	*7.4*	*19.2*	*9,142*
Rent of wagons and other rental income	4,158	4,072	*2.1*	*13.3*	*86*
Freight car cross-border charge	15,705	9,703	*61.9*	*79.6*	*6,002*
Passenger traffic	41,219	27,423	*50.3*	*66.8*	*13,795*
Other	4,612	29,878	*(84.6)*	*(82.9)*	*(25,266)*
Revenue	627,173	674,773	*(7.1)*	*3.1*	*(47,600)*
Other income	8,993	15,825	*(43.2)*	*(37.0)*	*(6,832)*

REVENUE BREAKDOWN (QUARTERLY)

For the period ended GEL '000	Q4 2023	Q4 2022	*y-o-y*	Q3 2023	*q-o-q*
Freight transportation	85,055	93,709	*(9.2)*	91,095	*(6.6)*
Freight handling	19,565	25,957	*(24.6)*	22,755	*(14.0)*
Logistical service	26,993	29,816	*(9.5)*	37,248	*(27.5)*
Rent of wagons and other rental income	1,028	(334)	*(407.8)*	1,101	*(6.6)*
Freight car cross-border charge	4,215	4,118	*2.4*	7,558	*(44.2)*
Passenger traffic	8,335	7,601	*9.7*	14,869	*(43.9)*
Other	780	22,750	*(96.6)*	859	*(9.2)*
Revenue	145,970	183,619	*(20.5)*	175,484	*(16.8)*
Other income	2,419	(2,664)	*(190.8)*	3,059	*(20.9)*

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

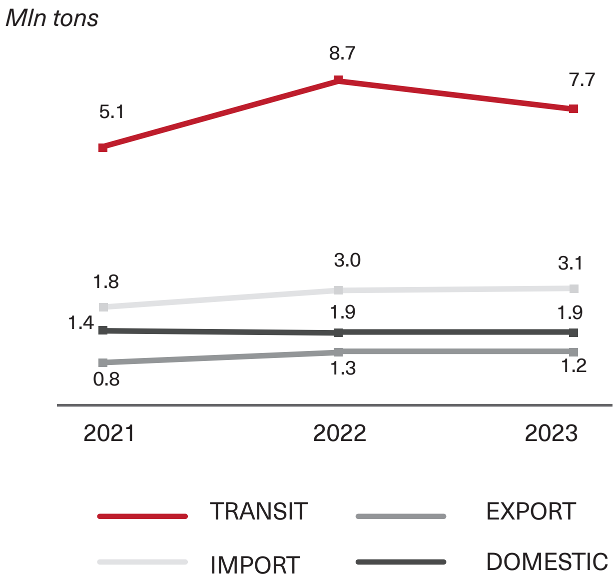
The following charts present the revenue breakdown for the years of 2023 and 2022:

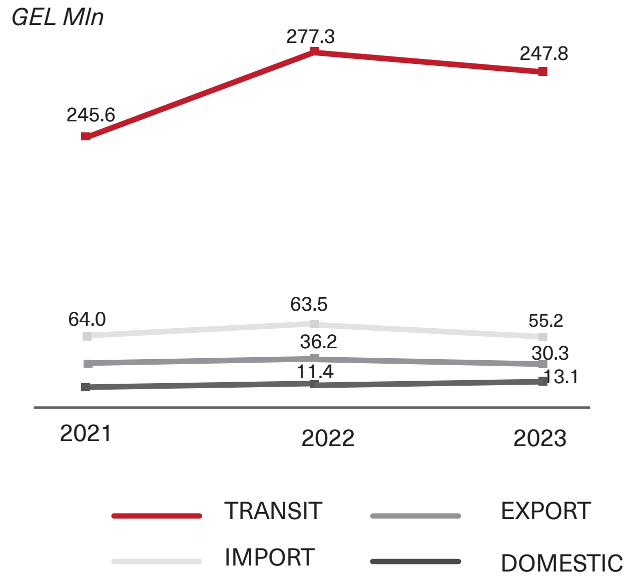


FREIGHT TRANSPORTATION

The Group's freight transportation consists of domestic, import, export and transit transportation. In that same order, the split by tons among the above-mentioned directions in 2023 was about 12%, 23%, 9% and 57%, respectively. Overall, 99.9% of revenue from freight transportation is denominated in USD.

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





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 (expressed in ton-kilometers).

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

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

AVERAGE RATES

	Q4 2023	Q4 2022	*% change*	Q3 2023	*% change*	2023	2022	*% change*
USD	2.69	2.73	*(1.45)*	2.62	*2.78*	2.63	2.92	*(9.87)*
CHF	3.04	2.83	*7.15*	2.97	*2.37*	2.93	3.06	*(4.38)*

REPORTING DATE SPOT RATES

	31-Dec-23	31-Dec-22	*% Change*	30-Sep-23	*% Change*	31-Dec-21
USD	2.69	2.70	*(0.47)*	2.68	*0.41*	3.10
CHF	3.21	2.93	*9.42*	2.94	*9.12*	3.38

TRANSPORTATION BY DIRECTIONS

IMPORT TRANSPORTATION

Imports refer to the movement of cargo from foreign countries to Georgia. The share of imported cargo in the total transported volume was around 23% in 2023, compared to 20% in the previous year.

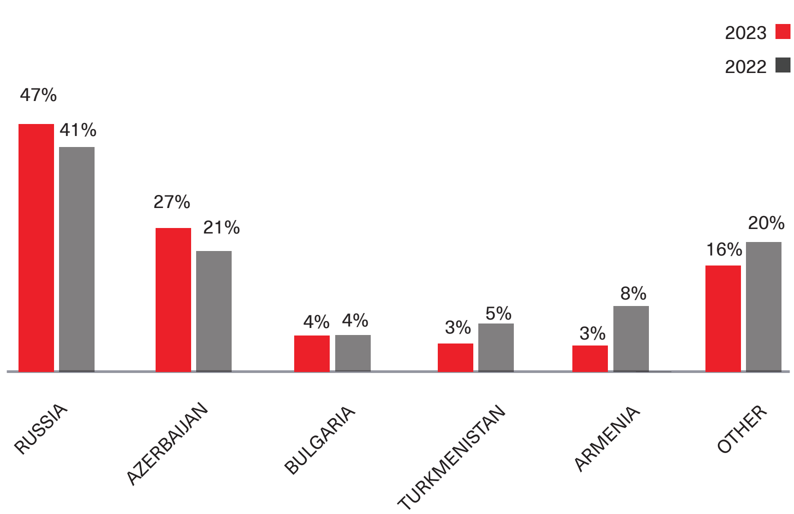
	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	%	% constant currency
Revenue (million GEL)	55.2	63.5	*(13.0)*	*(3.5)*
Freight Volume (million tons)	3.1	3.0	*3.7*	*NA*
Freight Turnover (million tkm)	412.8	453.6	*(9.0)*	*NA*
Revenue / tkm (in Tetri)	*13.38*	*14.01*	*(4.5)*	*6.0*

MAIN FACTORS INFLUENCING PERFORMANCE

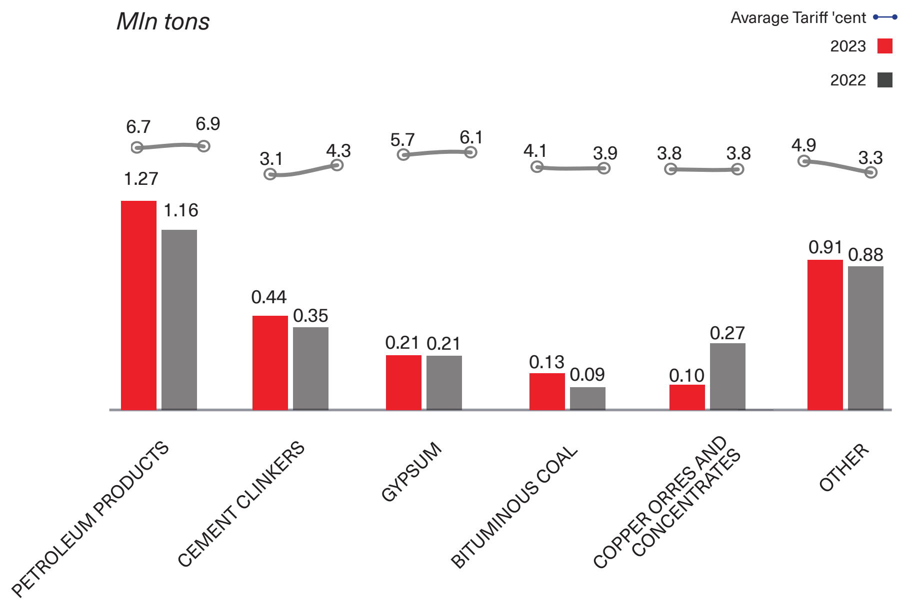
Freight turnover – In 2023, a 9% decrease in freight turnover was recorded, primarily driven by reduced transportation from Armenia and Uzbekistan, which was down by 55.2 million ton-km and 21.2 million ton-km, respectively. However, this reduction was partially offset by increased transportation from Azerbaijan, which rose by 39.0 million ton-km.

Revenue / tkm (in Tetri) – The 6% increase at constant currency in 2023 here was driven by a higher share of transportation from Russia, which is a relatively profitable direction. Meanwhile, the shares of transported cargo from Armenia and Bulgaria, which are less profitable directions, decreased compared to the previous year.

ORIGIN COUNTRIES



MAIN IMPORTED PRODUCT TYPES



MAIN DIRECTIONS OF CARGO IN 2023

Petroleum products - include motor fuel, bitumen, diesel fuel, aviation fuel and special petrol.

Motor fuel - 97% of such products were imported from Russia, mostly to satisfy domestic demand.

Bitumen - 99% of these product were transported from Russia to Rustavi (Georgia), mostly used to make construction materials.

Diesel fuel - 67% imported from Russia and 13% from Azerbaijan, mainly to satisfy domestic demand.

Aviatin fule - 52% imported from Turkmenistan, 18% from Azerbaijan and 11% from Greece, mostly used by domestic aviation companies in Georgia.

Special petrol - 56% imported from Bulgaria and 32% from Romania, mainly to satisfy domestic demand.

Cement clinkers - imported from Azerbaijan and distributed to the Georgian cities of Rustavi (58%), Kaspi (20%) and Poti (14%), where cement factories are located.

Gypsum - imported from Azerbaijan and distributed to Kaspi (43%) and Rustavi (26%). Meanwhile, 30% was transported to Tbilisi, where plasterboards are produced.

Bituminous coal - imported from Russia and distributed to Kaspi (56%) and Rustavi (43%).

Copper ores and concentrates – transported from Armenia to Poti, where a factory producing non-ferrous metals from raw materials is located.

EXPORT TRANSPORTATION

Exports here refer to the transportation of goods from Georgia to international directions. The proportion of exported goods in the overall transported volume remained consistent at approximately 9% in both 2023 and 2022.

	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	%	% constant currency
Revenue (million GEL)	30.3	36.2	*(16.3)*	*(7.1)*
Freight Volume (million tons)	1.2	1.3	*(9.0)*	*NA*
Freight Turnover (million tkm)	334.2	365.4	*(8.5)*	*NA*
Revenue / tkm (in Tetri)	*9.07*	*9.91*	*(8.5)*	*1.6*

MAIN FACTORS INFLUENCING PERFORMANCE

Freight turnover – In 2023, there was a 9% decrease in freight turnover, primarily driven by reduced transportation from Armenia, down by 53.1 million ton-km compared to 2022. However, this reduction was partially offset by increased transportation from Kazakhstan, Azerbaijan and Bulgaria, which rose by 7.7 million ton-km, 7.5 million ton-km and 7.2 million ton-km, respectively.

Revenue / tkm (in Tetri) – The 2% increase in constant currency in 2023 was driven by a higher share of transportation to Azerbaijan and Kazakhstan, which are relatively profitable directions. Meanwhile, the share of transported cargo to Armenia, which is a less profitable direction, decreased compared to the previous year.

MAIN DIRECTIONS OF CARGO IN 2023

Ammonium nitrate – 99% was transported from Rustavi, where a fertilizer factory is located, to Poti Sea Port.

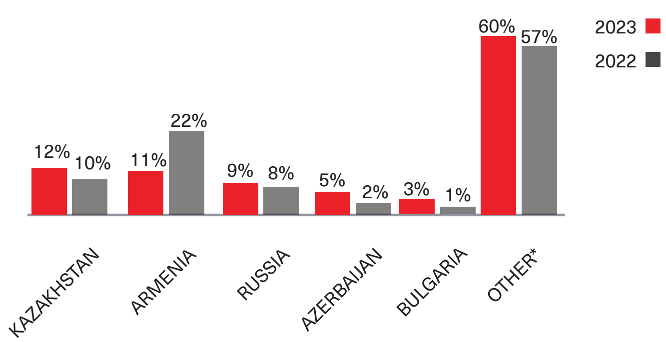
Mineral waters – mainly originated from Borjomi, where one of the largest mineral water bottling factories is located and distributed to Russia and Kazakhstan, with shares of 61% and 28%, respectively.

Silicon manganese – mainly originated from Zestaponi, where a ferroalloys plant is located and distributed to BSP, Türkiye and Italy, with shares of 82%, 8% and 5%, respectively.

Wheat – transported from Poti, where one of the country's biggest grain warehouses is located, to Armenia.

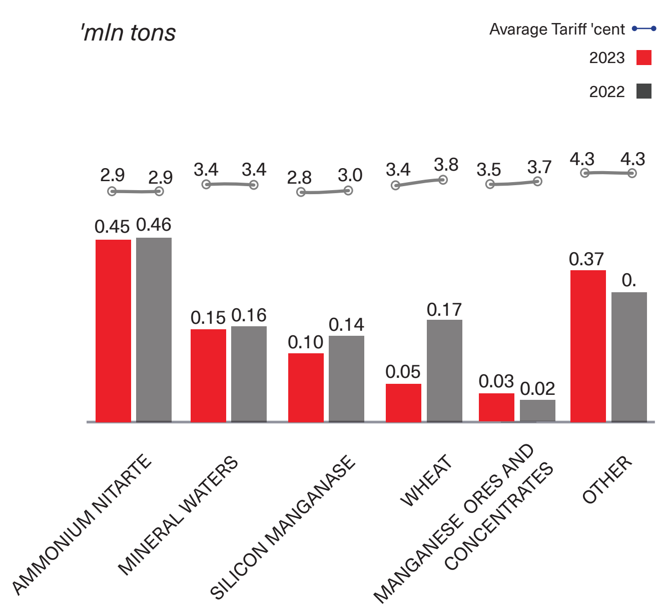
Manganese ores – 98% of these products were transported from Poti to Kazakhstan.

DESTINATION COUNTRIES



** The "other" category on the chart includes cargo transported to the seaports of Poti and Batumi by Georgian Railway before leaving the country by sea.*

MAIN EXPORTED PRODUCT TYPES



DOMESTIC TRANSPORTATION

Domestic transportation here concerns the movement of cargo from one station to another, within Georgia. The share of domestic transportation in total transported volume was 12% in 2023, compared to 13% in the previous year.

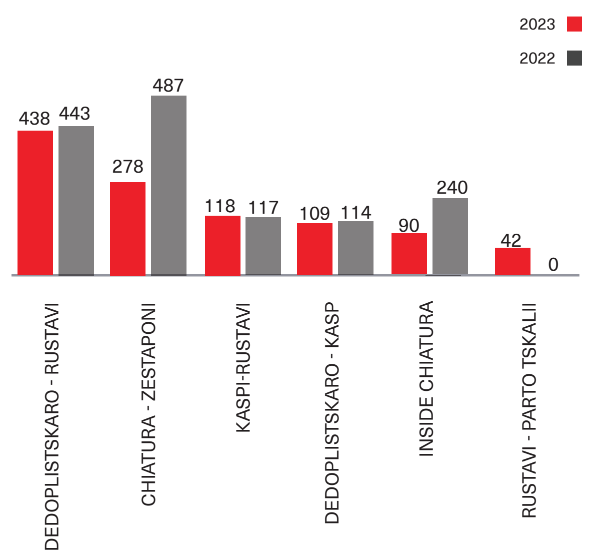
	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	%	% constant currency
Revenue (million GEL)	13.1	11.4	*15.2*	*27.8*
Freight Volume (million tons)	1.6	1.9	*(14.3)*	*NA*
Freight Turnover (million tkm)	171.6	160.8	*6.7*	*NA*
Revenue / tkm (in Tetri)	*7.66*	*7.10*	*8.0*	*19.8*

MAIN FACTORS INFLUENCING PERFORMANCE

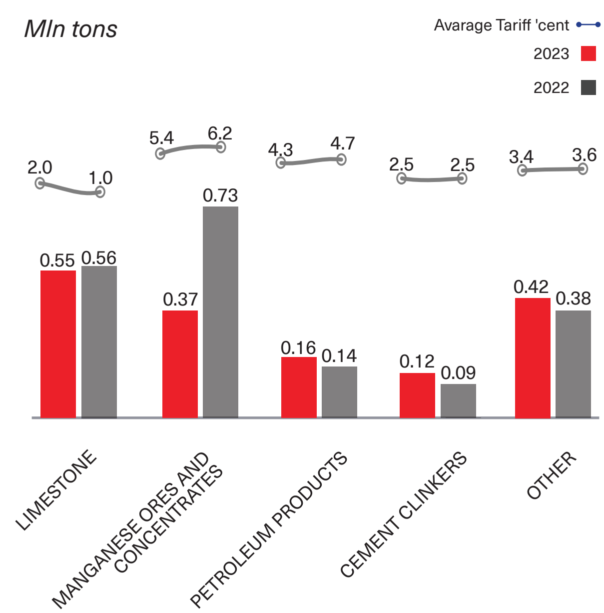
Freight turnover – In 2023, a 7% increase in freight turnover was primarily driven by increased transportation on the Rustavi-Parto Tskali route compared to 2022.

Revenue / tkm (in Tetri) –The 8% increase in 2023 was driven by changes in the product direction mix. In particular, the share of the domestic volume transported to Parto Tskali and Khashuri, which are relatively profitable directions, increased by 3% and 2%, respectively. Meanwhile, the share of cargo transported to less profitable directions decreased compared to the previous year.

MAIN ROUTES OF DOMESTIC TRANSPORTATION



MAIN DOMESTIC PRODUCT TYPES



MAIN DIRECTIONS OF CARGO IN 2023

Limestone – exclusively originated from Dedoplistskaro, where open limestone quarries are located and distributed to Rustavi and Kaspi, with shares of 80% and 20%, respectively.

Manganese ores and concentrates - originated from Chiatura, where a manganese mine is located and distributed to Zestaponi and elsewhere in Chiatura, where ferroalloys factories are located.

Petroleum products include motor petrol, diesel fuel and heavy fuel oil.

Motor petrol – largely distributed to Tbilisi and Samtredia, with shares of 71% and 18%, respectively and mainly for domestic use.

Diesel fuel – mainly distributed to Tbilisi, Samtredia and Kobuleti, with shares of 61%, 29% and 6%, respectively and mainly for domestic use.

Heavy fuel oil - transported from Rustavi to Parto Tskali and mainly for domestic use.

Cement clinkers - 99% transported from Kaspi to Rustavi, where cement factories are located.

TRANSIT TRANSPORTATION

Transit here refers to the movement of cargo from one foreign county to another, through Georgia. The share of transit transportation in the total transported volume was 57% in 2023, compared to 59% in 2022.

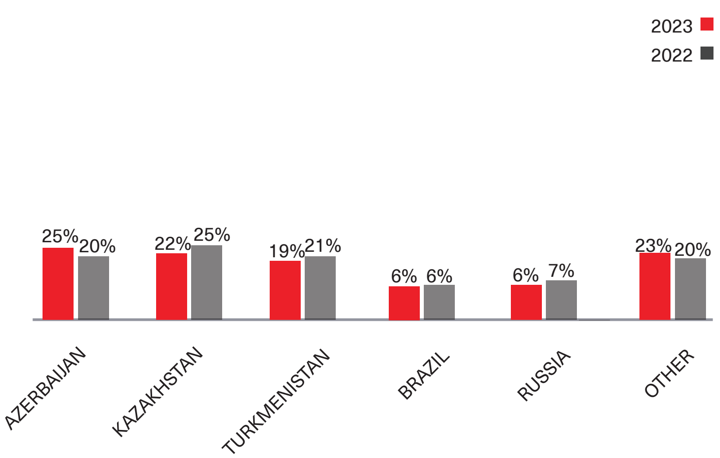
	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	%	% constant currency
Revenue (million GEL)	247.8	277.3	*(10.6)*	*(0.8)*
Freight Volume (million tons)	7.7	8.7	*(10.9)*	*NA*
Freight Turnover (million tkm)	2,885.8	3,184.2	*(9.4)*	*NA*
Revenue / tkm (in Tetri)	*8.59*	*8.71*	*(1.4)*	*9.4*

MAIN FACTORS INFLUENCING PERFORMANCE

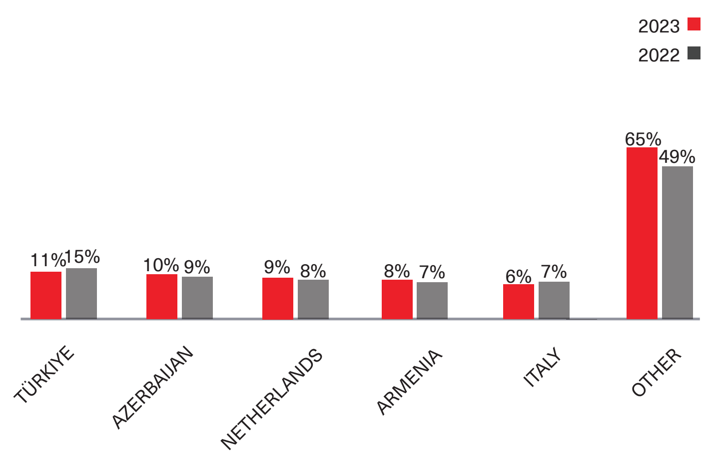
Freight turnover – In 2023, a 9% decrease in freight turnover was primarily driven by reduced transportation from Kazakhstan, Turkmenistan and Russia, down by 477,000 tons, 357,000 tons and 141,000 tons, respectively, compared to 2022. However, this reduction was partially offset by increased transportation from Azerbaijan, which rose by 145,000 tons.

Revenue / tkm (in Tetri) – The 9% increase in constant currency in 2023 was largely driven by a higher share of transportation on the Azerbaijan-Türkiye route, which is a relatively profitable direction. Meanwhile, the share of transported cargo on the Kazakhstan-Türkiye route, which is a less profitable direction, decreased compared to the previous year.

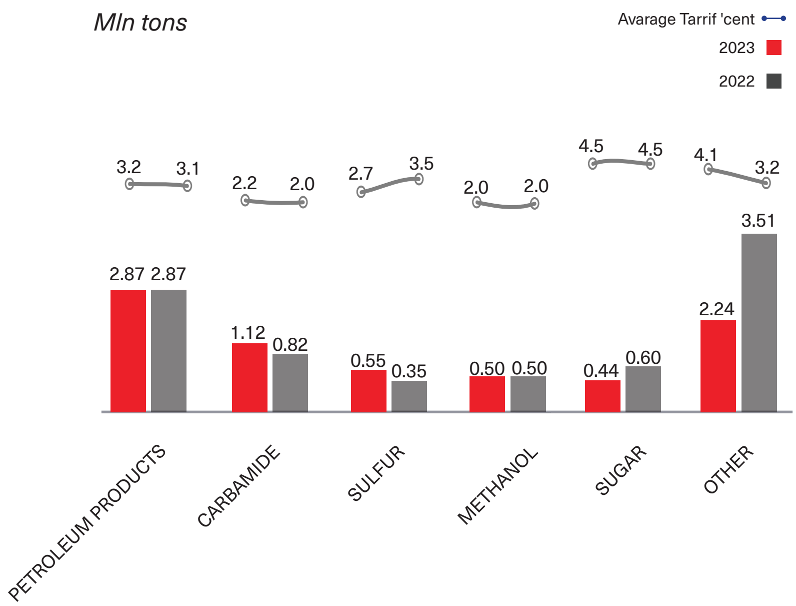
ORIGIN COUNTRIES



DESTINATION COUNTRIES



MAIN TRANSIT PRODUCT TYPES



MAIN DIRECTIONS OF CARGO IN 2023

Petroleum products include heavy fuel oil, light fuel oil, diesel fuel, gas oil and special petrol.

Heavy fuel oil – primarily transported on the Kazakhstan-Netherlands and Kazakhstan-Türkiye routes with 62% and 21% shares, respectively.

Light fuel oil – mainly transported on the Turkmenistan-Black Sea Ports and Turkmenistan-Italy routes, with 66% and 30% shares, respectively.

Diesel fuel – largely transported on the Azerbaijan-Black Sea Ports, Russia-Armenia and Azerbaijan-Türkiye routes, with 40%, 30% and 14% shares, respectively.

Gas oil – primarily transported on the Azerbaijan-Italy and Azerbaijan-Türkiye routes, with 31% and 21% shares, respectively.

Special petrol – 75% transported on the Russia-Armenia route.

Carbamide – primarily transported on the Turkmenistan-Black Sea Ports, Azerbaijan-Romania, Uzbekistan-Romania and Azerbaijan-Ukraine routes, with 53%, 10%, 9% and 4% shares, respectively.

Sugar –primarily transported on the Brazil-Azerbaijan, Brazil-Uzbekistan and Brazil-Armenia routes, with 56%, 36% and 7% shares, respectively.

Sulfur – 95% transported on the Kazakhstan-Poti Sea Port route.

Methanol – primarily transported on the Azerbaijan-Türkiye, Azerbaijan-Romania, Azerbaijan-Italy, Azerbaijan-Netherlands and Azerbaijan-Slovenia routes, with 22%, 18%, 16%, 13% and 11% shares, respectively.

TRANSPORTATION BY BORDER CROSSING

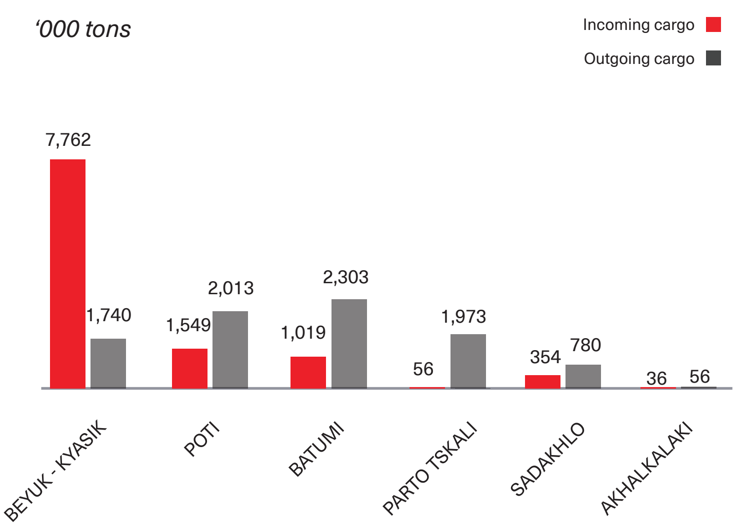
RAIL FREIGHT VOLUMES BY BORDER CROSSING

The JSC Georgian Railway operates three railway border crossings that link Georgia with three of its neighboring countries Azerbaijan, Armenia and Türkiye. The Beyuk-Kyasik station connects the Company to Azerbaijan and its corresponding border crossing station in Georgia is Gardabani. Meanwhile, the Sadakhlo station links Georgia to Armenia, while the Akhalkalaki station connects Georgia to Türkiye. Furthermore, the Company is linked to Black Sea ports, including Poti, Batumi and Parto Tskali (Kulevi).

The provided freight data indicate the points of entry and exit for cargo coming in and going out of the country. Notably, 76% of incoming freight in 2023 arrived through land border crossings, underscoring the significance of the East-West transportation axis. On the other hand, 71% of outgoing cargo was shipped from ports, emphasizing the substantial role of maritime transport via the Black Sea in exports. These data highlight that the primary route for freight volumes in Georgia is from the East, mainly through Azerbaijan, before departing the country via maritime transport.

** The Company also has a rail line connection with Russia through Abkhazia, which is currently not operational*

RAILWAY FREIGHT VOLUMES BY THE BORDER CROSSINGS



Incoming rail volume - The main entry point for incoming cargo was the Beyuk-Kyasik station, which accounted for 72% of the total incoming cargo and 95% of the cargo arriving via land border crossings. Relatively small proportions of the overall incoming cargo, with shares of 14% and 9%, were transported from the Poti Sea Port and BSP, respectively.

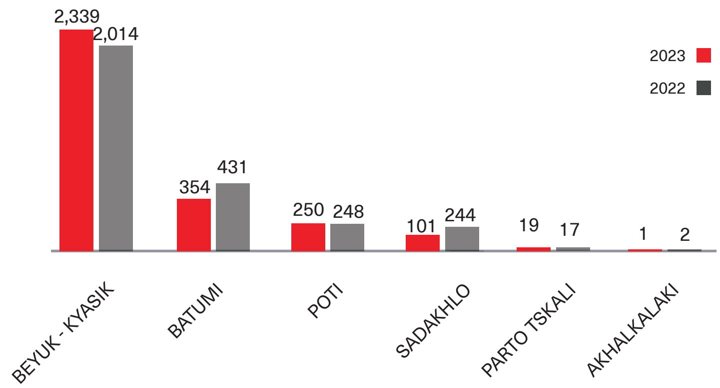
Outgoing rail volume – Overall, 71% of outgoing cargo left the country through Parto Tskali, BSP and Poti Sea Port. Conversely, Beyuk-Kyasik station served as the primary land departure point, representing 20% of the total volume leaving the country and facilitating 68% of the entire volume departing via land borders.

BORDER CROSSINGS FOR IMPORTED PRODUCTS

The share of total imports going through Beyuk-Kyasik station was 76% in 2023, compared to 68% in 2022. The 8 percentage-point increase was mainly driven by increased transportation from Russia, which rose by 317,000 tons. The main countries of origin using the Beyuk-Kyasik station were Russia, mostly petroleum products and Azerbaijan, mostly cement clinkers with 1.379 million tons and 805,000 tons, respectively.

The share of Black Sea ports in total imports was 20% in 2023, compared to 24% in 2022. The 4 percentage-point decrease in share was largely driven by reduced imports from Russia, Romania and Bulgaria. The main importer countries using Black Sea ports to enter Georgia were nevertheless Romania and Russia, mostly petroleum products, with 98,000 tons and 74,000 tons, respectively and then Brazil, mostly sugar, with 79,000 tons.

BORDER CROSSING FOR IMPORT *('000 TONS)*

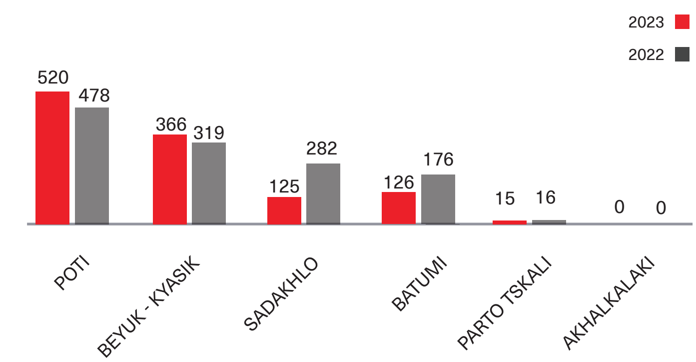


BORDER CROSSINGS FOR EXPORTED PRODUCTS

The share of total exports going through Black Sea ports was 57% in 2023, compared to 53% in 2022. The main exported products were ammonium nitrate and sillico manganese, accounting for 453,000 tons and 96,000 tons, respectively.

The share of total exports going through Beyuk-Kyasik station in in 2023 was 32%, compared to 25% in 2022. The main destination countries for exported cargo leaving the country through Beyuk-Kyasik station were Kazakhstan and Russia, with 138,000 tons and 109,000 tons, respectively, mostly mineral water.

BORDER CROSSING FOR EXPORT *('000 TONS)*

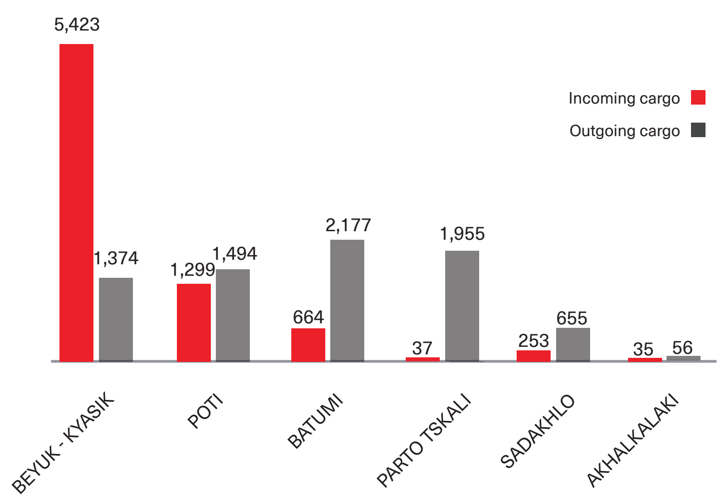


BORDER CROSSINGS FOR TRANSIT PRODUCTS

Beyuk-Kyasik station had the highest share of incoming cargo at 70% in 2023, compared to 75% in 2022. The main countries of origin for incoming cargo were Azerbaijan, Kazakhstan and Turkmenistan with 1.912 million tons, 1.686 million tons and 1.436 million tons, respectively.

Black Sea ports had the highest share of outgoing cargo with 73% in 2023, compared to 74% in 2022. The main destination countries were Türkiye, Netherlands and Italy, with 873,000 tons, 680,000 tons and 474,000 tons, respectively.

BORDER CROSSING FOR TRANSIT *('000 TONS)*



CONTAINER TRANSPORTATION

Approximately 10% of the total transported volume in 2023 was containerized goods, with the rest being bulk and breakbulk. Although container transportation has a relatively low share, its volumes have been increasing slowly but steadily in recent years.

For the year ended 31 December	2023	2022	2021
NUMBER OF CONTAINERS			
20 feet	46,292	48,351	40,026
40 feet	25,655	20,006	17,085
TOTAL	71,947	68,357	57,111
% Change	*5.3*	*19.7*	*(13.1)*
NUMBER OF CONTAINERS IN TEUS	97,602	88,363	74,196
% Change	*10.5*	*19.1*	*(10.1)*
TONS '000	1,415.6	1,502.6	1,201.6
% Change	(5.8)	*25.1*	*(8.8)*

Number of containers – The 5% increase in this category was due to a rise in the number of containers transported to Georgia by 9,200 units and from Azerbaijan by 8,100 units, which was partially offset by a decrease in the number of containers transported to Italy (by 5,900 units), as well as from Kazakhstan (by 5,900 units) and from Türkiye (by 2,500 units) in 2023, compared to 2022.

For the year ended 31 December	2023	2022	2021
REVENUE (GEL '000)			
20 feet containers	19,762	21,046	17,009
40 feet containers	13,565	13,156	12,743
TOTAL	33,327	34,202	29,753
% Change	*(2.6)*	*15.0*	*(11.5)*
AVERAGE TARIFF IN GEL			
20 feet containers	426.9	435.3	424.9
40 feet containers	528.7	657.6	745.9
AVERAGE TARIFF IN GEL	463.2	500.3	521.0
% Change	*(7.4)*	*(4.0)*	*1.9*

**Average tariff represents revenue divided by number of containers*

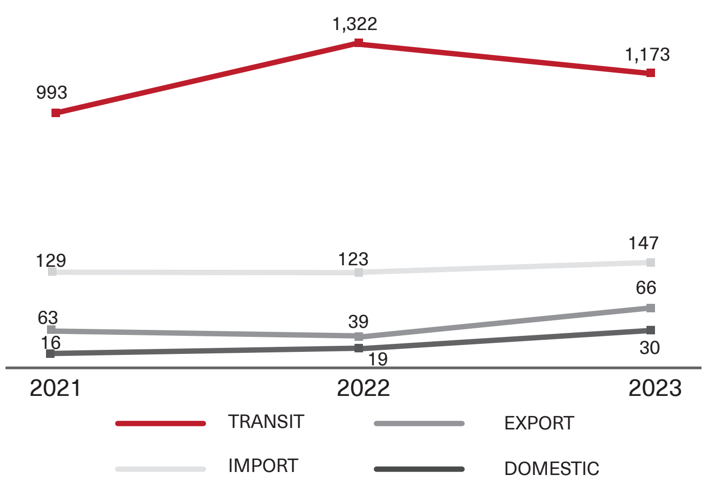
Revenue/number of containers - The 7% decrease here was mainly due to a decrease in the number of containers sent to Türkiye, which is a relatively profitable direction, while the number of containers going to Georgia, a less profitable direction, increased in 2023, compared to 2022.

The Group's container transportation consists of transit, import, export and domestic transportation. In that same order, the split among the mentioned directions in 2023 was about 83%, 10%, 5% and 2%, respectively, compared to 88%, 8%, 3% and 1%, respectively, in 2022.

In 2021, the COVID-19 pandemic had a significant effect on the volume of containers transported via Georgian ports. Nonetheless, from 2021 to 2023, the share of containerized cargo transported by the Group remained stable at around 10% of the total transported volume.

CONTAINERS BY TRANSPORTATION TYPE

'000 tons



FREIGHT HANDLING

General description

Freight handling revenue stems from the following sources:

- Revenue from station services, such as railcar marshaling, freight pick-up, delivery at customer facilities and other related services;
- Revenue from 24-hour railcar delays, for which a fee is paid by customers for the return of GR's own railcar after an initial 24 hours following its delivery at an agreed destination; and
- Revenue from other services, such as cargo loading/unloading, storage and accelerated service fees.

Currency and tariff setting

Most of the freight handling revenue (about 69% in 2023) was denominated in USD, while the rest was denominated in GEL. The Group sets its tariffs independently.

Drivers

The revenue from this source largely changes in line with transportation volumes (in tons). The correlation, however, is not perfect as there are many other influential factors.

FREIGHT HANDLING

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	%	*Absolute*
STATION SERVICES	57,161	64,367	*(11.2)*	*(7,206)*
24-HOUR SERVICE	23,082	26,368	*(12.5)*	*(3,286)*
OTHER	2,487	1,444	*72.1*	*1,042*
TOTAL	82,729	92,180	*(10.3)*	*(9,451)*

Revenue from freight handling for Q4 2023 decreased by 24.6%, compared to Q4 2022 and by 14.0%, compared to Q3 2023.

Factors influencing performance

A 10.3% decrease during 2023, compared to the previous year, was mainly driven by decrease in revenue from station services and 24-hour services by GEL 7.2 million and GEL 3.3 million, respectively, which in turn was due to decreased transportation by 8.3% *(see. 7.1 Freight SBU).*

LOGISTICS SERVICES

General description

Revenue from logistics services is generated by GR's subsidiaries.

Currency and tariff setting

In total, 30% of revenue from logistical services was denominated in USD in 2023, with the rest in GEL.

Drivers

Revenue from this source mainly changes in line with transportation turnover and volumes (in tons).

LOGISTICS SERVICES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	*%*	*Absolute*
REVENUE FROM LOGISTICS SERVICES	132,213	123,071	*7.4*	*9,142*

Revenue from logistics services for Q4 2023 decreased by 9.5%, compared to Q4 2022 and by 27.5% compared to Q3 2023.

Factors influencing performance

Revenue from logistical services increased by 7.4% (GEL 9.1 million). This growth was mainly driven by GR's subsidiary, which provides container transportation services. The subsidiary's increased income was primarily due to a higher share of containers being transported toward Azerbaijan and an increase in the average tariff for container transportation.

**Logistics revenue and expenditures should be taken into consideration jointly (See pg.156 Logistics Service Expenses).*

RENT OF WAGONS AND OTHER RENTAL INCOME

General description

The Group rents out wagons not used in its transportation operations and other property in order to accommodate greater utilization 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 being used in transportation operations as well as 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	2023	2022	*%*	*Absolute*
RENT OF WAGONS AND OTHER RENTAL INCOME	4,158	4,072	*2.1*	*86*

Rent of wagons and other rental income for Q4 2023 increased by 407.8%, compared to Q4 2022, however it decreased by 6.6% when compared to Q3 2023.

Factors influencing performance

Rent of wagons and other rental income experienced a slight increase of GEL 0.1 million in 2023, compared to 2022.

FREIGHT CAR CROSS-BORDER CHARGES

General description

Freight car cross-border charge revenue is derived when the Group's railcars are used by other 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	2023	2022	%	*Absolute*
FREIGHT CAR CROSS-BORDER CHARGES	15,705	9,703	*61.9*	*6,003*

Freight car cross-border charge revenue for Q4 2023 increased by 2.4%, compared to Q4 2022, however it decreased by 44.2% when compared to Q3 2023.

Factors influencing performance

The revenue from freight car cross-border charges increased by 61.9% in 2023, compared to 2022. That increase was attributed to a rise in effective tariffs in the Azerbaijani direction, as well as an increased share of revenue from CIS countries.

PASSENGER TRAFFIC

General description

Passenger traffic comprises passengers on domestic and international services. Here, domestic transportation includes regional and long-distance transportation. Long-distance traffic accounts for the majority of the Group's passenger traffic, while regional services, in particular suburban services, typically serve the low-income segments of society, with symbolic/minimal ticket fares. Georgian rail lines are linked to Azerbaijan and Armenia and international passenger transportation services are provided to both countries.

Currency and tariff setting

Tariffs for domestic trains are set independently by the Group in GEL. As a social partner of the GoG, the Group maintains affordable passenger transportation services by setting tariffs well below market prices. At the same time, GR runs certain passenger trains even when such routes are not economically feasible.

Tariffs for international transportation are set through negotiations conducted between countries and are denominated in CHF.

Drivers

Revenue from passenger traffic changes in line with the tariffs and the number of passengers transported.

PASSENGER TRANSPORTATION

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	%	*Absolute*
REVENUE IN GEL '000	41,219	27,423	*50.3*	*13,795*
NUMBER OF PASSENGERS '000	2,283	1,605	*42.3*	*679*

Revenue from passenger transportation for Q4 2023 increased by 9.7%, compared to Q4 2022, however decreased by 43.9% compared to Q3 2023.

Factors influencing performance

Revenue from passenger transportation rose by 50.3% in 2023 compared to 2022, driven by a 42.3% increase in the number of passengers transported. This increase was primarily attributed to higher utilization levels and increased tariffs on the mainline route starting from July 2022 *(see. 7.2 Passenger SBU).*

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	2023	2022	%	*Absolute*
REVENUE FROM SALE OF MATERIALS (SCRAP)	420	24,166	*(98.3)*	*(23,746)*
OTHER	4,192	5,712	*(26.6)*	*(1,520)*
TOTAL	4,612	29,878	*(84.6)*	*(25,266)*

Other revenue for Q4 2023 decreased by 96.6% compared to Q4 2022 and decreased by about 9.3% compared to Q3 2023.

Factors influencing performance

Other revenue decreased by GEL 25.3 million in 2023 compared to 2022, largely due to higher income from the realization of scrap (by GEL 23.7 million) and other materials (by GEL 1.5 million) in 2022.

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 two categories: continuing operations (such as clients' and suppliers' penalties); and non-continuing operations (such as provision reversals or sale of fixed assets), which are not recurring parts of the business.

OTHER INCOME

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2023**	**2022**	*%*	***Absolute***
CONTINUING OPERATIONS	5,717	5,113	*11.8*	*604*
NON-CONTINUING OPERATIONS	3,276	10,712	*(69.4)*	*(7,436)*
TOTAL	8,993	15,825	*(43.2)*	*(6,832)*

Other income for Q4 2023 increased by 190.8% compared to Q4 2022, but decreased by 20.9% compared to Q3 2022.

Factors influencing performance

Total other income decreased by GEL 6.8 million in 2023 compared to 2022. This decrease was primarily due to a reduction in income from non-continuing operations, specifically a GEL 4.2 million decrease in the realization of fixed assets. In addition, in 2022, there was income of GEL 4.1 million courtesy of tax purposes, further contributing to the marked difference in total other income between the two years.

1.3 OPERATING EXPENSES

General description

The majority of the Group's operating expenses are fixed. Variable costs, such as freight car cross-border charges, electricity for traction, consumables and maintenance expenses, are influenced by the volume of cargo and the number of passengers transported by the Group.

OPERATING EXPENSES BREAKDOWN

GEL '000	TOTAL		CHANGE		
For the year ended 31 December	2023	2022	%	% Constant Currency	Absolute
EMPLOYEE BENEFITS EXPENSE	239,056	197,708	*20.9*	*34.2*	*41,348*
DEPRECIATION AND AMORTIZATION EXPENSES	76,895	66,585	*15.5*	*28.1*	*10,310*
IMPAIRMENT GAIN/LOSS ON TRADE RECEIVABLES	(6,016)	(840)	*616.2*	*694.6*	*(5,176)*
ELECTRICITY	38,677	43,916	*(11.9)*	*(2.3)*	*(5,239)*
MATERIALS	14,482	15,237	*(5.0)*	*5.5*	*(755)*
REPAIRS AND MAINTENANCE	12,824	10,569	*21.3*	*34.6*	*2,255*
FUEL	8,739	10,485	*(16.7)*	*(7.5)*	*(1,746)*
FREIGHT CAR CROSS-BORDER CHARGES	8,325	10,928	*(23.8)*	*(15.5)*	*(2,603)*
LOGISTICS SERVICES	88,461	71,285	*24.1*	*37.7*	*17,176*
SECURITY AND OTHER OPERATING EXPENSES	32,558	22,054	*47.6*	*63.8*	*10,504*
TAXES OTHER THAN INCOME TAX	24,604	24,254	*1.4*	*12.5*	*350*
TOTAL	538,604	472,181	*14.1*	*26.6*	*66,423*

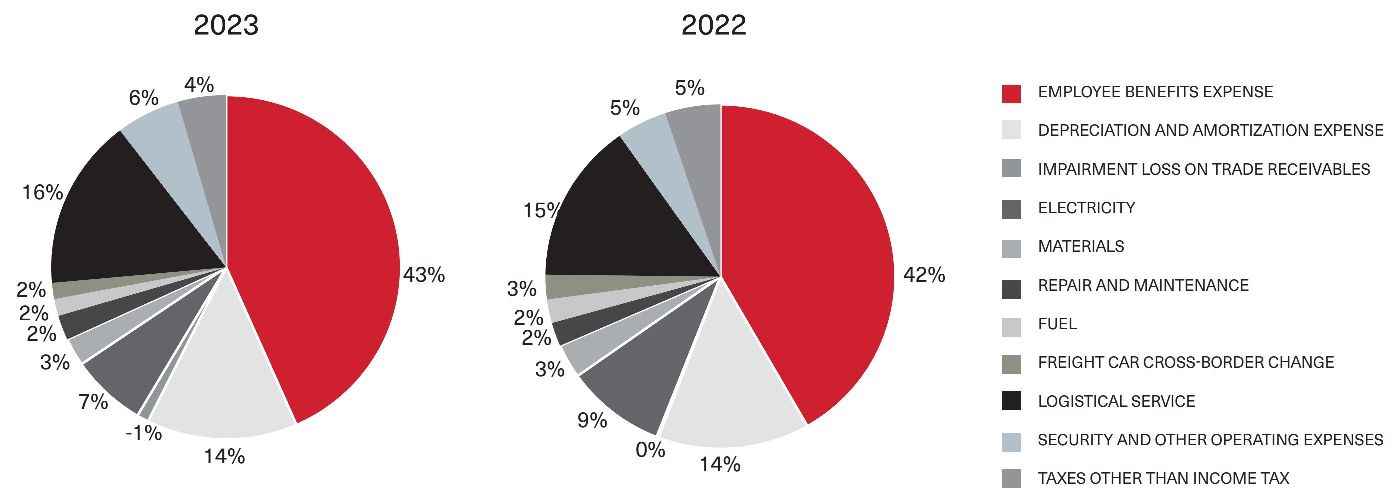
Total operating expenses for Q4 2023 increased by 10.8% compared to Q4 2022 and by 24.7% compared to Q3 2023.

Factors influencing performance

The increase in total operating expenses in 2023 was mainly driven by a rise in employee benefits (GEL 41.3 million), logistics services expenses (GEL 17.2 million), security and other operating expenses (GEL 10.5 million) and depreciation and amortization expenses (GEL 10.3 million).

This increase was partially offset by a decrease in electricity expenses by GEL 5.2 million and freight car cross-border charge by GEL 2.6 million.

The following charts present the cost structure for 2023 and 2022:



EMPLOYEE BENEFITS EXPENSES

General description

The Group's salary costs are fixed and denominated in GEL. Therefore, these are not affected by changes in the transported volume of cargo or the number of passengers, nor by fluctuations in foreign exchange rates.

EMPLOYEE BENEFITS EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2023**	**2022**	**%**	***Absolute***
SALARY	185,424	151,458	*22.4*	*33,966*
BONUS-REWARD	10,858	11,146	*(2.6)*	*(288)*
OTHER BENEFITS	42,774	35,103	*21.9*	*7,670*
TOTAL	239,056	197,708	*20.9*	*41,348*

JSC Georgian Railway is one of the largest corporate employers and taxpayers in Georgia. The Company holds great significance for the country, providing various important economic and social benefits.

Factors influencing changes

JSC Georgian Railway is one of the largest corporate employers and taxpayers in Georgia. The Company holds great significance for the country, providing various important economic and social benefits.

Total employee benefits expenses increased by GEL 41.3 million in 2023 compared to 2022, mainly due to the increase in average salary by 22% *(see 4.3 Social Focus).*

In January 2023, GR's management implemented a salary increase for approximately 12,000 employees, leading to a GEL 34.0 million increase in salary expenses for 2023.

Meanwhile, bonus-reward expenses remained at about the same level, with a slight decrease of 2.6% in 2023, compared to 2022.

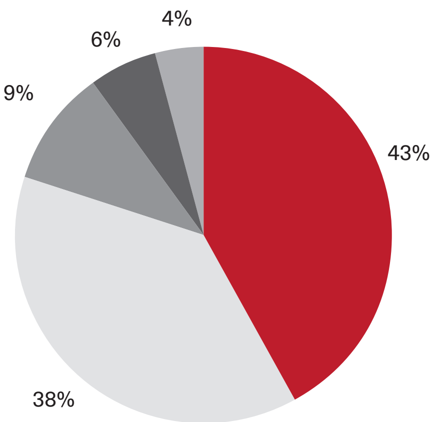
The GEL 7.7 million increase reported in other benefits was mainly due to a GEL 4.6 million rise in vacation-related expenses (due to increased salary costs), a GEL 2.6 million increase in compensation paid to employees under the pension reform conducted in GR's Head Office and Passenger SBU and a GEL 2.5 million rise in insurance costs (due to the insurance company raising its rates).

**In 2023, a pension reform was enacted to provide compensation to retirees.*

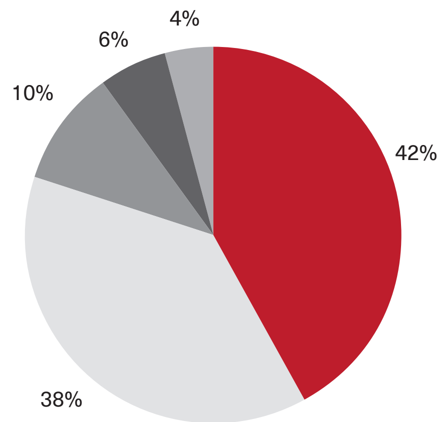
At the end of 2023, the number of GR employees (excluding subsidiaries) was 11,546, compared to 11,887 at the end of 2022.

The following charts present headcounts for the SBUs and the Head Office of the Company:

Distribution of staff by bussines units as at the end of September 2023



Distribution of staff by bussines units as at the end of September 2022



LAW ON FUNDED PENSIONS

According to the Law on Funded Pensions, introduced in January 2019, funded pension payments are made independently from the state pension and state compensation. Joining the funded pension scheme was mandatory for all employees, except for employees who had reached retirement age (60 for men and 55 for women), before the entry into force of this law. In addition, employees previously had the option to exit from a paid pension scheme if they reached the age of 40 prior to the law's enforcement. Employees could withdraw from their accumulative pension plan no later than five months after the new statute came into effect, but no sooner than three months. All employees over the retirement age are now eligible to join the funded pension program on a voluntary basis. The number of GR employees by the end of 2021 participating in the funded pension scheme surpassed 5,500.

DEPRECIATION AND AMORTIZATION EXPENSES

General description

The Group's depreciation and amortization expenses are mainly affected by the disposal, sale, or abandonment of property. These expenses are denominated in GEL and thus are not affected by fluctuations in foreign exchange rates.

DEPRECIATION AND AMORTIZATION EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	%	*Absolute*
DEPRECIATION AND AMORTIZATION	76,895	66,585	*15.5*	*10,310*

Depreciation and amortization expenses for Q4 2023 decreased by 12.0% compared to Q4 2022 and increased by 15.6% when compared to Q3 2023.

Factors influencing changes

In 2023, the Group recorded depreciation and amortization expenses of GEL 76.9 million, marking a 15.5% increase from the GEL 66.6 million recorded in 2022.

This rise was largely due to the reclassification and capitalization of "construction in progress (CIP)" under the Railway Modernization Project. Moreover, separating the engine and wagon after engine repair contributed to more individual depreciation calculations in 2023, compared to 2022.

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 with fixed tariffs (the "Electricity Agreement"), securing a price for more than 90% of the Company's needs. The remaining amount was procured on the open market. The Electricity Agreement expired in September 2021 however and since then the Company has been purchasing electricity on the open market with tariffs denominated in GEL.

Electricity expenses are split into two categories: electricity expenses for traction, which is driven by transportation turnover (the Group uses electric locomotives for freight transportation, 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	**2023**	**2022**	*%*	***Absolute***
ELECTRICITY EXPENSES FOR TRACTION	33,451	37,723	*(11.3)*	*(4,272)*
UTILITY EXPENSES	5,226	6,193	*(15.6)*	*(967)*
TOTAL	38,677	43,916	*(11.9)*	*(5,239)*

Electricity expenses in Q4 2023 decreased by 7.9% compared to Q4 2022, but increased by 7.2% when compared to Q3 2023.

Factors influencing changes

The decrease in electricity expenses in 2023 compared to 2022 amounted to GEL 5.2 million. This reduction was primarily due to a decrease in transportation turnover, as well as lower average tariffs for electricity *(see table: "Purchased Electricity and Weighted Average Tariff").*

PURCHASED ELECTRICITY AND WEIGHTED AVERAGE TARIFF

GEL '000	2023			2022		
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	12.4	532.7	0.234	10.8	472.4	0.276
FEBRUARY	11.2	495.5	0.233	11.3	546.4	0.290
MARCH	12.8	581.8	0.225	11.6	536.3	0.275
APRIL	11.7	522.3	0.223	12.8	647.2	0.262
MAY	13.5	653.3	0.158	13.8	707.3	0.218
JUNE	13.4	632.4	0.193	13.3	673.2	0.218
JULY	14.0	642.3	0.205	14.4	690.5	0.193
AUGUST	13.9	633.9	0.211	13.8	642.9	0.230
SEPTEMBER	12.9	587.5	0.234	14.0	674.9	0.245
OCTOBER	13.0	602.9	0.267	13.0	612.5	0.267
NOVEMBER	11.7	510.0	0.235	13.4	641.3	0.235
DECEMBER	12.6	552.9	0.221	13.7	620.0	0.221
TOTAL	153.2	6,947.4	0.220	155.8	7,464.7	0.244

Note: The table above includes only electricity consumed for traction

MATERIALS, REPAIR AND MAINTENANCE EXPENSES

General description

The Group purchases inventory and uses these materials for repair works performed internally by its employees. This consumption is presented under "materials expenses." However, some repair works are outsourced and are presented under "repair and maintenance expenses".

The Group's materials, repair and maintenance expenses are all tied to its rolling stock equipment balance, its utilization level and its transportation volume. When transportation by the Group's rolling stock increases, so too do the expenses for materials, repairs and maintenance. However, this expense can also decreased when there is an increase in capital expenditures on the fleet and infrastructure, which thus reduces the need for repairs and maintenance.

MATERIALS, REPAIR AND MAINTENANCE EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	*%*	*Absolute*
MATERIALS EXPENSES	14,482	15,237	*(5.0)*	*(755)*
REPAIR AND MAINTENANCE EXPENSES	12,824	10,569	*21.3*	*2,255*
TOTAL	27,305	25,805	*5.8*	*1,500*

Materials, repair and maintenance expenses for Q4 2023 decreased by 26.0% compared to Q4 2022 and decreased by 4.7 % when compared to Q3 2023.

Factors influencing changes

A GEL 1.5 million increase was mainly driven by a rise of GEL 2.3 million in repair and maintenance expenses during 2023. This was primarily driven by increased costs related to the repair of machinery (by GEL 1.5 million) and rolling stock (by GEL 1.3 million) in 2023, compared to 2022.

FUEL EXPENSES

General description

The Group's fuel consumption principally relates to diesel locomotives carrying out 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 (i.e. import, export, local, or transit). While transit cargo is mainly served at one of the Group's stations, most local, export and import cargoes are served in two stations (i.e. the origin and destination stations).

FUEL EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	*%*	*Absolute*
FUEL EXPENSES	8,739	10,485	*(16.7)*	*(1,746)*

Fuel expenses for Q4 2023 decreased by 31.3% compared to Q4 2022, but increased by 3.0% when compared to Q3 2023.

Factors influencing changes

Total fuel expenses decreased by 16.7% (GEL 1.7 million) in 2023, compared to 2022. This reduction was mainly due to fluctuations in petroleum product prices, as well as a decrease in the transported volume.

FUEL CONSUMPTION

	2023	2022	2021
CONSUMPTION ('000 TONS)	2,886	3,149	2,913
FUEL EXPENSES ('000 GEL)	8,738	10,486	6,545
AVG. TARIFF	*3.03*	*3.33*	*2.25*

FREIGHT CAR CROSS-BORDER CHARGE EXPENSES

General description

Freight car cross-border charge expenses refer to the short-term rent costs incurred from the usage of other railways' railcars on the Group's network, for which a daily fee is charged. These expenses counter the freight car cross-border charge revenues. Meanwhile, these expenses are based on CHF tariffs and thus tied to the GEL/CHF exchange rate and affected by the amount of cargo GR transports using other railway companies' railcars.

FREIGHT CAR CROSS-BORDER CHARGE EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2023**	**2022**	*%*	***Absolute***
FREIGHT CAR CROSS-BORDER CHARGE	8,325	10,928	*(23.8)*	*(2,603)*

Freight car cross-border charge expenses for Q4 2023 decreased by 6.8% compared to Q4 2022 and by 26.2% when compared to Q3 2023.

Factors influencing changes

Freight car cross-border charge expenses declined by 23.8% (GEL 2.6 million) in 2023 compared to 2022, mainly due to the decreased usage of platform cars and grain hopper.

LOGISTICS SERVICE EXPENSES

General description

Expenses for logistical services refer to costs incurred by the Group in the course of its logistics business dealing in international transportation and/or other modes of transport.

LOGISTICS SERVICE EXPENSES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2023**	**2022**	*%*	***Absolute***
LOGISTICS SERVICES	88,461	71,285	*24.1*	*17,176*

Expenses for logistical services for Q4 2023 increased by 84.7% compared to Q4 2022 and by 190.6% when compared to Q3 2023.

Factors influencing changes

Expenses for logistical services in 2023 increased by 24.1% (GEL 17.2 million), compared to 2022. This rise was primarily attributable to the increased freight forwarding expenses of GR's subsidiary providing container transportation services.

**Logistics revenue and expenditure should be taken into consideration jointly (see pg. 145 Logistical Services).*

SECURITY AND OTHER OPERATING EXPENSES

General description

Security expenses mainly comprise the costs of protecting the Group's buildings, depots and railway stations. Meanwhile, other operating expenses consist of items such as communication, legal costs, consulting services, membership fees, rent and advertising.

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	**2023**	**2022**	*%*	***Absolute***
SECURITY	12,364	10,390	*19.0*	*1,974*
OTHER OPERATING EXPENSES	20,193	11,664	*73.1*	*8,529*
TOTAL	32,558	22,054	*47.6*	*10,503*

Security and other operating expenses for Q4 2023 increased by 14.0% compared to Q4 2022, but decreased by 16.7% when compared to Q3 2023.

Factors influencing changes

A 47.6% increase in security and other operating expenses in 2023 compared to 2022 was mainly caused by a rise specifically in other operating expenses.
Security expenses increased by 19.0% (or GEL 2.0 million) in 2023 compared to 2022, mainly due to an increased average tariff on security services.

At the same time, the increase in other operating expenses was mainly due to higher costs related to software and hardware services, audit services, leasing expenses, rail welding services and the dismantling of non-functional fixed assets.

TAXES OTHER THAN INCOME TAX

General description

Land tax is determined by the municipalities in which the land is located, while property tax is calculated at 1% of the average book value of the asset. 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	**2023**	**2022**	*%*	***Absolute***
PROPERTY TAX	12,469	11,579	*7.7*	*890*
LAND TAX	10,980	11,531	*(4.8)*	*(551)*
OTHER TAXES	1,155	1,143	*1.0*	*11*
TOTAL	24,604	24,254	*1.4*	*350*

Taxes other than income tax for Q4 2023 increased by 4.0% compared to Q4 2022 and by 14.9% when compared to Q3 2023.

Factors influencing changes

Taxes other than income tax remained almost unchanged in 2023 compared to 2022, with a slight increase of 1.4%.

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; once that point has been reached, the relevant amounts are written off directly against the given financial asset.

IMPAIRMENT GAIN/LOSS ON TRADE RECEIVABLES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	*%*	*Absolute*
IMPAIRMENT (GAIN)/LOSS ON TRADE RECEIVABLES	(6,016)	(840)	*615.8*	*(5,176)*

Impairment gain on trade receivables for Q4 2023 increased by 483.7% compared to Q4 2022 and increased by 2552.7% when compared to Q3 2023.

Factors influencing changes

In 2023, the Group recognized an impairment gain of GEL 6.0 million on trade receivables, marking a significant increase from the GEL 0.8 million impairment gain recorded in 2022 due to successful litigation.

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.

Finance cost mainly entails 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 revenues are mostly denominated in hard currencies (USD and CHF). As most of the 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	2023	2022	%	*Absolute*
INTEREST INCOME	37,229	30,338	*22.7*	*6,891*
NET IMPAIRMENT ADJUSTMENT ON OTHER FINANCIAL ASSETS	265	(395)	*(167.1)*	*660*
GAIN ON MODIFICATION OF FINANCIAL INSTRUMENTS	1,365	0	*100.0*	*1,365*
INTEREST EXPENSE	(61,090)	(62,471)	*(2.2)*	*1,381*
FX GAIN/LOSS	12,065	218,923	*(94.5)*	*(206,858)*
NET FINANCE INCOME/LOSS	(10,166)	186,396	*(105.5)*	*(196,562)*

Factors influencing changes

In 2023, the Group reported a GEL 10.2 million net finance loss, compared to a net finance gain of GEL 186.4 million in 2022. The difference of GEL 196.6 million here was mainly due to the fluctuation of the GEL against foreign currencies.

Fluctuations in the GEL/USD exchange rate significantly impact upon net finance income/cost. For instance, the Group saw a net foreign exchange gain of GEL 12.1 million due to a 0.5% appreciation of the GEL against the USD as of 31 December 2023, compared to 31 December 2022 (GEL/USD exchange rate of 2.6894 versus 2.7020). Similarly, the Group experienced a net foreign exchange gain of GEL 218.9 million largely because of the GEL's appreciation against the USD as of 31 December 2022 compared to 31 December 2021 (GEL/USD exchange rate of 2.7020 versus 3.0976).

The decrease in interest expenses in 2023 compared to 2022 was primarily due to the appreciation of the GEL against the USD, as the Group's debt is denominated in USD.

A GEL 6.9 million increase in interest income in 2023 compared to 2022 was mainly attributable to 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 these, the previous 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	2023	2022	*%*	*Absolute*
Income tax benefits/(costs)	(619)	(644)	*(3.9)*	*25*

Factors influencing changes

In May 2016, the Georgian Parliament approved changes to the Tax Code, adopting the Estonian tax model for businesses, except for profit-sharing companies. According to the model, income tax is paid on distributed profits instead of annual income, while undistributed profit is exempt.

During 2023, income tax expenses decreased by 3.9%, compared to 2022.

For detailed information about tax code in Georgia please scan

II. BALANCE SHEET

2.1 NON- CURRENT ASSETS

GEL '000 As at 31 December	TOTAL 2023	 2022	CHANGE %	 Absolute
PROPERTY, PLANT AND EQUIPMENT	1,921,379	1,831,197	*4.9*	*90,182*
OTHER NON-CURRENT ASSETS	158,910	181,709	*(12.5)*	*(22,799)*
OTHER RECEIVABLE	53,037	47,738	*11.1*	*5,299*
INVESTMENTS	27	0	*100.0*	*27*
TOTAL	2,133,353	2,060,644	*3.5*	*72,708*

Factors influencing changes

Property, plant and equipment – A GEL 90.2 million increase in property, plant and equipment in 2023, compared to 2022, was mainly due to the acceleration of construction works under the Railway Modernization Project.

Other non-current assets – A GEL 22.8 million decrease was primarily due to track superstructure* reclassification, from inventories to other long-term assets in 2022.

** The track superstructure is a multilayered construction consisting of: (a) the rails, which support and guide the train wheels; and (b) the sleepers (with their fastenings), which distribute the loads effected by the rails and retain the distance between them (gauge).*

2.2 CURRENT ASSETS

GEL '000 As at 31 December	TOTAL 2023	 2022	CHANGE %	 Absolute
INVENTORIES	37,330	33,944	*10.0*	*3,386*
TRADE AND OTHER RECEIVABLES	30,905	14,519	*112.9*	*16,386*
CURRENT TAX ASSETS	7,265	3,363	*116.0*	*3,901*
PREPAYMENTS AND OTHER CURRENT ASSETS	3,562	8,347	*(57.3)*	*(4,784)*
BANK DEPOSITS	0	4,071	*(100.0)*	*(4,071)*
CASH AND CASH EQUIVALENTS	283,547	274,629	*3.2*	*8,918*
TOTAL	362,609	338,873	*7.0*	*23,736*

Factors influencing changes

Inventories – GEL 3.4 million increase in inventories was largely due to increased construction and repair works in 2023, compared to 2022

Trade and othe receivables – GEL 16.4 million increase was due to the receivables of the subsidiary company, which had already been settled by the time of the publication of this report.

Current tax assets – GEL 3.9 million increase in 2023, compared to 2022, was due to a rise in inventory purchases, leading to a GEL 5.4 million increase in VAT *(see "Current Liabilities").*

Prepayments and other current assets – A GEL 4.8 million decrease in prepayments in 2023, compared to 2022, was due to a higher advance paid to suppliers (who deliver software services, as well as suppler who provides supplies for signaling, centralization and blocking systems) in 2022.

**For cash and cash equivalents, see "Cash Flow Statement."*

2.3 EQUITY

GEL '000	TOTAL		CHANGE	
As at 31 December	**2023**	**2022**	*%*	***Absolute***
CHARTER CAPITAL	1,055,031	1,055,031	*0.0*	*0*
NON-CASH OWNER CONTRIBUTION RESERVES	100,601	100,602	*(0.0)*	*(1)*
RETAINED EARNINGS	(287,589)	(374,365)	*(23.2)*	*86,776*
TOTAL	868,043	781,268	*11.1*	*86,775*

In 2023, total equity increased by GEL 86.8 million compared to 2022, primarily driven by a change in retained earnings.

2.4 NON-CURRENT LIABILITIES

In GEL '000	TOTAL		CHANGE	
As at 31 December	**2023**	**2022**	*%*	***Absolute***
LOANS AND BORROWINGS	1,339,840	1,378,147	*(2.8)*	*(38,307)*
ADVANCED RECEIVED FROM THE GOVERNMENT	46,593	46,594	*(0.0)*	*(1)*
TRADE AND OTHER PAYABLES	36,714	30,242	*21.4*	*6,472*
TOTAL	1,423,147	1,454,983	*(2.2)*	*(31,836)*

Factors influencing changes

Loans and borrowings – A GEL 38.3 million decrease in loans and borrowings was primarily due reclassification of secured loan in short term loans and borrowings, as at 31 December 2023, a financial covenant related to the Net debt to EBITDA ratio on the secured loan was not met, allowing the lender to request repayment on demand.

Trade and other payables – The 6.5 million increase in trade and other receivables was primarily due to the reclassification and recognition of long-term payables to the partnering company involved in the Railway Modernization Project.

2.5 CURRENT LIABILITIES

GEL '000	**TOTAL**		**CHANGE**	
As at 31 December	**2023**	**2022**	*%*	***Absolute***
LOANS AND BORROWINGS	36,298	14,273	*154.3*	*22,025*
TRADE AND OTHER PAYABLES	142,117	122,242	*16.3*	*19,875*
LIABILITIES TO THE GOVERNMENT	4,712	4,712	*0.0*	-
PROVISIONS	11,214	13,981	*(19.8)*	*(2,767)*
OTHER CURRENT LIABILITIES	10,430	8,058	*29.4*	*2,372*
TOTAL	204,771	163,266	*25.4*	*41,505*

Factors influencing changes

Trade and other payables – A GEL 19.9 million increase in 2023, compared to 2022, was mainly because of higher payments to suppliers constructing and designing signaling, centralization and blocking systems on the Kashuri-Zestafoni segment *(See 5.1 Railway Property).*

III. CASH FLOW STATEMENT

By the end of 2023, the Group held GEL 283.5 million in cash and cash equivalents. These cash resources are held to support working capital and fixed capital expenditures. In particular, fixed capital expenditures mainly entail the Railway Modernization Project, works on which are expected to be finalized by 2024 *(see 8.2 Ongoing Projects of 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	**2023**	**2022**	*%*	***Absolute***
CASH RECEIPTS FROM CUSTOMERS	620,993	691,891	*(10.2)*	*(70,898)*
CASH PAID TO SUPPLIERS AND EMPLOYEES	(444,178)	(403,670)	*10.0*	*(40,508)*
NET CASH FROM OPERATING ACTIVITIES	176,815	288,221	*(38.7)*	*(111,406)*

Factors influencing changes

Net cash from operating activities decreased by GEL 111.4 million in 2023 compared to 2022, primarily due to a decrease in cash receipts from customers, which in turn stemmed from a decrease in transported volumes. Moreover, there was an increase in cash paid to suppliers and employees, mainly due to a 22% rise in the average salary in January 2023 *(see 4.3 Social Focus).*

3.2 INVESTING ACTIVITIES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	**2023**	**2022**	*%*	***Absolute***
ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT	(139,342)	(134,968)	*3.2*	*(4,374)*
PROCEEDS FROM SALE OF PROPERTY, PLANT AND EQUIPMENT	262	7,383	*(96.4)*	*(7,121)*
INTEREST RECEIVED	34,133	27,434	*24.4*	*6,699*
INCREASE/DECREASE IN TERM DEPOSITS	4,071	(817)	*(598.2)*	*4,888*
ISSUANCE OF LOAN(S)	0	(21,568)	*(100.0)*	*21,568*
NET CASH USED IN INVESTING ACTIVITIES	(100,876)	(122,536)	*(17.7)*	*21,660*

Factors influencing changes

Cash used in investing activities decreased by GEL 21.7 million in 2023, compared to 2022. The decrease was mainly attributable to a loan of USD 7.0 million issued to JSC Joint Stock Company Development Fund of Georgia (Partnership Fund) (GR's parent company till December 2022) in the first quarter of 2022, as well as an increase in term deposits.

3.3 FINANCING ACTIVITIES

GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	*%*	*Absolute*
REPAYMENT OF BORROWINGS	(11,346)	(12,617)	*(10.1)*	*1,271*
INTEREST PAID	(55,511)	(57,829)	*(4.0)*	*2,318*
DIVIDENDS PAID	0	(26,356)	*(100.0)*	*26,356*
NET CASH USED IN FINANCING ACTIVITIES	(66,858)	(96,802)	*(30.9)*	*29,944*

Factors influencing changes

IIn 2023, cash used in financing activities decreased by GEL 29.9 million, compared to 2022.

Notably, the Group had distributed dividends to the owner, totaling GEL 26.4 million in 2022.

Meanwhile, the decrease in interest payments was attributed to the GEL's appreciation against foreign currencies.

APPENDIX

APPENDIX 1

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

'000 tons	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	*%*	*Absolute*
LIQUID CARGOES	4,805	4,771	*0.7*	*34*
OIL PRODUCTS	4,779	4,496	*6.3*	*284*
CRUDE OIL	26	275	*(90.7)*	*(250)*
DRY CARGOES	8,747	10,002	*(12.6)*	*(1,255)*
ORES	1,758	1,925	*(8.7)*	*(168)*
GRAIN	163	329	*(50.6)*	*(166)*
FERROUS METALS AND SCRAP	506	625	*(19.0)*	*(119)*
SUGAR	517	719	*(28.2)*	*(203)*
CHEMICALS AND FERTILIZERS	1,644	1,859	*(11.6)*	*(215)*
CONSTRUCTION FREIGHT	1,129	1,072	*5.3*	*57*
INDUSTRIAL FREIGHT	683	594	*15.1*	*90*
CEMENT	80	44	*81.2*	*36*
OTHER	2,268	2,834	*(20.0)*	*(567)*
TOTAL	13,551	14,773	*(8.3)*	*(1,222)*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

'000 tons	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	*%*	*Absolute*
IMPORT	3,065	2,955	*3.7*	*110*
EXPORT	1,155	1,270	*(9.0)*	*(115)*
DOMESTIC	1,621	1,893	*(14.3)*	*(271)*
TRANSIT	7,710	8,655	*(10.9)*	*(945)*
TOTAL	13,551	14,773	*(8.3)*	*(1,222)*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS (QUARTERLY)

'000 tons

For the year ended 31 December	Q4 2023	Q4 2022	*y-o-y %*	Q3 2023	*q-o-q %*
LIQUID CARGOES	1,104	1,267	*(12.9)*	1,259	*(12.3)*
OIL PRODUCTS	1,104	1,198	*(7.9)*	1,256	*(12.1)*
CRUDE OIL	0	69	*(99.5)*	3	*(89.4)*
DRY CARGOES	2,190	2,604	*(15.9)*	2,346	*(6.6)*
ORES	440	530	*(16.0)*	463	*(4.9)*
GRAIN	18	109	*(83.7)*	25	*(28.9)*
FERROUS METALS AND SCRAP	131	121	*8.3*	133	*(1.2)*
SUGAR	18	114	*(84.0)*	186	*(90.2)*
CHEMICALS AND FERTILIZERS	531	525	*1.2*	452	*17.6*
CONSTRUCTION FREIGHT	293	318	*(7.7)*	308	*(4.6)*
INDUSTRIAL FREIGHT	200	209	*(4.4)*	198	*0.9*
CEMENT	16	22	*(26.6)*	21	*(21.8)*
OTHER	542	656	*(17.3)*	561	*(3.3)*
TOTAL	3,295	3,871	*(14.9)*	3,604	*(8.6)*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS (QUARTERLY)

'000 tons

For the period ended	Q4 2023	Q4 2022	*y-o-y %*	Q3 2023	*q-o-q %*
IMPORT	792	766	*3.48*	816	*(2.9)*
EXPORT	291	347	*(16.05)*	266	*9.4*
DOMESTIC	427	564	*(24.20)*	480	*(10.9)*
TRANSIT	1,784	2,194	*(18.72)*	2,043	*(12.7)*
TOTAL	3,295	3,871	*(14.89)*	3,604	*(8.6)*

APPENDIX 2

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

In million ton-kilometers	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	%	*Absolute*
LIQUID CARGOES	1,464	1,497	*(2.2)*	*(33)*
OIL PRODUCTS	1,455	1,392	*4.5*	*63*
CRUDE OIL	9	105	*(91.3)*	*(96)*
DRY CARGOES	2,341	2,667	*(12.2)*	*(326)*
ORES	452	372	*21.5*	*80*
GRAIN	40	101	*(60.1)*	*(60)*
FERROUS METALS AND SCRAP	100	142	*(29.3)*	*(41)*
SUGAR	188	265	*(29.1)*	*(77)*
CHEMICALS AND FERTILIZERS	588	668	*(12.1)*	*(81)*
CONSTRUCTION FREIGHT	166	163	*1.8*	*3*
INDUSTRIAL FREIGHT	84	68	*22.9*	*16*
CEMENT	20	12	*62.6*	*8*
OTHER	703	876	*(19.7)*	*(173)*
TOTAL	3,804	4,164	*(8.6)*	*(360)*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

In million ton-kilometers	TOTAL		CHANGE	
For the year ended 31 December	2023	2022	%	*Absolute*
IMPORT	413	454	*(9.0)*	*(41)*
EXPORT	334	365	*(8.5)*	*(31)*
DOMESTIC	172	161	*6.7*	*11*
TRANSIT	2,886	3,184	*(9.4)*	*(298)*
TOTAL	3,804	4,164	*(8.6)*	*(360)*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS (QUARTERLY)

In million ton-kilometers

For the period ended	Q4 2023	Q4 2022	*y-o-y*	Q3 2023	*q-o-q*
LIQUID CARGOES	339	385	*(11.8)*	384	*(11.7)*
OIL PRODUCTS	339	358	*(5.1)*	384	*(11.6)*
CRUDE OIL	0	27	*(99.6)*	0	*(68.5)*
DRY CARGOES	577	674	*(14.5)*	627	*(8.0)*
ORES	121	117	*3.5*	112	*8.0*
GRAIN	3	32	*(89.7)*	6	*(45.5)*
FERROUS METALS AND SCRAP	23	19	*19.4*	30	*(21.9)*
SUGAR	5	41	*(87.9)*	66	*(92.5)*
CHEMICALS AND FERTILIZERS	190	190	*(0.3)*	163	*16.1*
CONSTRUCTION FREIGHT	39	49	*(21.6)*	45	*(13.5)*
INDUSTRIAL FREIGHT	24	23	*3.5*	24	*0.8*
CEMENT	3	6	*(47.0)*	5	*(34.0)*
OTHER	169	197	*(14.1)*	176	*(4.3)*
TOTAL	916	1,059	*(13.5)*	1,011	*(9.4)*

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS (QUARTERLY)

In million ton-kilometers

For the year ended 31 December	Q4 2023	Q4 2022	*y-o-y*	Q3 2023	*q-o-q*
IMPORT	116	96	*20.3*	118	*(1.7)*
EXPORT	86	103	*(16.8)*	77	*11.8*
DOMESTIC	43	51	*(14.1)*	49	*(11.1)*
TRANSIT	671	809	*(17.1)*	768	*(12.6)*
TOTAL	916	1,059	*(13.5)*	1,011	*(9.4)*

APPENDIX 3

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

'000 tons	2022				2023			
For the period ended	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
LIQUID CARGOES	873	1,368	1,262	1,267	1,155	1,287	1,259	1,104
OIL PRODUCTS	872	1,169	1,256	1,198	1,133	1,286	1,286	1,104
CRUDE OIL	1	199	6	69	22	1	3	0
DRY CARGOES	2,127	2,447	2,824	2,604	1,996	2,214	2,346	2,190
ORES	408	394	593	530	404	452	463	440
GRAIN	37	75	108	109	76	44	25	18
FERROUS METALS AND SCRAP	102	241	161	121	120	123	133	131
SUGAR	63	232	311	114	103	210	186	18
CHEMICALS AND FERTILIZERS	529	386	418	525	378	282	452	531
CONSTRUCTION FREIGHT	191	240	323	318	259	269	308	293
INDUSTRIAL FREIGHT	77	137	171	209	83	202	198	200
CEMENT	4	5	12	22	16	26	21	16
OTHER	715	737	727	656	559	607	561	542
TOTAL	3,000	3,815	4,086	3,871	3,151	3,501	3,604	3,295

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

'000 tons	2022				2023			
For the period ended	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
IMPORT	575	745	870	766	683	773	816	792
EXPORT	337	267	319	347	279	319	266	291
DOMESTIC	345	421	563	564	338	376	480	427
TRANSIT	1,744	2,383	2,335	2,194	1,851	2,033	2,043	1,784
TOTAL	3,000	3,815	4,086	3,871	3,151	3,501	3,604	3,295

APPENDIX 4

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

In million ton-kilometers	2022				2023			
For the period ended	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
LIQUID CARGOES	284	457	372	385	347	393	384	339
OIL PRODUCTS	284	380	370	358	338	393	384	339
CRUDE OIL	0	76	2	27	9	0	9	0
DRY CARGOES	581	661	751	674	534	602	627	577
ORES	74	69	112	117	92	127	112	121
GRAIN	11	23	34	32	17	13	6	3
FERROUS METALS AND SCRAP	19	61	42	19	22	25	30	23
SUGAR	24	85	114	41	39	77	66	5
CHEMICALS AND FERTILIZERS	191	135	153	190	136	99	163	190
CONSTRUCTION FREIGHT	28	36	50	49	41	42	45	39
INDUSTRIAL FREIGHT	11	16	18	23	12	24	24	24
CEMENT	1	1	4	6	4	7	5	3
OTHER	222	233	224	197	171	187	176	169
TOTAL	865	1,117	1,123	1,059	881	996	1,011	916

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

In million ton-kilometers	2022				2023			
For the period ended	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
IMPORT	102	131	125	96	80	99	118	116
EXPORT	94	72	95	103	78	94	77	86
DOMESTIC	28	35	47	51	36	44	49	43
TRANSIT	640	879	856	809	688	760	768	671
TOTAL	865	1,117	1,123	1,059	881	996	1,011	916

APPENDIX 5

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.The given table sets out the calculations of Net Financial Indebtedness to Adjusted EBITDA and in accordance with the above-mentioned Condition 3 (d) of the "Terms and Conditions of the Notes." However, these calculations are for information only and does not imply 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-23	Twelve-month period ended 31-Dec-22
REVENUE	627,173	674,773
OTHER INCOME	8,993	15,825
IMPAIRMENT LOSS ON TRADE RECEIVABLES	6,016	840
EMPLOYEE BENEFITS EXPENSES	(239,056)	(197,708)
DEPRECIATION AND AMORTIZATION EXPENSE	(76,895)	(66,585)
ELECTRICITY, CONSUMABLES AND MAINTENANCE COSTS	(74,722)	(80,207)
OTHER EXPENSES	(153,948)	(128,521)
RESULTS FROM OPERATING ACTIVITIES	97,561	218,417
FINANCE INCOME	50,924	249,402
FINANCE COSTS	(61,090)	(70,493)
NET FINANCE COSTS	97,561	178,908
PROFIT/(LOSS) BEFORE INCOME TAX	(10,166)	397,325
INCOME TAX BENEFIT	(619)	(644)
PROFIT/(LOSS)AND TOTAL COMPREHENSIVE INCOME/(LOSS)	86,776	396,681
RESULTS FROM OPERATING ACTIVITIES	97,561	218,417
DEPRECIATION ADD-BACK	76,895	66,585
IMPAIRMENT LOSS ON TRADE RECEIVABLES	(6,016)	(840)
ADJUSTED EBITDA	168,440	284,162
FINANCIAL INDEBTEDNESS	1,376,138	1,392,420
LESS:		
AVAILABLE CREDIT FACILITIES	0	62,976
CASH	**283,547**	274,629
NET FINANCIAL INDEBTEDNESS:	**1,092,591**	1,117,790
NET FINANCIAL INDEBTEDNESS/ADJUSTED EBITDA	**6.49**	**3.93**

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 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 2023

Contents

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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 2023, 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 material 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 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting 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 2023 and considering that the impairment test conducted at 31 December 2022 was sensitive to changes in key assumptions the Management concluded that there was a need to perform an impairment test at 31 December 2023. As a result of the impairment test conducted, the recoverable amount of	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;

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 2023. 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 Accounting 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.

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:

Nikoloz Chochua

KPMG Georgia LLC
28 June 2024

LIMITED LIABILITY COMPANY
KPMG
KPMG GEORGIA
404437695

’000 GEL	Note	31 December 2023	31 December 2022
Assets			
Property, plant and equipment	10	1,921,379	1,831,197
Other non-current assets	12	158,909	181,709
Other receivable	11	53,037	47,738
Investments in equity accounted investee	22	27	-
Non-current assets		**2,133,352**	**2,060,644**
Inventories	13	37,330	33,944
Tax assets		7,265	3,363
Prepayments and other current assets		3,562	8,347
Trade and other receivables	14	30,905	14,519
Term deposit		-	4,071
Cash and cash equivalents	15	283,547	274,629
Current assets		**362,609**	**338,873**
Total assets		**2,495,961**	**2,399,517**
Equity			
Share capital	16 (a)	1,055,031	1,055,031
Non-cash owner contribution reserve	16 (b)	100,602	100,602
Accumulated losses		(287,589)	(374,365)
Total equity		**868,044**	**781,268**
Liabilities			
Loans and borrowings	18	1,339,840	1,378,147
Advance received from the Government	16 (e)	46,593	46,594
Payables for non-current assets	19	36,714	30,242
Non-current liabilities		**1,423,147**	**1,454,983**
Loans and borrowings	18	36,298	14,273
Trade and other payables	19	142,117	122,242
Liabilities to the Government	16 (c)	4,712	4,712
Provisions	20	11,214	13,981
Other current liabilities		10,429	8,058
Current liabilities		**204,770**	**163,266**
Total liabilities		**1,627,917**	**1,618,249**
Total equity and liabilities		**2,495,961**	**2,399,517**

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**	**2023**	**2022**
Revenue	6	627,173	674,773
Other income		8,993	15,825
Employee benefit expenses		(239,056)	(197,708)
Depreciation and amortisation expense		(76,895)	(66,585)
Electricity, consumables and maintenance costs	7	(74,722)	(80,207)
Reversal of impairment on trade receivables	21(b)(ii)	6,016	840
Other expenses	8	(153,948)	(128,521)
Profit from operating activities		**97,561**	**218,417**
Finance income	9	38,859	30,478
Finance costs	9	(61,090)	(70,493)
Net foreign exchange gain	9	12,065	218,923
Net finance (costs)/ income		**(10,166)**	**178,908**
Profit before income tax		**87,395**	**397,325**
Income tax expense		(619)	(644)
Profit and total comprehensive income for the year		**86,776**	**396,681**

These consolidated financial statements were approved by the Management Board on 28 June 2024 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

'000 GEL	**Share capital**	**Non-cash owner contribution reserve**	**Accumulated losses**	**Total equity**
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**
Balance at 1 January 2023	1,055,031	100,602	(374,365)	781,268
Profit and total comprehensive income for the year	-	-	86,776	86,776
Balance at 31 December 2023	**1,055,031**	**100,602**	**(287,589)**	**868,044**

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**	**2023**	**2022**
Cash flows from operating activities			
Cash receipts from customers		620,993	691,891
Cash paid to suppliers and employees		(444,178)	(403,670)
Net cash from operating activities		**176,815**	**288,221**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(139,342)	(134,968)
Proceeds from sale of property, plant and equipment		262	7,383
Loans issued		-	(21,568)
Interest received		34,133	27,434
Increase/(decrease) in term deposit		4,071	(817)
Net cash used in investing activities		**(100,876)**	**(122,536)**
Cash flows from financing activities			
Repayment of borrowings	18 (b)	(11,346)	(12,617)
Other distribution to owner	16 (d)	-	(26,356)
Interest paid	18 (b)	(55,511)	(57,829)
Net cash used in financing activities		**(66,858)**	**(96,802)**
Net increase in cash and cash equivalents		**9,081**	**68,883**
Cash and cash equivalents at 1 January		274,629	212,224
Effect of exchange rate fluctuations on cash and cash equivalents		(424)	(5,943)
Effect of movements in ECL on cash and cash equivalents		261	(535)
Cash and cash equivalents at 31 December	15	**283,547**	**274,629**

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.

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.

Despite global factors, economy grew by 7%, inflation rate amounted to 2.5% for 2023 in Georgia. The real GDP growth is mainly driven by the increased export, tourism revenues and acceleration of remittances related to the inflow of migrants/tourists from Russia, Ukraine and Belarus since the start of the conflict in Ukraine. Georgian Lari got jitters as the war in Ukraine broke, but it appreciated against the USD on balance by 9.87% in 2023 (2022: 12.53%). 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 as at 31 December 2023 and 31 December 2022 is the Government of Georgia. 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 Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company'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 Accounting 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 estimates are recognised prospectively.

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 28 (h) (iii) – useful lives and residual values of property, plant and equipment;
- 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 2023).

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 notes:

– 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	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
External revenues	578,579	614,836	41,219	27,423	619,798	642,259
Depreciation and amortization	(15,658)	(10,873)	(11,811)	(12,430)	(27,469)	(23,303)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	378,916	431,245	(9,955)	(15,533)	368,961	415,712
Reportable segment assets	194,099	203,577	94,203	101,998	288,302	305,575
Capital expenditure and other additions to non-current assets	23,214	18,607	366	1,071	23,580	19,678

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and other material items

'000 GEL	2023	2022
Revenues		
Total revenue for reportable segments	619,798	642,259
Other revenue	7,375	32,514
Consolidated revenue	**627,173**	**674,773**
Profit or loss		
Total profit for reportable segments before infrastructure costs, net impairment, interest cost and income tax	368,961	415,712
Employee benefits expense – infrastructure and headquarters	(103,163)	(85,177)
Depreciation expenses – infrastructure and headquarters	(49,426)	(43,283)
Net finance (costs) /income	(10,166)	178,908
Other net unallocated expenses*	(118,811)	(68,835)
Consolidated profit before income tax	**87,395**	**397,325**
Assets		
Total assets for reportable segments	288,302	305,575
Property, plant and equipment - infrastructure and headquarters	1,666,201	1,557,708
Other unallocated assets, principally cash and non-current assets	541,458	536,234
Consolidated total assets	**2,495,961**	**2,399,517**

* Other net unallocated expenses include logistic services expense of GEL 88,261 thousand (2022: GEL 71,285 thousand) which was not included in the freight transportation segment profit presented to the Group's Management Board.

(iii) Other material items in 2023

'000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	23,580	130,542	154,122
Depreciation and amortization	27,469	49,426	76,895

(iv) 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

(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 2023, three customers of the Group's freight transportation segment represented approximately 17% of the Group's total revenue (2022: three customers - 12%).

6. Revenue

’000 GEL	2023	2022
Freight traffic	429,266	480,626
Logistic services	132,213	123,071
Passenger traffic	41,219	27,423
Rent of wagons and other rental income	4,158	4,072
Freight car cross-border charge	15,705	9,703
Other	4,612	29,878
	627,173	**674,773**

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	**2023**	**2022**
Electricity	38,677	43,916
Materials	14,482	15,237
Repair and maintenance	12,824	10,569
Fuel	8,739	10,485
	74,722	**80,207**

8. Other expenses

’000 GEL	**2023**	**2022**
Logistic services	88,461	71,285
Taxes, other than on income	24,604	24,254
Freight car cross-border charge	8,325	10,928
Security	12,364	10,390
Other *	20,194	11,664
	153,948	**128,521**

* Included in Other above are fees paid to audit firms of about GEL 611 thousand for the provision of audit services (2022: GEL 686 thousand).

9. Finance income and finance costs

’000 GEL	**2023**	**2022**
Recognised in profit or loss		
Interest income under the effective interest method	37,229	30,338
Gain on modification of financial instruments	835	
Gain on fair value change of financial instruments	530	
Impairment reversal on other financial assets	265	140
Finance income	**38,859**	**30,478**
Impairment loss on cash in bank	-	(535)
Loss on modification of financial instruments	-	(5,762)
Interest expense on financial liabilities measured at amortised cost	(61,090)	(64,196)
Finance costs	**(61,090)**	**(70,493)**
Net foreign exchange gain	12,065	218,923
Net finance (costs)/ income recognised in profit or loss	**(10,166)**	**178,908**

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 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**
Balance at 1 January 2023	536,414	134,799	1,120,174	1,055,326	1,314,256	4,160,969
Additions*	2	120	13	13,995	155,764	169,894
Disposals and write offs	(67)	(764)	(3,687)	(904)	(1,151)	(6,573)
Transfers	28	51	76,490	32,961	(109,530)	-
Balance at 31 December 2023	**536,377**	**134,206**	**1,192,990**	**1,101,378**	**1,359,339**	**4,324,290**
Depreciation and impairment loss						
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**
Balance at 1 January 2023	172,185	74,697	722,056	777,099	583,735	2,329,772
Depreciation for the year	-	2,545	39,534	33,598	-	75,677
Disposals and write offs	-	(405)	(1,431)	(702)	-	(2,538)
Reallocation of depreciation and impairment	-	-	2,079	132	(2,211)	-
Balance at 31 December 2023	**172,185**	**76,837**	**762,238**	**810,127**	**581,524**	**2,402,911**
Carrying amounts						
At 1 January 2022	**365,232**	**60,339**	**352,815**	**278,433**	**768,655**	**1,825,474**
At 31 December 2022	**364,229**	**60,102**	**398,118**	**278,227**	**730,521**	**1,831,197**
At 31 December 2023	**364,192**	**57,369**	**430,752**	**291,251**	**777,815**	**1,921,379**

*****Significant additions during 2023 are primarily related to the purchase of locomotives, works related to Main Line Modernisation project, Khashuri electrosystem centralization project and construction of railway tracks on Khashuri -Kvishkheti -Moliti territory.

(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 2023 and 2022 due to significant slowdown (that was considered as a suspension of the project under IFRS Accounting 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 2024.

(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 2023 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 2023 and 2022 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 2022, 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 2022. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

As at 31 December 2023, 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 2023 and considering that the impairment test conducted at 31 December 2022 was sensitive to changes in key assumptions. The Management conducted a new impairment test at 31 December 2023. 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 2024, adjusted for the growth rates for Georgia and other relevant countries in the region of around 6% (31 December 2022: 4.5% - 5.1%) during the projected years. No volume growth is projected from 2028. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2024, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 3% (31 December 2022: forecast increase of 3.8%, first two projected years 1.9% and remaining period 2%) 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 27 million (31 December 2022: USD 26.6 million) associated with the Modernization project above.
- An after-tax discount rate of 14.6% (31 December 2022: 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 2.1% (31 December 2022: 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 173 million (31 December 2022: GEL 141 million) (1% point decrease in discount rate would have result in an impairment reversal of approximately GEL 203 million (31 December 2022: GEL 189 million));
- Volume growth – A decrease of 5% in the transported volumes projection used would have resulted in impairment loss of approximately GEL 302 million (31 December 2022: GEL 185 million) (5% point increase in the transported volumes projections used would have resulted in impairment reversal of GEL 302 million (31 December 2022: 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 118 million (31 December 2022: GEL 93 million) (1% point increase in the terminal growth rate used would have resulted in impairment reversal of approximately GEL 139 million (31 December 2022: 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. There were no contributions from Government of Georgia during 2023. In 2022 the share capital was increased by the fair value of assets contributed of GEL 226 thousand (See Note 16 (a)).

(e) Security

At 31 December 2023, property with a carrying amount of GEL 53,673 thousand (31 December 2022: GEL 59,898 thousand) is pledged in respect of the secured loan (See Note 18).

(f) Capital commitment

As at 31 December 2023, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 314,538 thousand (2022: GEL 315,426 thousand) mainly relating to the Main Line Modernization project of GEL 21,360 thousand (2022: GEL 66,184 thousand) and Tbilisi Bypass project of GEL 261,150 thousand (2022: GEL 238,661 thousand, increase is solely attributable 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) Change in estimate on residual values of property, plant and equipment

During 2023, the Group conducted a review of residual values the calculation of which depends on scrap value that is based on the price of ferrous metal. The scrap value of transportation equipment equaled to GEL 400 per ton compared to GEL 650 during prior year, resulting in increase in depreciation expense of approximately GEL 7 million.

(h) 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 717 thousand.

11. Other receivable

’000 GEL	**31 December 2023**	**31 December 2022**
Other receivable	53,037	47,738
	53,037	**47,738**

Other receivable originated as a result of derecognition of loan issued to Development Fund of Georgia JSC (thereafter "DFG”, former Partnership Fund JSC) on 29 November 2022.

On 29 November 2022, terms of the loan issued to DFG 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 DFG is able to sell its indirect 100% shareholding of Gardabani TPP (Option 1). In case DFG 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 (Option 2).

The above was assessed as a substantial modification to the contractual terms of the loan during 2022. As a result, on 29 November 2022, the Group derecognised related party loan of GEL 49,152 thousand and recognised a receivable from DFG 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.

On initial recognition in 2022, receivable from DFG 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 GEL 53,187 thousand.

On 18 January 2023 the Company entered into a conditional agreement with DFG, under which the purchase price for 21.716% of Gardabani TPP shares was established as EUR 19,135,693. Additionally, parties agreed that in case Option 2 of original agreement is materialized, purchase price of Gardabani TPP shares will be settled as follows:

- Receivables from DFG will be settled via delivery of 21.716% shares of Gardabani TPP to the same counterparty.
- A payment of EUR 1,492,887 will be made to DFG within 5 days after the transfer of 21.716% of Gardabani TPP shares to the Company.

DFG failed to sell its 100% indirect shareholding of Gardabani TPP in 2023, hence, pursuant to conditional agreement with DFG, the Company recognised receivable from DFG at its fair value. Share transfer of Gardabani TPP was not finalised as at 31 December 2023 (see Note 29).

The Group estimated 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 15.07% (31 December 2022: 16.55%) (in GEL), and adjusting the total business value by minority and liquidity discounts of 22.1% (31 December 2022: 22.1%) to derive the value of 21.716% investment. The valuation is included in Level 3 measurement. The movement in the financial asset at FVTPL represents GEL 530 thousand in 2023 and is included in the finance income. The valuation is relatively sensitive to discount rate; 2% increase in discount rate would resulted in decrease of fair value of GEL 5.6 million.

12. Other non-current assets

’000 GEL	**31 December 2023**	**31 December 2022**
Receivable related to Tbilisi Bypass project*	106,696	97,507
Construction materials	38,818	68,003
Prepayments for non-current assets	3,147	8,948
Intangible assets	10,248	7,251
	158,909	**181,709**

* Tbilisi Bypass project was suspended as at 31 December 2023 and 2022 (see Note 10). 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 2023	31 December 2022
Materials	28,600	25,741
Fuel	3,303	2,539
Rails	2,044	1,982
Other	5,117	5,547
	39,064	**35,809**
Write-down for inventory obsolescence	(1,734)	(1,865)
	37,330	**33,944**

14. Trade and other receivables

'000 GEL	31 December 2023	31 December 2022
Trade receivables	241,881	220,078
Impairment allowance on trade receivables	(211,269)	(206,092)
	30,612	**13,986**
Other receivables	293	533
	30,905	**14,519**

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 2023	31 December 2022
Current accounts in banks	145,085	114,903
Call deposits	138,980	160,503
Petty cash	38	41
Provision for cash and cash equivalents	(556)	(818)
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	**283,547**	**274,629**

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**	
	2023	**2022**
In issue at 1 January	1,055,030,995	1,054,805,235
Net increase for property, plant and equipment (See Note 10 (d))	-	225,760
In issue at 31 December, fully paid	**1,055,030,995**	**1,055,030,995**
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 2023**	**31 December 2022**
Liabilities to the Government	4,712	4,712

(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 was recognized as "other distribution to owner" directly in equity.

No dividends were declared or paid in 2023.

(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 2023 or in 2022.

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 2023**	**31 December 2022**
Non-current liabilities		
Secured loan	-	33,115
Unsecured bonds	1,339,840	1,345,032
	1,339,840	**1,378,147**
Current liabilities		
Secured loan	34,241	12,195
Current portion of unsecured bonds	2,057	2,078
	36,298	**14,273**
	1,376,138	**1,392,420**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings were as follows:

					31 December 2023		**31 December 2022**	
'000 GEL	**Currency**	**Nominal interest rate 2023**	**Nominal interest rate 2022**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	4.00%	4.00%	2028	1,346,837	1,341,897	1,350,788	1,347,110
Secured loan	USD	SOFR + 1,25% + 0.42826%	Libor +1.25%	2026	35,142	34,241	49,036	45,310
Total interest-bearing liabilities					**1,381,979**	**1,376,138**	**1,399,824**	**1,392,420**

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 53,673 thousand as at 31 December 2023 (31 December 2022: GEL 59,898 thousand) (See Note 10 (e)). As at 31 December 2023 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. Despite subsequent to the reporting date the Group obtained a waiver from the lender for this covenant, the Group classified the loan as current liability as at 31 December 2023 (same breach occurred as at 31 December 2022, however the Group obtained waiver from the lender prior to 31 December 2022).

Effective June 30, 2023, the Libor rate, a widely utilized benchmark by banks in Georgia and globally for interest rate calculations, ceased publication. In its place, a new benchmark called Term SOFR (The Secured Overnight Financing Rate) was adopted. Following this the interest rate of secured loan of the Group was changed to SOFR + 1.25% (Margin) + 0.42826% (Credit Adjustment Spread).

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.

(b) Changes in liabilities arising from financing activities (excluding payments of other distribution to owner (Note 16(d))

’000 GEL	**2023**	**2022**
Balance at 1 January	**1,392,420**	**1,606,832**
Repayment of secured loans	(11,307)	(12,617)
Interest paid	(55,511)	(57,829)
Total change from financing cash flows	**(66,818)**	**(70,446)**
The effect of changes in foreign exchange rates	**(6,826)**	**(206,436)**
Other changes		
Interest expense recognised in finance costs	57,362	62,470
Total liability-related other changes	**57,362**	**62,470**
Balance at 31 December	**1,376,138**	**1,392,420**

19. Trade and other payables

’000 GEL	**31 December 2023**	**31 December 2022**
Current		
Payables for non-current assets	87,725	65,093
Trade payables	34,921	30,238
Advances received from customers	19,471	26,911
	142,117	**122,242**
Non-current		
Payables for non-current assets*	36,714	30,242
	36,714	**30,242**

*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.

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 retranslated the retention fee payable and receivable from the construction company for Tbilisi Bypass project from GEL to CHF, 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.

There were no contractual changes in neither payable nor receivable from the construction company for Tbilisi Bypass project during 2023.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

20. Provisions

'000 GEL	**2023**	**2022**
Balance at 1 January	13,981	14,397
Additional provision during the year	599	1,662
Provision used	(2,654)	(988)
Reversal of provision during the year	(1,198)	(1,465)
Unwinding of provision	497	343
Net foreign exchange (loss)/gain	(11)	32
Balance at 31 December	**11,214**	**13,981**

The Group recognised a provision for the estimated cash outflow required to settle legal cases against the Group existing as at 31 December 2023 and as at 31 December 2022 as well as to settle the legal obligations towards the employees injured during the performance of their duties.

21. Fair values and risk management

(a) Fair value of financial assets and liabilities

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Group has determined fair values of financial assets and liabilities using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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 2023 of green bonds is 90.34% (31 December 2022: 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 2023**	**31 December 2022**
Cash and cash equivalents	283,509	274,588
Trade receivables	30,612	13,986
Receivables related to Tbilisi Bypass project	106,696	97,507
Receivable from Partnership Fund JSC	53,037	47,738
Balance at 31 December	**473,854**	**433,819**

Cash and cash equivalents

As at 31 December 2023, 100% (31 December 2022: 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 2023, about 17% of the Group's revenue is attributable to sales transactions with three customers (2022: 12% with two customers).

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 2023**	**31 December 2022**
Foreign countries	8,813	2,306
Domestic	21,799	11,680
	30,612	**13,986**

The Group's two most significant customers (2022: two customers) account for GEL 8,117 thousand of the trade receivables carrying amount as at 31 December 2023 (31 December 2022: GEL 3,893 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 2023 and 31 December 2022:

’000 GEL	**31 December 2023**	**31 December 2023**	**31 December 2023**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	11,666	-	11,666
Medium risk	-	-	-
High risk	-	230,215	230,215
Total Gross carrying amount	**11,666**	**230,215**	**241,881**
Loss allowance	(192)	(211,077)	(211,269)
	11,474	**19,138**	**30,612**

’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**

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, information on potential financial difficulties of the counterparties and information on past due days) and applying experienced credit judgement.

Exposures within each credit risk grade are segmented by geographic region and an ECL rate is calculated for each segment based on delinquency status, external credit rating and actual credit loss experience over the past two years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group’s view of economic conditions over the expected lives of the receivables.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

’000 GEL	**2023**	**2022**
Balance at 1 January	**206,092**	**225,974**
Net charge for the year	(6,016)	(840)
Effect of movements in foreign exchange rates	11,193	(19,042)
Balance at 31 December	**211,269**	**206,092**

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 DFG

As at 31 December 2023, 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. Since Gardabani TPP shares transfer was initiated in December 2023 (see Note 11), no significant risk remains for irrecoverability of receivables as at 31 December 2023 (see Note 29).

Receivable related to Tbilisi Bypass project

As at 31 December 2023, 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 2023. The asset is classified as Stage 1 and no material ECL is estimated as at 31 December 2023.

(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 2023 **'000 GEL**	**Carrying amount**	**Contractual cash flows**	**On demand**	**0-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Secured loan	34,241	34,241	34,241	-	-	-	-	-
Unsecured bonds	1,341,897	1,586,746	-	26,894	26,894	53,788	1,479,170	-
Trade and other payables	159,360	163,089	-	122,480	270	40,339	-	-
	1,535,498	**1,784,076**	**34,241**	**149,374**	**27,164**	**94,127**	**1,479,170**	**-**

31 December 2022 **'000 GEL**	**Carrying amount**	**Contractual cash flows**	**On demand**	**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**

(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 2023, the Group is also 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 2023	CHF – denominated 2023	EUR – denominated 2023	USD - denominated 2022	CHF – denominated 2022	EUR – denominated 2022
Cash and cash equivalents	92,789	1,599	-	13,093	950	-
Trade receivables	12,003	1,763	-	6,286	332	-
Receivable related to Tbilisi Bypass project (Note 19)	-	106,696	-	-	97,507	-
Secured loan	(34,241)	-	-	(45,310)	-	-
Unsecured bonds	(1,341,897)	-	-	(1,347,110)	-	-
Trade and other payables (Note 19)	(37,826)	(94,811)	-	(4,477)	(72,874)	-
Other receivable			53,037			47,738
Net exposure	**(1,309,172)**	**15,247**	**53,037**	**(1,377,518)**	**25,915**	**47,738**

The following significant exchange rates applied during the year:

in GEL	Average Rate		Reporting date spot rate 31 December	
	2023	2022	2023	2022
USD 1	2.6279	2.9156	2.6894	2.7020
CHF 1	2.9254	3.0594	3.2085	2.9322
EUR 1	2.8416	3.0792	2.9753	2.8844

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
2023	
USD (10% weakening)	(130,917)
CHF (10% weakening)	1,525
EUR (10% weakening)	5,304
2022	
USD (10% weakening)	(137,752)
CHF (10% weakening)	2,592
EUR (10% weakening)	4,773

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 2023**	**31 December 2022**
Financial liabilities	(34,241)	(45,310)
Cash and cash equivalents	128,789	-
	94,548	**(45,310)**

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 2023 would have affected profit or loss by GEL 356 thousand (31 December 2022: GEL 453 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

22. Subsidiaries and equity-accounted investees

	Country of incorporation	**Principal activities**	**2023 Ownership/ voting**	**2022 Ownership/ voting**
Subsidiary				
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%
Equity-accounted investees				
Middle Corridor Multimodal LLC*	Kazakhstan	Transportation services	33,33%	-

*During 2023 the Company, alongside with - Joint Stock Company "National Company "Kazakhstan Temir Zholy", a legal entity registered in accordance with the laws of the Republic of Kazakhstan and Closed Joint Stock Company "Azerbaijan Railways", a legal entity registered in accordance with the legislation of the Republic of Azerbaijan, established "Middle Corridor Multimodal LLC", a private company.

Shares of participation in the authorized capital among the Founders is equal to 33,33% for each and authorized capital amounts to USD 30,000. Each founder to participate with USD 10,000 payments.

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 2023 was GEL 4,158 thousand (2022: GEL 4,111 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 2023, showing the undiscounted lease payments to be received after the reporting date.

’000 GEL **2023 – Operating leases under IFRS 16**	
Less than one year	3,033
Between one and five years	5,367
More than five years	13,976
Total	**22,376**

’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**

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	**2023**	**2022**
Salaries and bonuses	**1,597**	**938**

(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 7,060 thousand for 2023 (2022: GEL 10,138 thousand). In 2023, the Group purchases electricity service from a state-owned entity, which amounted to GEL 38,724 thousand (2022: 22,039 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) Other receivable with Partnership Fund JSC

’000 GEL	**Transaction value for the year ended 31 December**		**Outstanding balance as at 31 December**	
	2023	**2022**	**2023**	**2022**
Loans issued:				
Partnership Fund JSC	-	21,568	-	-
Other receivable				
Receivable from Partnership Fund JSC	-	-	53,037	47,738

During 2023, interest income of GEL 3,097 thousand and gain from revaluation of GEL 530 thousand was recognised in profit or loss on other receivables (see Note 11).

During 2022, interest income of GEL 2,904 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 during 2022.

26. Subsequent events

On 1 February 2024, Gardabani TPP shares (21.716%) were transferred to the Company as settlement of other receivable (see also Note 11).

27. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for other receivables measured at fair value.

28. Material 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.

In addition, the Group adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments did not result in any changes to the accounting policies disclosed in Note 28 (a-n).

(a) Basis of consolidation

(i) 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.

(ii) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in a joint venture.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

(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 other 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 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017.

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 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 2023 and 2022. 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.

29. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2023 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 and Non-Current Liabilities with Covenants (Amendments to IAS 1)*
– *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)*
– *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*
– *Lack of Exchangeability (Amendments to IAS 21)*